INNOVATION.
TECHNOLOGY.
CUSTOMERS.

Annual report and financial statements 2010








ZYTRONIC

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.

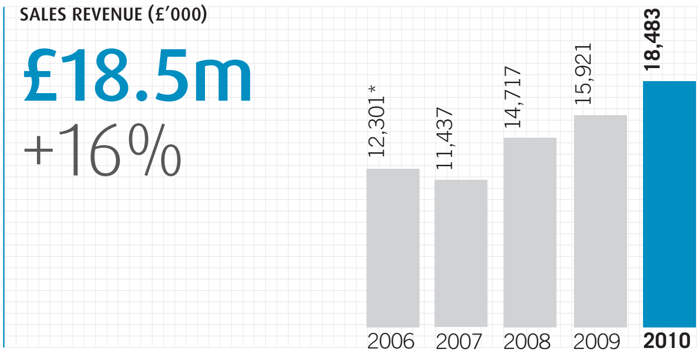
Zytronic is also an industry leader in the development and manufacture of customised optical filters to enhance electronic display performance and an innovator in the production of specialised and transparent laminates for niche markets.

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.

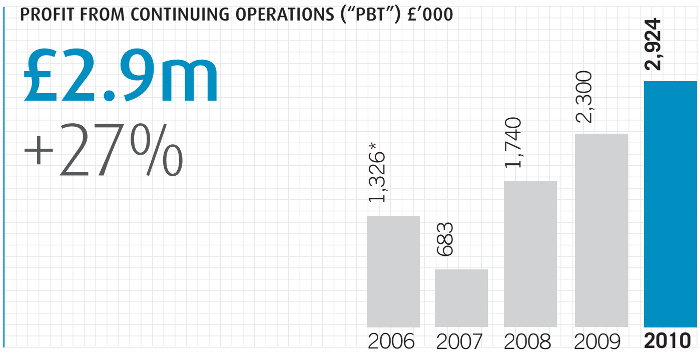
HIGHLIGHTS

- Group revenue increased by 16% to £18.5m (2009: £15.9m)
- Export sales now represent 90% of Group sales (2009: 86%)
- Record orders for the year of £19.8m (2009: £16.1m)
- Profit before tax increased by 27% to £2.9m (2009: £2.3m)
- Earnings per share ("EPS") increased by 28% to 14.9p (2009: 11.6p)
- Final dividend proposed of 5.0p (2009: 3.8p) – total for year increased by 40% to 7.0p (2009: 5.0p)
- Growth in network of sales representatives includes new sales channels in Brazil and South Africa
- Net cash inflow from operations of £3.8m (2009: £3.1m)
- Gearing reduced to 11% (2009: 31%)

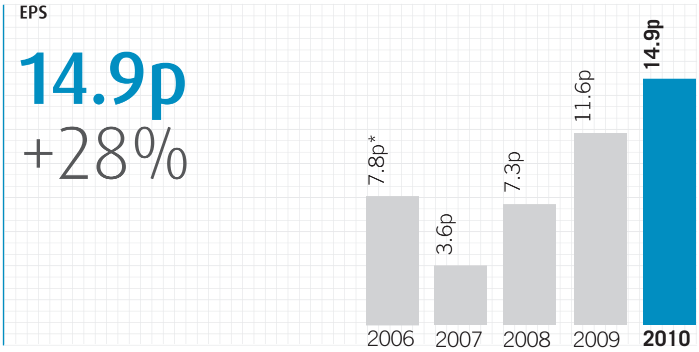
SALES REVENUE (£'000)



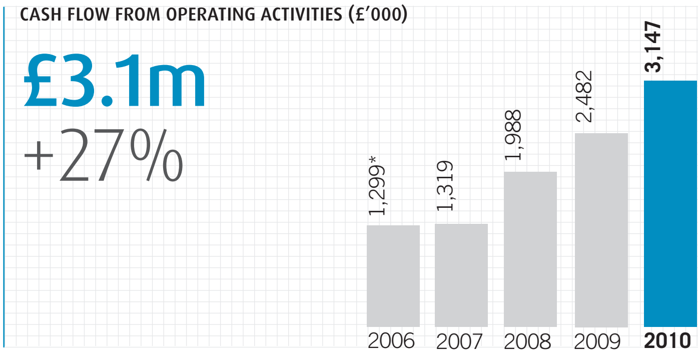
PROFIT FROM CONTINUING OPERATIONS ("PBT") £'000



EPS



CASH FLOW FROM OPERATING ACTIVITIES (£'000)



* 2006 prepared under UK GAAP.

OUR MARKETS
AT A GLANCE

STRENGTHENING OUR GLOBAL NETWORK

The Group has expanded its customer base and distribution and representation networks over recent years so that it now sells into most of the world's leading economies.

Since 2005, we have expanded our overseas representation significantly. We now have 16 representatives covering all of the US, Brazil, Canada and Puerto Rico, and distributors covering ten countries in the Far East (Asia Pacific "APAC") and 25 countries in Europe, Middle East and Africa ("EMEA").

The range of applications for our touch sensors is as wide as the imagination of leading designers. It includes use in ATMs, petrol pumps, ticketing machines, information displays, gaming machines, food retailing and other vending, jukeboxes, medical equipment, keypads, solar powered parking meters, diagnostic engineering equipment and helicopter simulation machines. There are many other and more varied uses. Photographs of some of the applications are included within this annual report.

ZYTRONIC STRENGTHENS SALES PRESENCE IN NORTH/LATIN AMERICA

Zytronic continues to expand its global presence and has entered into a sales representation deal with Marathon Technical Associates. The new agreement will cover the South East of the United States and Brazil.

Headquartered in Orlando, and with several sales offices in Florida and Sao Paulo, Brazil, Marathon has been providing high tech companies with local sales support for almost 25 years. It possesses a highly experienced, technically-strong sales force and an impressive line card of blue-chip electronic component products used in a variety of industries, including display manufacture.

FOR MORE NEWS RELEASES ON OUR MARKETS
www.zytronic.co.uk/news-and-events

AMERICAS

Sales in North and South America recovered in FY2010. Significant growth from new customers using ZYBRID® touch sensors and these sensors are now being used in a wide range of applications including gaming, self-service, vending and information kiosks. During the year we appointed a representative for Brazil.

EMEA (EXCL. UK)

The EMEA region, by sales value, continues to represent the largest market for Zytronic products and continues to exhibit good growth. Direct product sales to EMEA countries are represented by a broad range of application uses, such as ATMs, information kiosks, self-service systems and jukeboxes. During the year we appointed a representative in South Africa.

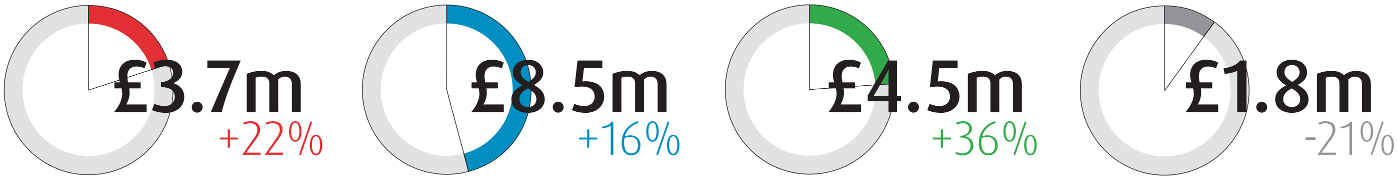
APAC

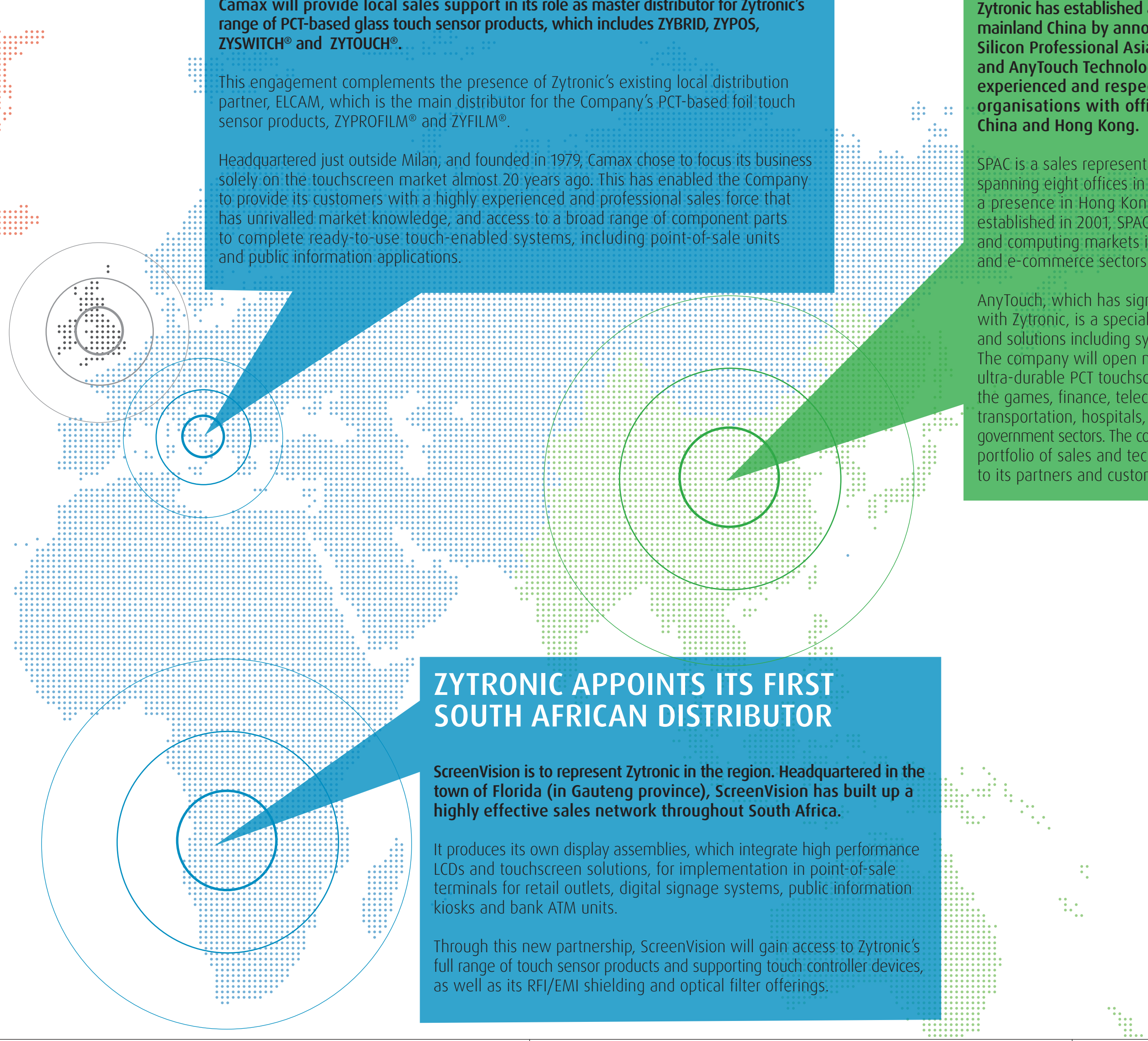
Sales in the APAC region continue to exhibit very good growth. A number of positive factors have driven this, including a growing deployment programme of ATMs in mainland China and an increase in ZYPOS® sales to the digital signage and gaming market providers in both South Korea and Taiwan.

UK

Invoiced sales within the UK have continued to decrease as UK manufacturers "export" their manufacturing overseas. As this geographic analysis is prepared from invoiced addresses, it cannot properly reflect the continuing business which is undertaken for UK companies but where we ship our goods overseas for the first stage of their integration/manufacture. Many such goods ultimately return to the UK for finishing or as completed products.

SALES PER REGION AND GROWTH (%)





ZYTRONIC SIGNS ITALIAN DISTRIBUTION AGREEMENT WITH CAMAX DS, SRL

Camax will provide local sales support in its role as master distributor for Zytronic's range of PCT-based glass touch sensor products, which includes ZYBRID, ZYPOS, ZYSWITCH® and ZYTOUCH®.

This engagement complements the presence of Zytronic's existing local distribution partner, ELCAM, which is the main distributor for the Company's PCT-based foil touch sensor products, ZYPROFILM® and ZYFILM®.

Headquartered just outside Milan, and founded in 1979, Camax chose to focus its business solely on the touchscreen market almost 20 years ago. This has enabled the Company to provide its customers with a highly experienced and professional sales force that has unrivalled market knowledge, and access to a broad range of component parts to complete ready-to-use touch-enabled systems, including point-of-sale units and public information applications.

ZYTRONIC FURTHER EXPANDS GLOBAL PRESENCE THROUGH SALES PARTNERS IN CHINA

Zytronic has established a strategic presence in mainland China by announcing partnerships with Silicon Professional Asia Corporation Ltd ("SPAC") and AnyTouch Technologies Co. Ltd. Both are experienced and respected technical sales organisations with offices throughout mainland China and Hong Kong.

SPAC is a sales representative with an infrastructure spanning eight offices in mainland China as well as a presence in Hong Kong. A dynamic company established in 2001, SPAC focuses on components and computing markets including business-to-business and e-commerce sectors.

AnyTouch, which has signed a distribution agreement with Zytronic, is a specialist in touch-based products and solutions including systems, hardware and software. The company will open new markets for Zytronic's ultra-durable PCT touchscreens among customers in the games, finance, telecommunications, electric power, transportation, hospitals, real estate, tourism and government sectors. The company provides a comprehensive portfolio of sales and technical/design support services to its partners and customers.

ZYTRONIC APPOINTS ITS FIRST SOUTH AFRICAN DISTRIBUTOR

ScreenVision is to represent Zytronic in the region. Headquartered in the town of Florida (in Gauteng province), ScreenVision has built up a highly effective sales network throughout South Africa.

It produces its own display assemblies, which integrate high performance LCDs and touchscreen solutions, for implementation in point-of-sale terminals for retail outlets, digital signage systems, public information kiosks and bank ATM units.

Through this new partnership, ScreenVision will gain access to Zytronic's full range of touch sensor products and supporting touch controller devices, as well as its RFI/EMI shielding and optical filter offerings.

OUR CUSTOMERS AND TECHNOLOGY
AT A GLANCE

CONTINUING TO WORK CLOSELY WITH CUSTOMERS

Over the last ten years we have developed our patented technology into 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.

The i-Table™ is already successfully in use in gaming venues across North America, including Las Vegas, San Diego and Delaware.

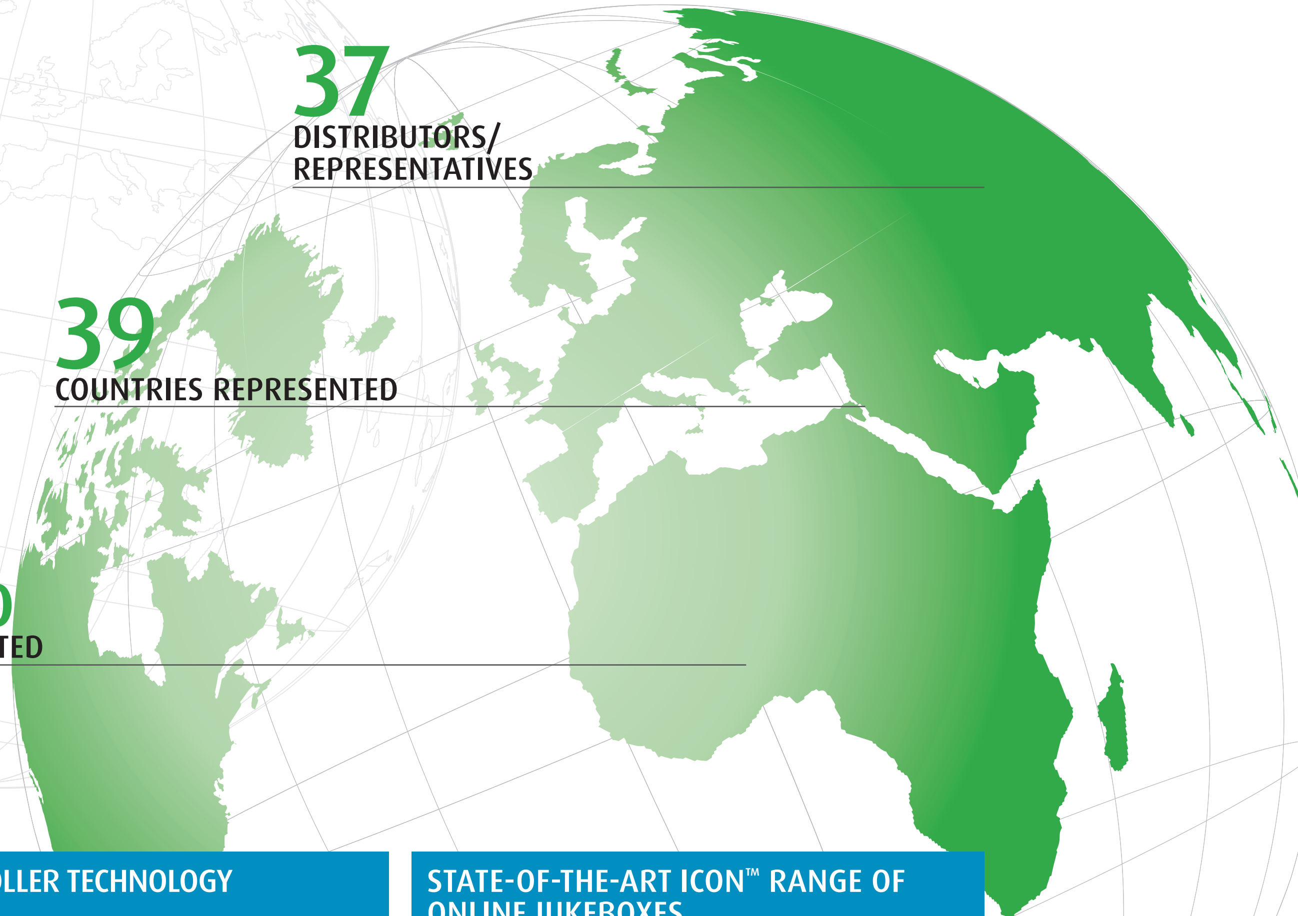
"The running of a gaming operation is becoming increasingly challenging, with management needing to meet players' demands for a greater array of game options, while at the same time improving productivity and security levels" states Nathan Wadds, Senior Vice President of Research & Development at Shuffle Master. "The i-Table™ has the look and feel of the live tables that customers prefer without the heavy operating costs or risks of theft and cheating associated with them. For this product to be successful, however, the integrity and longevity of the touchscreen areas' functionality had to be assured. We tested a variety of solutions from different suppliers, but these could not adequately deal with our concerns about durability. Zytronic's PCT™ touch sensing system stood out as the best way to guarantee touch performance and avoid downtime. The customisable nature of PCT also provided us with the ability to create an attractive, near seamless playing surface."

Commenting that self-service kiosks are known to increase productivity and customer satisfaction in many types of enterprises, Peter Kaszycki, VP Business Development, Manufacturing Resources International, Incorporated, says:

"Way2Order kiosks maximise business advantages for the drive-through restaurant sector. ZYTOUCH provides the ideal platform for our concept, as it is easy to integrate with the powered display, ensures that the full screen brightness reaches the user so that the graphics can be seen clearly in direct sunlight, and provides reliable and accurate touch response even through a thick glass overlay." He continues, "ZYTOUCH was the only solution we could find that offered front and rear anti-reflective coating, and ensured all-weather durability."

To show the geographic spread of customers, we list alphabetically, some of those who have featured in press releases over the last three years. Press releases are shown on our website, www.zytronic.co.uk;

ACE Interactive AB (Sweden)
Advantech (Taiwan)
Aristocrat Leisure Limited (USA)
bCode Pty Ltd (Australia)
Beckman Coulter (USA)
CiVUE Optotech Inc (Taiwan)
Dong Wha Prime (Korea)
ECAST (USA)
JC Decaux (France)
Manufacturing Resources International (USA)
NSM Music Limited (UK)
Scheidt & Bachmann Gmbh (Germany)
Sunvision Technology (Taiwan)
Winncomm Corporation (Taiwan)
Yeahpoint (Australia)



37
DISTRIBUTORS/ REPRESENTATIVES

39
COUNTRIES REPRESENTED

90%
SALES EXPORTED

NEW CONTROLLER TECHNOLOGY

At the Society of Information Displays ("SID") Display Week 2010, we introduced a new family of touch controllers designed to enhance user experience. Designed for its proprietary range of touch sensors, the new touch controllers offer features such as dual-touch output for linkage to "multi-touch" or gesture recognition software, Windows® 7 plug and play, in-field firmware upgradeability and reduced PCB footprint.

READ MORE ON THIS STORY ONLINE
www.zytronic.co.uk/news-integral-role

STATE-OF-THE-ART ICON™ RANGE OF ONLINE JUKEBOXES

Zytronic has gained another high level endorsement for its PCT-based touch sensors. By utilising these products, leading digital entertainment system manufacturer, NSM Music Ltd, has added large format, durable, projected capacitive touch screen functionality to its latest generation of online jukeboxes, icon™.

READ MORE ON THIS STORY ONLINE
www.zytronic.co.uk/uploaded/NSM

CHAIRMAN'S STATEMENT

—

> The success of our touch sensor products in the self-service, kiosk and digital signage markets augurs well for the future. To this must be added recent contract wins in the gaming sector and the first white-goods product with a Zytronic touch sensor display which is expected to be launched early in 2011.

SUMMARY OF CHAIRMAN'S STATEMENT

- Sales at £18.5m increased 16% (2009: £15.9m)
- Pre-tax profit increased 27% to £2.9m (2009: £2.3m)
- EPS increased 28% to 14.9p (2009: 11.6p)
- Record orders received in the year of £19.8m
- New sales reps in Brazil and South Africa
- Export sales reached 90% (2009: 86%)
- Increasing cash inflow from operations
- Net gearing reduced to 11% (2009: 31%)
- Proposed dividend per share increased to 5.0p (2009: 3.8p) increasing the full year dividend by 40% to 7.0p (2009: 5.0p)

In my first statement since becoming Chairman on 1 July 2010 I am pleased to be able to report significant growth in both sales and profits in the year to 30 September 2010, following a strong second half performance.

RESULTS

At £18.5m (2009: £15.9m), sales for the year were 16% higher than last year. Due to changes in sales mix, gross margin dipped slightly to 32% (2009: 34%), but pre-tax profit and earnings per share were still 27% and 28% ahead of last year at £2.9m (2009: £2.3m) and 14.9p (2009: 11.6p) respectively.

TRADING

Orders received during the year were a record for the Group at £19.8m (2009: £16.1m).

A number of new touch sensor developments have been introduced successfully, giving customers better value and helping to increase the volume of units sold by nearly 11% over last year. In value terms, touch sensor sales recovered in the second half, having been 6% down on last year in the first half, to finish 2% ahead for the full year.

Increased sales in the self-service and kiosk markets have offset the downturn in sales to the gaming market, which has been hard hit by the recession.

The growth in total sales was driven principally by sales of optical filters to the cash dispenser (ATM) market where volume increased by 36%.

We continue to see efficiency gains in the ZYPOS production facility, created two years ago.

Our network of sales representatives, agents and distributors has grown, including new sales channels in Brazil and South Africa, where we have not previously been represented. Since the year end, we have also increased resources in our own direct sales team.

Exports in the year to 30 September 2010 were 90% of total sales (2009: 86%).

CASH AND GEARING

The Group's balance sheet remains solid, with net assets increasing by 14% to £11.5m (2009: £10.0m).

Net cash inflow generated in the year from operations was £3.8m (2009: £3.1m) and a further £0.5m was received as the final instalment of a government grant. After £0.9m of capital expenditure and after paying interest, tax and dividends and repaying £0.8m of borrowings, cash and cash equivalents increased by £1.1m in the year to £1.2m (2009: £0.1m).

At the year end net borrowings were £1.2m (2009: £3.1m) and gearing (net borrowings divided by net assets) had reduced to 11% (2009: 31%).

DIVIDEND

The Directors are pleased to recommend a final dividend of 5.0p per share (2009: 3.8p per share), payable on Friday 25 February 2011 to shareholders on the Register of Members on Friday 11 February 2011. This will make the total dividend for the year 7.0p per share (2009: 5.0p per share), an increase of 40% over last year.

MANAGEMENT AND PERSONNEL

The trading performance could not have been achieved without the abilities and hard work of Chief Executive Mark Cambridge and his team. I would like to thank all employees for their contributions to a successful year for the Zytronic Group.

I would also like to thank my predecessor, John Kennair MBE, who stepped down as Chairman at the end of June after thirty five years as either Chairman or Chief Executive. Zytronic simply would not be enjoying the success it is today if it were not for John's entrepreneurship and his capability in leading and developing the business of the Group. I am delighted that John agreed to stay on as a Non-executive Director so that we can continue to enjoy the benefits of his wise counsel.

I am pleased to welcome David Buffham to the Board; he joined as an Independent Non-executive Director in September 2010.

OUTLOOK

The success of our touch sensor products in the self-service, kiosk and digital signage markets augurs well for the future. To this must be added recent contract wins in the gaming sector and the first white-goods product with a Zytronic touch sensor display which is expected to be launched early in 2011.

Whilst we do not expect a repeat of this year's dramatic growth in sales of optical filters to the ATM market, the Directors are confident that the continuous efforts to broaden both the product range and geographical coverage will provide the platform for further improvements in the Group's trading performance.

DAVID BANKS, MA (CANTAB), FCA
NON-EXECUTIVE CHAIRMAN
10 December 2010

Products

Touch sensors

The manufacturing technology, PCT, employed in 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.

Zytronic's product range includes:

> ZYTOUCH
> ZYPOS
> ZYBRID
> ZYSWITCH
> ZYPROFILM
> ZYFILM

Zytronic's 65-inch ZYTOUCH sensor adds rugged touch capability to the Infinitus iMotion® high-definition digital signage for the great outdoors. The innovative digital signage system provides networkable screens for ski resorts, marinas and other harsh outdoor environments.

FOR MORE INFORMATION ON OUR TOUCHSCREENS
www.zytronic.co.uk/products/touch-sensors

BUSINESS REVIEW

“Encouragingly, the overall growth in sales in FY2010 has been underpinned by strong order intake throughout the year of £19.8m which, by close of the fiscal year, exhibited a healthy 23% increase against the £16.1m of orders received in FY2009.”

SUMMARY OF BUSINESS REVIEW

- A year of “two halves”
- Significant strengthening in H2
- Profitability increased by 27% to £2.9m (2009: £2.3m)
- Significant progress with existing and new touch sensor projects
- Re-designs introduced for major display products
- Significant production efficiencies achieved in manpower usage
- Completion of development of new ZXY100 family of controllers

BUSINESS REVIEW

The following review provides information on the sales, profitability, operational activities, research and development and the financial aspects of the business during FY2010 and, where helpful, draws comparisons with the previous year.

OVERVIEW OF ORDER INTAKE, SALES AND PROFITABILITY

FY2010 has continued the trend of being a year of “two halves” as follows:

a) orders received in the first half increased by 16% to £9.7m (2009: £8.4m), whereas in the second half they improved even further, by 31%, to £10.1m (2009: £7.7m), resulting in an overall growth of 23% for the year;

b) in the case of sales, there was a modest 3% increase in turnover during H1 (£8.2m compared to £8.0m in H1 2009), followed by significantly increased H2 demand of £10.3m (H2 2009: £7.9m). This resulted in 16% growth for the full year to £18.5m (2009: £15.9m); and

c) similarly, profit before tax was only slightly ahead at the half year by 1% at £1.06m (H1 2009: £1.05m), but increased in H2 by 49% to £1.9m (H2 2009: £1.3m), resulting in an increase of 27% for the full year to £2.9m (2009: £2.3m).

KEY MARKET FACTORS

The key market factors affecting the reported 2010 sales and profitability include:

- with infrastructural upgrades scaled-back in the largely saturated market of North America, global competition in the ATM market is continuing to drive cost reduction pressure within the supply chain. This requirement has empowered us to re-design a large proportion of the components supplied and, from March 2010, both Zytronic and its ATM related customers began to benefit from the introduction of such products;
- with our ATM customers reporting continued strong sales to the BRIC economies, we, in turn, have benefited from an increase in the volume of optical display filter units sold, as non-touch ATMs are deployed more widely in these countries. This increase, coupled with the one-off uplift of sales from the introduction of Vendor Managed Inventory (“VMI”), has resulted in a 36% total increase in the volume of units sold;

TRADING RESULTS

A summary of the results over the last four years shows the strong performance from 2007, the growth in sales and the improving profitability (profit before tax) of the business:

	2010 £’000	2009 £’000	2008 £’000	2007 £’000
Group revenue	**18,483**	15,921	14,717	11,437
Gross profit	**5,894**	5,407	4,739	3,466
Gross profit (%)	**31.9%**	34.0%	32.2%	30.3%
Profit from continuing operations (before tax)	**2,924**	2,300	1,740	683

	Pence	Pence	Pence	Pence
Basic EPS	**14.9**	11.6	7.3	3.6
Dividends paid and proposed for the year	**7.0**	5.0	4.0	3.0

- there has been a significant downturn in demand from some of our established gaming equipment customers, resulting from a market hit badly by the global economic conditions, particularly in Europe. Despite the prevailing conditions in the gaming market, the Zytronic touch sensor value proposition (customisation, robustness and durability) continues to gain momentum. As a result, a significant new gaming project in North America, with a global top three manufacturer, moved forward into production during the second half of 2010;
- the advantages of our touch technology for public interactivity are continuing to gain traction in the self-service and vending market. One notable current example is the increasing deployment of the Blockbuster Express branded DVD vending kiosk throughout North America, which use our ZYBRID touch sensor; and
- as The Coca-Cola Company® moved its innovative Freestyle™ drinks fountain out of field trials and into pilot deployment in North America, we have benefited from an increase in demand for this touch sensor during the latter months of the fiscal year.

TOUCH SENSOR SALES

The net effect of these market factors has seen total touch sensor units sold increase by around 11%. This has been driven by a 25% improvement in the volume of units sold through our growing global network of value added resellers, a more then doubling of units sold into the self-service and vending market, as well as small, but notable, gains in other important markets of future opportunity such as digital signage and telematics. The improvements in these areas have been offset, not only by the softening in the gaming market described earlier, but also by a 7% decrease in the volume of touch sensors sold to our ATM customers as demand for high-end touch-operated machines in Europe and North America remains soft.

Products

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 damage from impact thereby extending the life of the display.

Our filters comprise the following options and features:

> Anti-reflection coatings to maximise transmission
> Anti-glare finishes
> Tinted or neutral density substrates/interlayers to improve contrast
> Transparent conductive coatings for static dissipation or electromagnetic shielding
> Micro-fine mesh for electromagnetic shielding
> Circular polarisers to enhance contrast

Esprit Digital’s E5C digital poster technology operates London Underground’s first digital poster network at Tottenham Court Road station, using Zytronic’s rugged, anti-glare, laminated glass display panels. Positioned alongside the escalator, these digital posters show moving images which pass from screen to screen, seamlessly cascading.

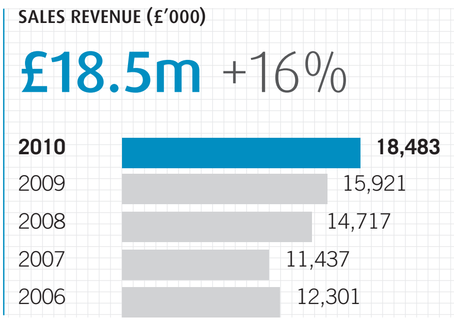
FOR MORE INFORMATION ON OUR OPTICAL FILTERS AND DISPLAYS
www.zytronic.co.uk/products/optical-filters-and-displays

CONTINUED
BUSINESS REVIEW

> By mid-term 2010, the R&D team had completed the development of the Zytronic Application Specific Integrated Circuit ("ASIC") chip and new ARM® core processor chip. The new controller family was successfully launched into the market at the SID expo in Seattle, USA during May 2010.

SALES EXPORTED

90%



BUSINESS REVIEW CONTINUED

TOUCH SENSOR SALES CONTINUED

Taking into account the shifting mix in touch sensor designs and sizes, these market movements have resulted in a favourable 8.5% upswing in touch sensor turnover in the second half compared with the reported 6.0% decline for the first half of the year, leading to a net 2.5% increase for the year.

ORDER INTAKE AND SALES CHANNELS

Encouragingly, the overall growth in sales in FY2010 has been underpinned by strong order intake throughout the year of £19.8m which, by close of the fiscal year, exhibited a healthy 23% increase against the £16.1m of orders received in FY2009.

Our strategy for sales' growth includes the strengthening of our global sales channels, which has continued with the signing of six new representation agreements during the year. This includes two new appointments in China where we are looking to reproduce our successful countrywide model, pioneered in the USA, through regionalised representation agreements. We are also actively establishing further sales support in other emerging markets, and have appointed new sales channels in Brazil and South Africa. In total the Group now has sales channels covering 39 countries.

It is anticipated that these additional resources will continue to drive our export sales, which reached 90% of total sales (2009: 86%) and, more impressively, our touch sensor export sales which reached a record high of 93% (2009: 88%).

OPERATIONS

Production management has made significant strides forward in operational efficiency during FY2010. This is highlighted by a comparison of the increasing turnover of the Group with a reduction in the productive labour being used, moving from an average headcount of 169 persons in Q4 FY2009 to an average of 144 in Q4 FY2010.

The reduction in the average headcount is testament to the efficiency improvements made in using the new Britannia Court ZYPOS facility, in introducing the new ATM product designs and in effecting numerous changes to the manufacturing processes.

To continue to gain efficiency improvements in FY2011, two new laminating machines have been ordered. The first arrived in November 2010 and the second should be delivered in early January 2011. We also plan to refurbish the oldest clean room facility in 2011 which will reduce running costs and enhance its capabilities.

RESEARCH AND DEVELOPMENT ("R&D") REVIEW

The R&D function has continued in 2010 to drive forward the underlying technology behind the Group's touch sensor products, satisfying both customer expectations and service requirements.

In the year ended 30 September 2010, the Group has expensed R&D costs of £215,000 directly to the income statement (2009: £291,000) and capitalised £172,000 of development expenditure within intangible assets (2009: £133,000). Amortisation of £153,000 on past capitalised development expenditure has also been charged to the income statement (2009: £135,000).

NEW FAMILY OF CONTROLLERS

By mid-term 2010, the R&D team had completed a new controller configuration, trade named the ZXY100 series, which combined work undertaken on the development of the Zytronic Application Specific Integrated Circuit ("ASIC") chip and new ARM® core processor chip. The new controller family was successfully launched into the market at the SID expo in Seattle, USA during May 2010.

The new controller family now provides for a complete suite of electronic solutions for sensor sizes from 5" through to the largest commercial panel size produced in 2010 at 72", without any changes in relative performance.

The development work also brings three key features to the product which to date had not been possible or practicable, these being:

- an in-field programming capability to allow customers to update firmware in a manner similar to that of other traditional consumer hardware devices;
- dual touch functionality including full Windows 7 gesturing and interactivity; and
- a two chip solution for high volume applications, where direct integration of the electronic circuitry onto the customer's motherboard is more advantageous and cost effective to the end user.

Products

EMI and RFI shielded filters

A shielded window is the optimum solution for reducing radio frequency interference ("RFI") and other electrical/magnetic interference ("EMI") transmitted through monitors, LCD instrument panels and inspection windows fitted to electronic equipment. Zytronic's unique attention to detail achieves high attenuation, with minimum impact on optical performance.

Zytronic's state-of-the-art facilities can produce one-piece shielding meshes for windows up to 2m x 1m, as well as small windows for cost-sensitive TFT-LCD applications.

Shielded window services from Zytronic create a total solution, covering design, assembly, framing and termination.

The photograph above shows telephone equipment racks manufactured by Sweden's ABB, incorporating Zytronic's shielded glass filters in the doors.

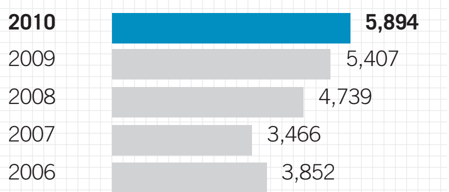
FOR MORE INFORMATION ON OUR EMI/RFI SHIELDED FILTERS
www.zytronic.co.uk/products/rfi-emi-shielded-filters

CONTINUED

BUSINESS REVIEW

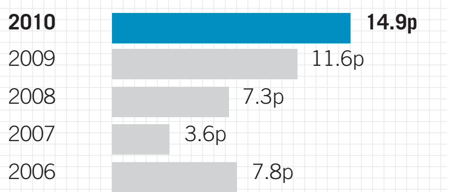
GROSS PROFIT (£'000)

£5.9m +9%



EPS

14.9p +28%



RESEARCH AND DEVELOPMENT ("R&D") REVIEW CONTINUED

OTHER PCT MEDIA

During 2010, the R&D team actively designed and evaluated other sensor configurations and processing media, especially those relating to the use of transparent metallic coatings on both glass and plastic substrates. Prototype sensors have been manufactured based upon a Zytronic proprietary derived array design, which utilises the same patented sensing methodology as used in the existing products, working in conjunction with the new ZXY100 controller configuration.

Several early stage new projects, which have been sampled with this new product revision, particularly for products designed for robustness when used in larger volume telematics and self-service applications, are progressing well and the revised media has been very favourably received by prospective customers.

OTHER DEVELOPMENTS

Our material, mechanical and industrial engineers have continued to evaluate new processes and materials throughout the year, as a means of offering and meeting internal and customer specific cost reduction programmes.

So far, the main beneficiary of this work has been our optical display customers, especially those within the ATM market, where new designs utilising fewer materials and more time efficient processes were brought to market towards the end of March 2010.

As well as the specific development work described above and general customer technical support, the R&D team has continued to undertake numerous customer specific development projects in application fields including vending and digital signage. These should start to impact positively on the Group's performance during 2011.

As we move into 2011, the main R&D efforts will be focused on:

- the continuation of the work initiated in reviewing and developing alternative sensing media;
- the development, and then support, of our own in-house driver source code to reduce our dependence on our existing third party driver software provider. We can then more readily flex the code to meet the ever changing demands for various operating system support; and
- the evaluation of methods whereby Zytronic can achieve true multi-touch capabilities above the already achieved dual input functionality.

GROSS PROFIT

The gross margin percentage has shown a decrease this year, from 34% to 32%, reflecting two main influences during the year. The larger effect on the margin arose from the large volume of sales of the privacy filter option in ATM displays as the material cost in these products is relatively expensive.

In addition, as already reported in the interim results, we also experienced a significant fall-off in sales of Ultra Large Form Factor ("ULFF") touch sensors.

To improve the gross margin percentage, we review regularly 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.

ADMINISTRATION OVERHEADS AND DISTRIBUTION COSTS

Overheads are continually challenged and opportunities are taken to reduce them whenever possible.

As salary costs remain the largest single item in administration overheads (over 55%), we review them annually in comparison to market rates and the developing roles of our employees and only add to our headcount when necessary. We have continued to keep these, and our other administration costs, under tight control during the year. We have also enjoyed the benefit of a full year's saving in rent and other related costs from the acquisition of the freeholds of two of our factories in June 2009. The net result is that our administration overheads and distribution costs have shown a marginal decrease, being £2.97m against £3.03m in 2009.

OTHER OPERATING INCOME

In April 2010, we received the second and final instalment of a Selective Finance for Investment ("SFI") grant from the local regional development agency, One North East. This follows on from the first instalment which was received in April 2008. Both grants are being amortised over a five year period commencing with the first receipt and ending on 31 March 2013. The "other income" of £112,000 in FY2010 contains £102,000 of amortised SFI grant.

PRE-TAX PROFIT

The profit before tax of £2.9m has increased by £624,000 (27%) on the prior year figure of £2.3m. The reasons for this excellent performance are noted elsewhere in this annual report and financial statements.

TAXATION

The Group's taxation charge of £736,000 (25%) (2009: £593,000 (26%)) 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.

Products

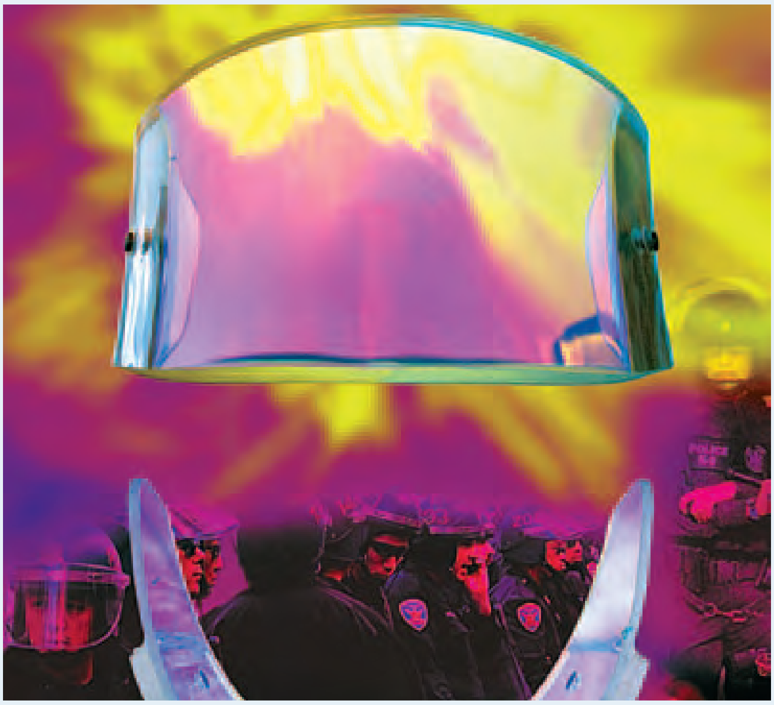
Ballistic visors

We have 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.

Our ballistic visors are only manufactured to meet customers' often individual and unique requirements so consequently the range of versions available is continually expanding.

Our in-house machining facilities allow us to work to the most demanding tolerances, specifications and designs.

The visors are exported worldwide and are supplied to many of the major ballistic helmet manufacturers for military, para-military, bomb disposal and EOD applications.



Fully laminated, removable ballistic face visors provide maximum protection and excellent optical clarity.

FOR MORE INFORMATION ON OUR BALLISTIC VISORS
www.zytronic.co.uk/products/ballistic-visors

CONTINUED
BUSINESS REVIEW

> "The Group has continued with the scheduled repayments on all of its debt and total repayments in the year amounted to £818,000 (2009: £639,000). The net gearing level (all borrowings less positive cash balances divided by net assets) was reduced significantly to 11% (2009: 31%)."

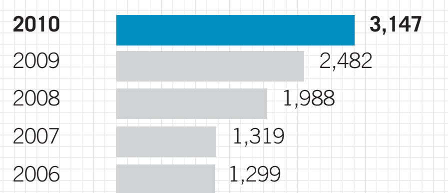
DIVIDEND FOR THE YEAR

7.0p +40%

(2009: 5.0p)

CASH FLOW FROM OPERATING ACTIVITIES (£'000)

£3.1m +27%



EPS AND DIVIDENDS

The reported basic EPS of 14.9p has increased by 28% from last year (2009: 11.6p) which largely reflects the significant improvement in profitability, discussed above. The number of shares in issue of 14,710,484 has increased only slightly from last year (2009: 14,674,121), following the exercise of options over 36,363 shares.

There was a grant of share options during the financial year over 82,500 shares at 177.5p and the total number of share options outstanding at 30 September 2010 was 561,215 (2009: 527,598), excluding the CEO's incentive scheme. The dilutive effect on the EPS of all existing share-based payments is 0.1p.

The Group paid an interim dividend of 2.0p on 25 June 2010. 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 of 5.0p on Friday 25 February 2011 for the year ended 30 September 2010 is included in the Notice of Annual General Meeting. This will bring the total dividend for the year to 7.0p (2009: 5.0p), an increase of 40%.

CASHFLOW AND WORKING CAPITAL

The Group has continued to generate net cashflow from operating activities, as shown in the consolidated cashflow statement, and this has increased again with the growth in profitability. It amounted to just over £3.1m this year in comparison to £2.5m in 2009.

As expected, our working capital has increased with the growth in the Group's business, but only by £0.2m (2009: £0.2m). Stocks have increased by £85,000 (2009: static). Trade and other receivables have increased by £356,000 (2009: £59,000) reflecting the growth in sales in Q4, while trade creditors increased by £258,000 (2009: decrease £133,000).

CAPITAL EXPENDITURE ON FIXED ASSETS

Capital additions to plant and machinery within property, plant and equipment and intangible assets were £552,000 and £228,000 respectively (2009: £152,000 and £223,000 respectively). Total capex was £894,000 while total depreciation and amortisation for the year was £987,000 (2009: £920,000).

FUNDING AND GEARING

The Group has continued with the scheduled repayments on all of its debt and total repayments in the year amounted to £818,000 (2009: £639,000).

Six of the HP agreements were finished by 30 September 2010 and the remaining four, together with the Chattel mortgage loan, will be paid off by 31 March 2011.

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

The shares of Zytronic plc are traded on the Alternative Investment Market ("AIM") of the London Stock Exchange ("LSE").

overdraft facility of £1.0m with Lloyds TSB Bank, of which £291,000 was in use at the year end (for foreign exchange management purposes).

The Group has built up its cash balances and at the year end the net cash balances were £1.2m (2009: £109,000).

Medium term borrowings were £2.4m (2009: £3.2m) so the total net debt was £1.2m (2009: £3.1m). The net gearing level (all borrowings less positive cash balances divided by net assets) was reduced significantly to 11% (2009: 31%).

THANKS TO ALL EMPLOYEES

Finally, we would like to express the thanks of the Board of Directors to all employees of the Zytronic Group for their commitment and enthusiasm throughout 2010 in delivering the business performance described above.

MARK CAMBRIDGE, B.SC
CHIEF EXECUTIVE

DENIS MULLAN, B.SC, FCA
FINANCE DIRECTOR
10 December 2010

Zytronic's PCT technology is readily adapted to make record breaking sizes of touch sensors. The collages below show a variety of the numerous touch sensors which we have made in sizes from 30 inches up to 80 inches.

BOARD OF DIRECTORS

DAVID ERIC BANKS MA (CANTAB), FCA
(D.O.B. 13/08/53)
NON-EXECUTIVE 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. He was appointed Chairman with effect from 1 July 2010. He is Chairman of the Group's trading subsidiary, Zytronic Displays Limited. David is Finance Director of Romag Holdings plc.

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 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.

DAVID JOHN BUFFHAM
(D.O.B. 13/08/59)
INDEPENDENT NON-EXECUTIVE DIRECTOR

David worked at the Bank of England (the "Bank") for 32 years until earlier this year. He held several roles in the Bank, including working in the Banking Supervision Division for five years following the changes to banking regulations introduced in 1987 and as a Credit Risk Manager. In addition, he advised overseas central banks on the conduct of monetary policy operations. Most recently he was the Bank's Agent for the North East of England for nine years.

Since leaving the Bank, David has been appointed a Non-executive Director of Newcastle Building Society, where he has joined the audit committee. He is also a Governor and audit committee member of Northumbria University and a visiting fellow at Teesside University. Until 2006, he was a Director of The Northumbria Coalition Against Crime.

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.

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, Dowding & Mills plc and, most recently, Castle Support Services plc. He was formerly a partner in Arthur Young (a predecessor firm of Ernst & Young LLP) specialising in corporate finance and recovery. Tudor is Chairman of the audit committee.

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

NON-EXECUTIVE DIRECTOR

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 and handed over the chairmanship to David Banks on 1 July 2010.

[(1)] Member of audit committee.
[(2)] Member of remuneration committee.

All of the Directors served throughout the financial year, except David Buffham who was appointed on 22 September 2010.

CORPORATE INFORMATION

—

WEBSITE
www.zytronic.co.uk

SECRETARY
Denis G W Mullan, B.Sc, FCA
Email: denis.mullan@zytronic.co.uk

REGISTERED OFFICE
Whiteley Road
Blaydon-on-Tyne
Tyne & Wear
NE21 5NJ
Tel: 0191 414 5511
Fax: 0191 414 0545

REGISTRATION NUMBER
3881244

STOCKBROKERS AND NOMINATED ADVISER
BREWIN DOLPHIN LIMITED
48 St. Vincent Street
Glasgow
G2 5TS

REGISTRARS
COMPUTERSHARE INVESTOR SERVICES PLC
The Pavilions
Bridgwater Road
Bristol
BS99 7NH

AUDITORS
ERNST & YOUNG LLP
Citygate
St James' Boulevard
Newcastle-upon-Tyne
NE1 4JD

BANKERS
LLOYDS TSB BANK PLC
PO Box 686
First Floor
Black Horse House
91 Sandyford Road
Newcastle-upon-Tyne
NE99 1JW

SANTANDER CORPORATE BANKING
Baltic Place
South Shore Road
Gateshead
NE8 3AE

SOLICITORS
WARD HADAWAY
Sandgate House
102 Quayside
Newcastle-upon-Tyne
NE1 3DX

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

DIRECTORS' REPORT

—

The Directors present their annual report and financial statements for the year ended 30 September 2010.

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 comes 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 90% 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 distributors in South Africa, Brazil, Korea and China. 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 enter markets that were previously closed to it on price grounds. The Group has also re-designed optical filters to enable it to take advantage of the new manufacturing processes first developed for making ZYPOS touch sensors.

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.

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

CONTINUED
DIRECTORS' REPORT

BUSINESS REVIEW CONTINUED

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 2009 and 2010.

RESEARCH AND DEVELOPMENT

The Group has continued with the development of its electronic controllers, software and firmware used in the touch sensors, and launched a new family of controllers, the ZXY100 controllers, during the year.

It has undertaken re-designs of several optical displays to enable them to be made with fewer materials and more quickly, incorporating some of the manufacturing and process methods originally developed for the ZYPOS touch sensors.

The R&D team is continuing to investigate the use of other sensor configurations and processing media in the manufacture of its touch sensors.

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

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 £2.2m (2009: £1.7m). The Directors propose the payment of a final dividend of 5.0p per share (2009: 3.8p). Following the dividend of 2.0p per share paid in June 2010, this will bring the total dividend for the year to 7.0p per share (2009: 5.0p).

DIRECTORS

The Directors of the Company are shown on pages 16 and 17. All of the Directors were Directors for the whole of the year with the exception of David Buffham who was appointed on 22 September 2010. 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 adequate 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 16 and 17. 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 7 December 2010, the following had significant interests in the ordinary shares of the Company:

Shareholders	Number of shares	Percentage holding
SIS SEGA Intersettle AG/Omnibus	3,201,722	21.8%
Axa S.A. (Framlington Investment Management Limited)	2,891,766	19.7%
John Kennair, MBE – Past Chairman (beneficial and non-beneficial)	1,364,928	9.3%
Schroder Investment Management	1,158,500	7.9%
Saracen Investment Funds – Growth Fund	755,289	5.1%

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 2010, the Company had an average of 30 days' (2009: 30 days') purchases outstanding in trade creditors.

POLITICAL AND CHARITABLE CONTRIBUTIONS

The Group did not make any political or charitable contributions during the year (2009: £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 2010, 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 2012 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 735,524 ordinary shares, being 5% of the issued ordinary share capital of the Company at 30 September 2010. The authority (special resolution 2 in the Notice of Annual General Meeting) will extend until the Annual General Meeting held in 2012 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 1,471,048 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 2012. 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
10 December 2010

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, David Banks, the Non-executive 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 John Kennair, MBE, a Non-executive Director were members of the Board. David Buffham joined the Board on 22 September 2010 as a Non-executive Director. David Banks and John Kennair, MBE, are not considered to be independent because they were the Finance Director of the Group until August 2003 and CEO of the Group until 21 January 2010 respectively.

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
David Banks	5	4
Mark Cambridge	5	5
Denis Mullan	5	5
David Buffham	1	1
Sir David Chapman, Bt.	5	5
Tudor Davies	5	3
John Kennair, MBE	5	5

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. The other member is Tudor Davies, the Senior Independent Non-executive Director. David Banks, the Non-independent Non-executive Chairman was a member until his appointment as Chairman. The committee is responsible for making recommendations to the Board, within agreed terms of reference, on the Company's framework of executive remuneration and its cost, including the remuneration of some 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 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.	2	2
Tudor Davies	2	2
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	2
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, the presentations 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 25 February 2011 can be found in the Notice of Annual General Meeting on pages 63 and 64.

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.

CONTINUED
CORPORATE GOVERNANCE

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 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 15. 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 financial statements.

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 some of the Directors in its trading subsidiary, Zytronic Displays Limited. The committee is composed of the two Independent Non-executive Directors. 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 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 26.

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 27.

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

Mark Cambridge and Denis Mullan both 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.

CONTINUED
REMUNERATION REPORT

DIRECTORS' EMOLUMENTS

Emoluments of the Directors for the year ended 30 September 2010 are:

	Salary £'000	Fees £'000	Benefits £'000	Bonus £'000	**Total emoluments* 2010 £'000**	Total emoluments* 2009 £'000
Non-executive Chairman						
David Banks**	—	46	—	—	**46**	37
Executive						
Mark Cambridge	105	—	18	8	**131**	119
Denis Mullan	90	—	10	7	**107**	99
Non-executive						
John Kennair, MBE	66	6	—	—	**72**	88
Tudor Davies	—	26	—	—	**26**	27
Sir David Chapman, Bt.	—	26	—	—	**26**	27
David Buffham***	—	1	—	—	**1**	—
	261	105	28	15	**409**	397

* Excluding pension contributions.

** Fees are paid to David Banks Associates, a partnership in which David Banks is a partner. David Banks was appointed Non-executive Chairman on 1 July 2010 following John Kennair, MBE, stepping-down on the same day.

*** David Buffham joined the Board on 22 September 2010.

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	**2010 £'000**	2009 £'000
Mark Cambridge	**3**	3
Denis Mullan	**3**	3
Total	**6**	6

DIRECTORS' SHAREHOLDINGS

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

		30 September 2010		30 September 2009	
		Number	**%**	Number	%
John Kennair, MBE	– beneficial	**1,058,065**	**7.19**	1,058,065	7.21
	– as trustee	**129,643**	**0.88**	129,643	0.88
Denis Mullan		**140,109**	**0.95**	140,000	0.95
Tudor Davies		**90,909**	**0.62**	90,909	0.62
Sir David Chapman, Bt.		**40,000**	**0.27**	40,000	0.27
Mark Cambridge		**36,113**	**0.25**	36,113	0.25
David Banks		**24,545**	**0.17**	14,545	0.10
David Buffham		**5,000**	**0.03**	—	—

There has been no change in Directors' shareholdings since 30 September 2010.

DIRECTORS' SHARE OPTIONS

Enterprise Management Incentive Scheme	30 September 2009 Number	Granted during year Number	Exercised during year Number	**30 September 2010 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
Denis Mullan	—	7,500	—	**7,500**	15 July 2013 to 15 July 2020	177.5p
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 2009 Number	Granted during year Number	Exercised during year Number	**30 September 2010 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 25.0p 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.

As at 30 September 2010, no shares had vested under this incentive scheme.

CONTINUED
REMUNERATION REPORT

DIRECTOR'S SHARE INCENTIVE SCHEME CONTINUED

SHARE INCENTIVE SCHEME FOR MARK CAMBRIDGE, CHIEF EXECUTIVE CONTINUED

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.

SHARE PRICE DURING THE YEAR

During the year to 30 September 2010, the highest share price was 241.0p and the lowest share price was 146.5p. The market price of the shares at 30 September 2010 was 176.0p.

DIRECTORS' INTERESTS IN MATERIAL CONTRACTS

As noted on page 26, the Company has paid Directors' fees to David Banks Associates, a partnership in which David Banks is a partner. At 30 September 2010 the amount due to David Banks Associates was £6,365 (2009: £3,546).

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.

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 2010 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet, the Consolidated Cashflow Statement and the related notes 1 to 25. 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 Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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 20, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the 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 financial statements give a true and fair view of the state of the Group's affairs as at 30 September 2010 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (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 2010.

ANNIE GRAHAM (SENIOR STATUTORY AUDITOR)
FOR AND ON BEHALF OF ERNST & YOUNG LLP STATUTORY AUDITOR
NEWCASTLE-UPON-TYNE
10 December 2010

NOTES
1. The maintenance and integrity of the Zytronic plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements, since they were initially presented on the website.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2010

	Notes	**2010 £'000**	2009 £'000
Group revenue	2	**18,483**	15,921
Cost of sales		**12,589**	10,514
Gross profit		**5,894**	5,407
Distribution costs		**231**	183
Administration expenses		**2,738**	2,850
Group trading profit	3	**2,925**	2,374
Other operating income		**112**	20
Group operating profit from continuing operations		**3,037**	2,394
Finance costs	5(a)	**(126)**	(98)
Finance revenue	5(b)	**13**	4
Profit from continuing operations		**2,924**	2,300
Tax expense	6	**(736)**	(593)
Profit for the year from continuing operations		**2,188**	1,707
Earnings per share			
Basic	8	**14.9p**	11.6p
Diluted	8	**14.8p**	11.5p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 SEPTEMBER 2010

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 SEPTEMBER 2010

	Called up share capital* £'000	Share premium** £'000	Retained earnings £'000	Total £'000
At 30 September 2008	147	6,479	2,256	8,882
Profit for the year	—	—	1,707	1,707
Tax recognised directly in equity	—	—	(4)	(4)
Share-based payments	—	—	29	29
Dividends	—	—	(616)	(616)
At 30 September 2009	147	6,479	3,372	9,998
Profit for the year	—	—	2,188	2,188
Tax recognised directly in equity	—	—	5	5
Exercise of share options	—	40	—	40
Refund of VAT on flotation expenses previously disallowed	—	31	—	31
Share-based payments	—	—	42	42
Dividends	—	—	(852)	(852)
At 30 September 2010	**147**	**6,550**	**4,755**	**11,452**

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

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

CONSOLIDATED BALANCE SHEET
AT 30 SEPTEMBER 2010

	Notes	2010 £'000	2009 £'000
Assets			
Non-current assets			
Intangible assets	9	**1,869**	1,974
Property, plant and equipment	10	**8,387**	8,375
Trade and other receivables	12(b)	**198**	210
		10,454	10,559
Current assets			
Inventories	11	**2,588**	2,503
Trade and other receivables	12(a)	**3,466**	3,110
Cash and short term deposits	13	**1,505**	739
		7,559	6,352
Total assets		**18,013**	16,911
Equity and liabilities			
Current liabilities			
Trade and other payables	14	**1,582**	1,306
Financial liabilities	15	**669**	1,442
Accruals	14	**600**	574
Taxation liabilities		**357**	300
Government grants		**192**	—
		3,400	3,622
Non-current liabilities			
Financial liabilities	16	**2,045**	2,428
Deferred tax liabilities (net)	19	**827**	820
Government grants		**289**	43
		3,161	3,291
Total liabilities		**6,561**	6,913
Net assets		**11,452**	9,998
Capital and reserves			
Equity share capital	21	**147**	147
Share premium	22	**6,550**	6,479
Revenue reserve	22	**4,755**	3,372
Total equity		**11,452**	9,998

These financial statements have been approved by the Board of Directors on 10 December 2010 and signed on their behalf by:

DAVID BANKS
CHAIRMAN
10 December 2010

DENIS MULLAN, B.SC, FCA
FINANCE DIRECTOR

CONSOLIDATED CASHFLOW STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2010

	Notes	2010 £'000	2009 £'000
Operating activities			
Profit before tax		**2,924**	2,300
Net interest expense		**113**	94
Depreciation of property, plant and equipment		**654**	613
Amortisation of intangible assets		**333**	307
Amortisation of government grant		**(102)**	(12)
Share-based payments		**42**	29
Increase in inventories		**(85)**	(7)
Increase in trade and other receivables		**(356)**	(59)
Increase/(decrease) in trade and other payables		**279**	(137)
Cash generated from operations		**3,802**	3,128
Taxation paid		**(655)**	(646)
Net cashflow from operating activities		**3,147**	2,482
Investing activities			
Interest received		**13**	4
Receipt of government grant		**540**	—
Purchases of property, plant and equipment	10	**(640)**	(3,673)
Payments to acquire intangible assets		**(228)**	(223)
Net cashflow from investing activities		**(315)**	(3,892)
Financing activities			
Interest paid		**(128)**	(94)
Dividends paid to equity shareholders of the parent		**(852)**	(616)
Proceeds from share issues re. options		**40**	—
New borrowings		**—**	2,217
Refund of VAT on flotation expenses previously disallowed		**31**	—
Repayment of borrowings		**(342)**	(163)
Repayment of capital element of hire purchase contracts		**(476)**	(476)
Net cashflow from financing activities		**(1,727)**	868
Increase/(decrease) in cash and cash equivalents		**1,105**	(542)
Cash and cash equivalents at the beginning of the year	13	**109**	651
Cash and cash equivalents at the year end	13	**1,214**	109

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2010

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 which, apart from those involving estimations, 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.

BUSINESS COMBINATIONS FROM 1 JANUARY 2010
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

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

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

BUSINESS COMBINATIONS PRIOR TO 1 JANUARY 2010
Acquisitions were accounted for using the purchase method. Goodwill arising on acquisitions was 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, was capitalised and classified as an asset on the balance sheet, and was not amortised. After initial recognition, goodwill was 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 indicated that the carrying value may be impaired. This required an estimation of the value in use of the cash-generating units to which the goodwill was allocated.

When subsidiaries were sold, the difference between the selling price and the net assets plus unimpaired goodwill was 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.

CONTINUED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2010

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 land	– Nil
Freehold property	– 50 years
Long leasehold property	– 50 years
Plant and machinery	– varying rates between 5% and 25% per annum

Any gain or loss arising on disposal of an asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the 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 directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the costs of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(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 service performance conditions (vesting conditions), other than performance 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 vesting condition, which are treated as vesting irrespective of whether or not the market vesting condition or non-vesting condition is satisfied, provided that all other non-market vesting conditions are satisfied.

At each 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 vesting conditions and the number of equity instruments that will ultimately vest, or in the case of an instrument subject to a market vesting condition or a non-vesting condition, be treated as vesting. The movement in cumulative expense since the previous 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. 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.

CONTINUED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2010

1. ACCOUNTING POLICIES CONTINUED

(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.

(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 2	Amendments to IFRS 2 Group Cash-settled Share-based Payment Transactions	1 January 2010
IAS 32	Amendment to IAS 32 Classification of Rights Issues	1 February 2010
IAS 24	Related Party Disclosures (revised)	1 January 2011
	Improvements to IFRS (May 2010)	1 January 2011
IFRS 9	Financial Instruments: Classification and Measurement	1 January 2013

IFRIC		Effective date
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

The Directors do not anticipate adoption of these standards and interpretations will have a material impact on the Group financial statements.

1. ACCOUNTING POLICIES CONTINUED

(U) NEW STANDARD ADOPTED

The following new standards or interpretations are mandatory for the first time for the financial year ended 30 September 2010:

IASB	
IFRS 1 and IAS 27	Amendments to IFRS 1 and IAS 27 Amendments for Determining the Cost of an Investment in Separate Financial Statements
IFRS 2	Amendment to IFRS 2 Vesting Conditions and Cancellations
IFRS 3	Business Combinations (revised January 2008)
IFRS 8	Operating Segments
IAS 1	Presentation of Financial Statements (revised September 2007)
IAS 23	Borrowing Costs (revised March 2007)
IAS 27	Consolidated and Separate Financial Statements (revised January 2008)
IAS 32 and IAS 31	Amendments to IAS 32 and IAS 31 Puttable Financial Instruments and Obligations Arising on Liquidation
IAS 39	Amendment to IAS 39 Eligible Hedged Items
	Improvements to IFRS

The adoption of IAS 1 Presentation of Financial Statements (revised) has required the "Statement of Changes in Equity", previously described in note 22 to the annual report for the year ended 30 September 2009, to be presented as a primary statement entitled "Consolidated Statement of Changes in Equity". In addition, the "Consolidated Statement of Recognised Income and Expense" has been replaced with the "Consolidated Statement of Comprehensive Income".

In adopting IFRS 8 Operating Segments, the Group has concluded that the operating segment is the same as the business segment determined in accordance with IAS 14 Segment Reporting.

Adoption of the remaining new standards and interpretations did not have a material impact on the financial performance of the Group.

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.

IFRS 8 Operating Segments has been applied for the first time in these financial statements.

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

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

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

		30 September 2010		30 September 2009	
		£'000	**%**	£'000	%
Sale of goods	– UK	**1,762**	**10**	2,238	14
	– Americas	**3,682**	**20**	3,018	19
	– EMEA (excl. UK)	**8,516**	**46**	7,344	46
	– APAC	**4,523**	**24**	3,321	21
Revenue		**18,483**	**100**	15,921	100
Finance revenue		**13**		4	
Total revenue		**18,496**		15,925	

Individual revenues from three major customers exceed 10% of total revenue for the year. The total amount of revenue is £10.0m (2009: £8.5m).

CONTINUED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2010

3. GROUP OPERATING PROFIT
This is stated after charging/(crediting):

	30 September 2010 £'000	30 September 2009 £'000
R&D costs	**215**	291
Amortisation of development expenditure	**153**	135
	368	426
Auditors' remuneration – in respect of audit services*	**46**	48
– in respect of taxation services	**17**	19
Depreciation of owned assets	**494**	456
Depreciation of assets held under HP agreements	**160**	157
Amortisation of licences	**125**	123
Cost of inventories recognised as an expense including:	**7,222**	5,300
– write-down of inventories to net realisable value	**118**	27
– reversals of impairments in inventories**	**(12)**	(69)
Hire of plant and machinery	**2**	2
Operating lease rentals – minimum lease payments	**44**	324
Amortisation of capital grants	**(102)**	(12)
Net foreign currency differences	**49**	153
Rental income	**(3)**	(9)

* £15,000 of this relates to the Company (2009: £36,000).

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

4. STAFF COSTS (INCLUDING DIRECTORS)

	30 September 2010 £'000	30 September 2009 £'000
Wages and salaries	**4,121**	3,736
Social security costs	**379**	346
Other pension costs	**54**	48
	4,554	4,130

Included in wages and salaries is a total expense of share-based payments of £42,000 (2009: £29,000) all of which arises from transactions accounted for as equity-settled share-based payment transactions.

The total of Directors' emoluments is £409,000 (2009: £397,000). The aggregate value of contributions paid to money purchase pension schemes includes £6,000 (2009: £5,600) in respect of two Directors (2009: two).

Amounts paid to the highest paid Director are £131,000 (2009: £119,000) plus a contribution paid to the money purchase pension scheme of £3,000 (2009: £3,000).

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

	30 September 2010 Number	30 September 2009 Number
Production	**156**	156
Administration and sales	**37**	37
	193	193

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 2010 £'000	30 September 2009 £'000
Finance charges payable under HP agreements	**(15)**	(31)
Bank loans and overdrafts	**(111)**	(67)
	(126)	(98)

(B) FINANCE REVENUE

Interest receivable	30 September 2010 £'000	30 September 2009 £'000
Bank interest receivable	**13**	4

6. TAXATION

	30 September 2010 £'000	30 September 2009 £'000
Current tax		
UK corporation tax	**(728)**	(602)
Corporation tax over-provided in prior years	**4**	10
Total current tax charge	**(724)**	(592)
Deferred tax		
Effect of change in tax rates	**20**	—
Origination and reversal of temporary differences	**(32)**	(1)
Total deferred tax charge	**(12)**	(1)
Tax charge in the income statement	**(736)**	(593)

TAX RELATING TO ITEMS CHARGED OR CREDITED TO EQUITY

	30 September 2010 £'000	30 September 2009 £'000
Deferred tax		
Tax on share-based payment	**5**	(4)
Total deferred tax charge	**5**	(4)
Tax charge in the statement of comprehensive income	**5**	(4)

CONTINUED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2010

6. TAXATION CONTINUED
RECONCILIATION OF THE TOTAL TAX CHARGE
The effective tax rate of the tax expense in the income statement for the year is 25% (2009: 26%) compared with the standard rate of corporation tax in the UK of 28% (2009: 28%). The differences are reconciled below:

	30 September 2010 £'000	30 September 2009 £'000
Accounting profit before tax	**2,924**	2,300
Accounting profit multiplied by the UK standard rate of corporation tax of 28% (2009: 28%)	**819**	644
Effects of:		
Expenses not deductible for tax purposes	**4**	14
"Gain" on exercise of share options allowable for taxation purposes but not reflected in the income statement	**(22)**	—
Depreciation in respect of non-qualifying items	**51**	40
Enhanced tax reliefs	**(93)**	(95)
Difference in tax rates	**(11)**	—
Tax over-provided in prior years	**(12)**	(10)
Total tax expense reported in the income statement	**736**	593

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 2010 was £100,000 (2009: £130,000). 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 2010 (2009: £Nil).

Following announcements in the Emergency Budget of 22 June 2010, it was proposed that the full rate of corporation tax be reduced by 1% per year from April 2011, ultimately bringing the corporation tax rate down to 24%. The reduction from 28% to 27% was substantively enacted on 20 July 2010 and will be effective from April 2011. At the year end, the change in the tax rate will have no effect on current tax liabilities arising prior to the effective date of change, however the change will result in a reduction in deferred tax assets and liabilities. The effect of the rate change to 24%, if enacted at the balance sheet date, would have been a reduction in the deferred tax liability of £62,000.

7. DIVIDENDS
The Directors propose the payment of a final dividend of 5.0p per share (2009: 3.8p), payable on Friday 25 February 2011 to shareholders on the Register of Members on Friday 11 February 2011. This dividend has not been accrued in these financial statements. The dividend payment will amount to some £735,000.

	30 September 2010 £'000	30 September 2009 £'000
Ordinary dividends on equity shares		
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
Final dividend of 3.8p per ordinary share paid on 26 February 2010	**558**	—
Interim dividend of 2.0p per ordinary share paid on 25 June 2010	**294**	—
	852	616

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 2010 £'000	**Weighted average number of shares 30 September 2010 Thousands**	**EPS 30 September 2010 Pence**	Earnings 30 September 2009 £'000	Weighted average number of shares 30 September 2009 Thousands	EPS 30 September 2009 Pence
Profit on ordinary activities after taxation	**2,188**	**14,696**	**14.9**	1,707	14,674	11.6
Basic EPS	**2,188**	**14,696**	**14.9**	1,707	14,674	11.6

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

	Earnings 30 September 2010 £'000	**Weighted average number of shares 30 September 2010 Thousands**	**EPS 30 September 2010 Pence**	Earnings 30 September 2009 £'000	Weighted average number of shares 30 September 2009 Thousands	EPS 30 September 2009 Pence
Profit on ordinary activities after taxation attributable to ordinary equity holders	**2,188**	**14,696**	**14.9**	1,707	14,674	11.6
Weighted average number of shares under option	**—**	**111**	**(0.1)**	—	79	(0.1)
Diluted EPS	**2,188**	**14,807**	**14.8**	1,707	14,753	11.5

9. INTANGIBLE ASSETS

	Software £'000	Goodwill £'000	Licences £'000	Development expenditure £'000	Total £'000
Cost					
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
Additions	47	—	9	172	228
At 30 September 2010	**374**	**235**	**2,128**	**1,824**	**4,561**
Amortisation					
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
Provided during the year	55	—	125	153	333
At 30 September 2010	**274**	**—**	**1,219**	**1,199**	**2,692**
Net book value at 30 September 2010	**100**	**235**	**909**	**625**	**1,869**
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

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

CONTINUED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2010

9. INTANGIBLE ASSETS CONTINUED
IMPAIRMENT OF GOODWILL
The goodwill of £235,000 relates to the operations of Intasolve Limited which were merged into the business of Zytronic Displays Limited on 1 September 2002.

Zytronic Displays Limited operates in one continuing area of activity, which is the lowest level at which goodwill is monitored for internal purposes. That activity has demonstrated 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	Long leasehold property £'000	Plant and machinery £'000	Total £'000
Cost					
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
Additions	—	108	6	552	666
Disposals	—	—	—	(1,727)	(1,727)
At 30 September 2010	**207**	**3,068**	**2,155**	**7,858**	**13,288**
Depreciation					
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
Provided during the year	—	59	54	541	654
Disposals	—	—	—	(1,727)	(1,727)
At 30 September 2010	**—**	**155**	**121**	**4,625**	**4,901**
Net book value at 30 September 2010	**207**	**2,913**	**2,034**	**3,233**	**8,387**
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

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

	30 September 2010 £'000	30 September 2009 £'000
Cost	**2,241**	2,241
Accumulated depreciation	**853**	692

11. INVENTORIES

	30 September 2010 £'000	30 September 2009 £'000
Raw materials and consumables	**1,674**	1,566
Work in progress	**639**	501
Finished goods	**275**	436
	2,588	2,503

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

12. TRADE AND OTHER RECEIVABLES

(A) CURRENT ASSETS

	30 September 2010 £'000	30 September 2009 £'000
Trade receivables	**3,200**	2,839
VAT recoverable	**107**	77
Prepayments	**159**	194
	3,466	3,110

Trade receivables are denominated in the following currencies:

	30 September 2010 £'000	30 September 2009 £'000
Sterling	**1,628**	1,736
US Dollar	**1,242**	883
Euro	**330**	220
	3,200	2,839

Out of the carrying amount of trade receivables of £3.2m (2009: £2.8m), £1.7m (2009: £1.8m) is the amount of debts owed by three major customers. Regular reviews are undertaken on these major customers so as to ascertain that there are no going concern issues with them.

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

As at 30 September 2010, trade receivables at a nominal value of £52,000 (2009: £10,000) were impaired due to poor payment history. Movements in the provision for impairment of trade receivables were as follows:

	£'000
At 30 September 2008	101
Charge for the year	6
Utilised	(97)
At 30 September 2009	10
Charge for the year	52
Utilised	(10)
At 30 September 2010	**52**

CONTINUED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2010

12. TRADE AND OTHER RECEIVABLES CONTINUED

(A) CURRENT ASSETS CONTINUED

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
2010	**2,186**	**1,036**	**(22)**	**3,200**
2009	2,072	731	36	2,839

The good credit quality of trade receivables at 30 September 2010 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 2010 £'000	30 September 2009 £'000
Royalty prepayments	**198**	210

13. CASH AND SHORT TERM DEPOSITS

	30 September 2010 £'000	30 September 2009 £'000
Cash at bank and in hand	**1,505**	739

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

At 30 September 2010, the Group had available £2.7m (2009: £2.4m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. £0.7m (2009: £0.4m) 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 2010 £'000	30 September 2009 £'000
Cash at bank and in hand	**1,505**	739
Bank overdraft	**(291)**	(630)
	1,214	109

The fair value of cash and cash equivalents is £1.2m (2009: £109,000).

14. TRADE AND OTHER PAYABLES

	30 September 2010 £'000	30 September 2009 £'000
Trade payables	**1,449**	1,191
Other taxes and social security costs	**133**	115
	1,582	1,306
Accruals	**600**	574
	2,182	1,880

15. FINANCIAL LIABILITIES – CURRENT

	30 September 2010 £'000	30 September 2009 £'000
Bank loan (note 17a)	**6**	33
Bank loans (note 17b and 17c)	**327**	303
Obligations under HP agreements (notes 17d and 18a)	**45**	476
Bank overdrafts	**291**	630
	669	1,442

16. FINANCIAL LIABILITIES – NON-CURRENT

	30 September 2010 £'000	30 September 2009 £'000
Bank loan (note 17a)	**—**	5
Bank loans (note 17b and 17c)	**2,045**	2,378
Obligations under HP agreements (notes 17d and 18a)	**—**	45
	2,045	2,428

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 third 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

As at 30 September 2010, there were only four outstanding HP agreements. In the year ended 30 September 2008, these four HP agreements were put in place with Yorkshire Bank to provide the final funding for equipping the new ZYPOS manufacturing facility. These agreements total £338,000 and are 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 2010 £'000	30 September 2009 £'000
Minimum HP payments:		
– not later than one year	**45**	476
– later than one year and not later than five years	**—**	45
	45	521

The HP contracts at 30 September 2010 attract variable interest which is payable separately on the balance of capital outstanding. As such, the amounts payable at 30 September 2010 do not include a liability for finance charges.

CONTINUED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2010

18. OBLIGATIONS UNDER HP AGREEMENTS AND LEASES CONTINUED
(B) OBLIGATIONS UNDER OPERATING LEASES
Minimum lease payments under non-cancellable operating leases are as follows:

Group as lessee	**30 September 2010 £'000**	30 September 2009 £'000
Operating leases which expire:		
– not later than one year	**30**	25
– later than one year and not later than five years	**40**	27
– later than five years	**6**	7
	76	59

19. DEFERRED TAXATION LIABILITY/(ASSET)
The deferred tax included in the balance sheet is as follows:

	30 September 2010 £'000	30 September 2009 £'000
Deferred tax liability		
Accelerated capital allowances	**(711)**	(713)
R&D tax credit	**(138)**	(117)
Other	**(20)**	(20)
	(869)	(850)
Deferred tax asset		
Share-based payment	**40**	27
Pension asset	**2**	3
	42	30
Disclosed on the balance sheet	**(827)**	(820)

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

	30 September 2010 £'000	30 September 2009 £'000
Deferred tax in the income statement		
Accelerated capital allowances	**(15)**	18
R&D tax credits	**(25)**	—
Share-based payment	**9**	(1)
Other	**(1)**	(18)
	(32)	(1)
Effect of change in tax rates	**20**	—
Deferred income tax expense	**(12)**	(1)

20. FINANCIAL RISK MANAGEMENT POLICY AND FINANCIAL INSTRUMENTS
The Group's principal financial instruments comprise three secured bank loans, four 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.

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 30 April 2011 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 US 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.

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

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

	Change in US Dollar rate	Effect on profit before tax £'000	Change in Euro rate	Effect on profit before tax £'000
2010				
Sterling	**+ 5%**	**(19)**	**+ 5%**	**(24)**
	- 5%	**20**	**- 5%**	**27**
2009				
Sterling	+ 5%	(11)	+ 5%	(2)
	- 5%	13	- 5%	7

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 overleaf.

CONTINUED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2010

20. FINANCIAL RISK MANAGEMENT POLICY AND FINANCIAL INSTRUMENTS CONTINUED

INTEREST RATE RISK CONTINUED

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
2010		
Sterling	**+ 100**	**(23)**
	- 100	**23**
2009		
Sterling	+ 100	(29)
	- 100	29

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.

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 2010	**613**	**608**	**1,221**
30 September 2009	384	163	547

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 2010

	On demand £'000	**<3 months £'000**	**3–12 months £'000**	**1–5 years £'000**	**>5 years £'000**	**Total £'000**
Interest-bearing loans and borrowings	**291**	**96**	**316**	**1,897**	**369**	**2,969**
Trade and other payables	**1,618**	**564**	**—**	**—**	**—**	**2,182**
Total	**1,909**	**660**	**316**	**1,897**	**369**	**5,151**

Interest-bearing loans and borrowings comprise principal repayments due of £2.7m and contractual interest payments of £255,000. Interest is calculated based on interest rates prevailing at the balance sheet date.

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

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.

CAPITAL MANAGEMENT

The Group's policies on capital management are included in the Directors' report on page 20.

21. SHARE CAPITAL AND SHARE-BASED PAYMENTS

(A) SHARE CAPITAL

	2010 Number Thousands	2009 Number Thousands	2010 £'000	2009 £'000
Authorised				
Ordinary shares of 1p each	**25,000**	25,000	**250**	250
Allotted, called up and fully paid				
Ordinary shares 1p each	**14,710**	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 2009 Number	Granted during year Number	Exercised during year Number	Lapsed during year Number	30 September 2010 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 (2009) – 3-year term	52,175	—	—	3,664	**48,511**	1 April 2011 to 30 September 2011	220.0p
– 5-year term	28,402	—	—	8,856	**19,546**	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
	—	82,500	—	—	**82,500**	15 July 2013 to 15 July 2020	177.5p

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.

CONTINUED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2010

21. SHARE CAPITAL AND SHARE-BASED PAYMENTS CONTINUED
(B) SHARE-BASED PAYMENTS CONTINUED
INCOME STATEMENT EXPENSE FOR YEAR ENDED 30 SEPTEMBER 2010
The expense recognised for share-based payments in respect of employee services received during the year to 30 September 2010 is £42,000 (2009: £29,000).

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

	2010 Number	**2010 WAEP Pence**	2009 Number	2009 WAEP Pence
Outstanding at 30 September*	**727,598**	**151.2**	692,668	154.1
Granted during the year	**82,500**	**177.5**	36,500	106.0
Lapsed during the year	**(12,520)**	**220.0**	(1,570)	220.0
Exercised during the year	**(36,363)**	**110.0****	—	—
Outstanding at 30 September	**761,215*****	**155.2**	727,598***	159.5
Exercisable at 30 September	**273,658**	**156.7**	310,024	151.2

* Included within this balance are options over 100,000 (2009: 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 110.0p.

*** 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 2010, the weighted average remaining contractual life is five years (2009: five 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 41.7p (2009: 20.0p). The range of exercise prices for options outstanding at the end of the year was 70.0p to 274.5p (2009: 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 2010 and 30 September 2009:

	2010	2009
Dividend yield	**3.4%**	3.5%
Expected share price volatility	**35.0%**	30.0%
Risk-free interest rate	**4.0%**	4.2%
Expected life of option (years)	**3.0 to 5.0**	3.0 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.

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 25.0p 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. CAPITAL COMMITMENTS

Amounts contracted for at 30 September 2010 but not provided in the financial statements amounted to £428,000 (2009: £25,000) for the Group.

23. PENSION SCHEME COMMITMENTS

Contributions for the year ended 30 September 2010 amounted to £54,000 (2009: £48,000) and the outstanding contributions at the balance sheet date were £6,000 (2009: £7,600). 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.

CONTINUED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2010

24. 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:

	2010 £'000	2009 £'000
Salaries/fees	**394**	388
Bonuses	**15**	9
Pension contributions	**6**	6
Share-based payments	**2**	2
	417	405

25. 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 2006 TO 2010

	2010 £'000	2009 £'000	2008 £'000	2007 £'000	2006 £'000
Group revenue	**18,483**	15,921	14,717	11,437	12,301
Cost of sales	**12,589**	10,514	9,978	7,971	8,449
Gross profit	**5,894**	5,407	4,739	3,466	3,852
Distribution costs	**231**	183	217	197	170
Administration expenses	**2,738**	2,850	2,675	2,556	2,356
Group trading profit	**2,925**	2,374	1,847	713	1,326
Other operating income	**112**	20	27	36	—
Group operating profit from continuing activities	**3,037**	2,394	1,874	749	1,326
Finance costs	**(126)**	(98)	(146)	(73)	(59)
Finance revenue	**13**	4	12	7	6
Profit from continuing operations	**2,924**	2,300	1,740	683	1,273
Tax expense	**(736)**	(593)	(677)	(149)	(153)
Profit for the period from continuing operations	**2,188**	1,707	1,063	534	1,120
Earnings per share					
Basic	**14.9p**	11.6p	7.3p	3.6p	7.8p
Diluted	**14.8p**	11.5p	7.2p	3.6p	7.7p
Dividends per share	**5.8p**	4.2p	3.0p	3.0p	2.5p

The results for the years ended 30 September 2007 to 2010 are presented under IFRS whilst the results for the year ended 30 September 2006 are presented under UK GAAP.

In the year ended 30 September 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 comprehensive income and the consolidated statement of changes in equity for the year ended 30 September 2010.

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.

CONTINUED
FIVE-YEAR SUMMARIES

CONSOLIDATED BALANCE SHEET
AT 30 SEPTEMBER 2006 TO 2010

	2010 £'000	2009 £'000	2008 £'000	2007 £'000	2006 £'000
Assets					
Non-current assets					
Intangible assets	**1,869**	1,974	2,058	2,122	2,120
Property, plant and equipment	**8,387**	8,375	5,315	5,208	3,737
Trade and other receivables	**198**	210	210	194	—
	10,454	10,559	7,583	7,524	5,857
Current assets					
Inventories	**2,588**	2,503	2,496	1,828	1,706
Trade and other receivables	**3,466**	3,110	3,039	2,767	2,852
Cash and short term deposits	**1,505**	739	1,260	317	931
	7,559	6,352	6,795	4,912	5,489
Total assets	**18,013**	16,911	14,378	12,436	11,346
Equity and liabilities					
Current liabilities					
Trade and other payables	**1,582**	1,306	1,480	1,376	1,167
Financial liabilities	**669**	1,442	1,182	621	653
Accruals	**600**	574	533	399	466
Taxation liabilities	**357**	300	341	—	28
Government grants	**192**	—	—	—	—
	3,400	3,622	3,536	2,396	2,314
Non-current liabilities					
Financial liabilities	**2,045**	2,428	1,088	1,340	658
Deferred tax liabilities (net)	**827**	820	817	479	266
Government grants	**289**	43	55	—	—
	3,161	3,291	1,960	1,819	924
Total liabilities	**6,561**	6,913	5,496	4,215	3,238
Net assets	**11,452**	9,998	8,882	8,221	8,108
Capital and reserves					
Equity share capital	**147**	147	147	147	146
Share premium	**6,550**	6,479	6,479	6,473	6,450
Revenue reserve	**4,755**	3,372	2,256	1,601	1,512
Total equity	**11,452**	9,998	8,882	8,221	8,108

The results for the years ended 30 September 2006 to 2010 are presented under IFRS.

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 adequate accounting records that are sufficient to show and explain the Company's transactions and 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 2010 which comprise the 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 Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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 55, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the 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 2010;
- 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 MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

OTHER MATTER

We have reported separately on the Group financial statements of Zytronic plc for the year ended 30 September 2010.

ANNIE GRAHAM (SENIOR STATUTORY AUDITOR)
FOR AND ON BEHALF OF ERNST & YOUNG LLP STATUTORY AUDITOR
NEWCASTLE-UPON-TYNE
10 December 2010

PARENT COMPANY BALANCE SHEET
AT 30 SEPTEMBER 2010

	Notes	2010 £'000	2009 £'000
Fixed assets			
Tangible assets	3	**5,022**	5,008
Investments	4	**9,448**	9,448
		14,470	14,456
Current assets			
Debtors:			
– amounts falling due within one year	5	**822**	306
– amounts falling due after one year	5	**2,000**	3,000
Cash at bank and in hand		**630**	736
		3,452	4,042
Creditors: amounts falling due within one year	6	**486**	431
Net current assets		**2,966**	3,611
Total assets less current liabilities		**17,436**	18,067
Creditors: amounts falling due after more than one year	7	**2,045**	2,378
Provisions for liabilities and charges			
Deferred tax	9	**76**	65
		15,315	15,624
Capital and reserves			
Called up share capital	10	**147**	147
Share premium	11	**6,550**	6,479
Profit and loss account	11	**8,618**	8,998
Shareholders' funds		**15,315**	15,624

These financial statements have been approved by the Board of Directors on 10 December 2010 and signed on their behalf by:

DAVID BANKS
CHAIRMAN
10 December 2010

DENIS MULLAN, B.SC, FCA
FINANCE DIRECTOR

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2010

1. ACCOUNTING POLICIES

(A) BASIS OF PREPARATION

The financial statements of Zytronic plc were approved for issue by the Board of Directors on 10 December 2010. 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 FRS 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 service performance conditions (vesting conditions), other than performance 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 vesting condition, which are treated as vesting irrespective of whether or not the market vesting condition or non-vesting condition is satisfied, provided that all other non-market vesting conditions are satisfied.

At each 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 vesting conditions and the number of equity instruments that will ultimately vest, or in the case of an instrument subject to a market vesting condition or a non-vesting condition, be treated as vesting 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.

(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
Long leasehold property	–	50 years
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.

—

1. ACCOUNTING POLICIES CONTINUED

(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 2010 was £15,000 (2009: £36,000).

3. TANGIBLE FIXED ASSETS

	Land £'000	Freehold property £'000	Long leasehold property £'000	Total £'000
Cost				
At 30 September 2009	207	2,960	1,950	5,117
Additions	—	108	5	113
At 30 September 2010	**207**	**3,068**	**1,955**	**5,230**
Depreciation				
At 30 September 2009	—	96	13	109
Provided during the year	—	60	39	99
At 30 September 2010	**—**	**156**	**52**	**208**
Net book value at 30 September 2010	**207**	**2,912**	**1,903**	**5,022**
Net book value at 30 September 2009	207	2,864	1,937	5,008

CONTINUED
NOTES TO PARENT COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2010

4. INVESTMENTS
INVESTMENTS IN SUBSIDIARY COMPANIES

	2010 £'000	2009 £'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.

5. DEBTORS

	2010 £'000	2009 £'000
Trade debtors	**2**	2
Amounts owed by Group undertakings	**2,803**	3,275
Prepayments and accrued income	**17**	29
	2,822	3,306

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

	2010 £'000	2009 £'000
Amounts owed by Group undertakings	**2,000**	3,000

6. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2010 £'000	2009 £'000
Bank loans (note 8)	**327**	303
Trade creditors	**20**	23
Other creditors and accruals	**53**	24
Other amounts owed to subsidiary undertakings	**81**	81
Corporation tax	**5**	—
	486	431

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

	2010 £'000	2009 £'000
Bank loans (note 8)	**2,045**	2,378

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 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.

9. DEFERRED TAXATION LIABILITY

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

	2010 £'000	2009 £'000
Accelerated capital allowances	**74**	63
Other timing differences	**2**	2
	76	65
At 1 October	**65**	51
Charged in the profit and loss account	**11**	14
At 30 September	**76**	65

Following announcements in the Emergency Budget of 22 June 2010, it was proposed that the full rate of corporation tax be reduced by 1% per year from April 2011, ultimately bringing the corporation tax rate down to 24%. The reduction from 28% to 27% was substantively enacted on 20 July 2010 and will be effective from April 2011. At the year end, the change in the tax rate will have no effect on current tax liabilities arising prior to the effective date of change; however the change will result in a reduction in deferred tax assets and liabilities.

10. SHARE CAPITAL AND SHARE-BASED PAYMENTS

(A) SHARE CAPITAL

	2010 Number Thousands	2009 Number Thousands	**2010 £'000**	2009 £'000
Authorised				
Ordinary shares of 1p each	**25,000**	25,000	**250**	250
Allotted, called up and fully paid				
Ordinary shares 1p each	**14,710**	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 basis 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.

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 2009	147	6,479	8,998	15,624
Exercise of share options	—	40	—	40
Refund of VAT on flotation expenses previously disallowed	—	31	—	31
Profit on ordinary activities after taxation	—	—	471	471
Share-based payments	—	—	1	1
Dividends	—	—	(852)	(852)
At 30 September 2010	**147**	**6,550**	**8,618**	**15,315**

A profit of £471,000 (2009: £470,000), before payments of dividends of £852,000 (2009: £616,000), 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.

CONTINUED
NOTES TO PARENT COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2010

12. PENSION SCHEME COMMITMENTS
Contributions for the year ended 30 September 2010 amounted to £2,700 (2009: £2,600) and the outstanding contributions at the balance sheet date were £1,800 (2009: £3,800).

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
As at 30 September 2010, there were only four outstanding HP agreements. In the year ended 30 September 2008, these four HP agreements were put in place with Yorkshire Bank to provide the final funding for equipping the new ZYPOS manufacturing facility. These agreements total £338,000 and are 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 Thursday 10 February 2011 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 2010 and the reports of the Directors and auditors thereon.
2. To pay a final dividend of 5.0p per ordinary share of 1.0p for the year ended 30 September 2010 on 25 February 2011 to members on the Register at the close of business on 11 February 2011.
3. To re-elect John Kennair, MBE as a Director.
4. To re-elect Sir David Chapman, Bt. as a Director.
5. Following his appointment to the Board during the year, to elect David Buffham as a Director.
6. 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 £49,034.94 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 2012 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 2012 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 £7,355.24.

   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.

CONTINUED
NOTICE OF ANNUAL GENERAL MEETING

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 1,471,048;

   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 2012 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 if 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
10 December 2010

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 4.00pm on Tuesday 8 February 2011 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 4.00pm on Tuesday 8 February 2011; 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 4.00pm on Tuesday 8 February 2011 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.

designed and produced by
the design portfolio marketing services.
www.design-portfolio.co.uk

ZYTRONIC

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

Tel: 0191 414 5511
Fax: 0191 414 0545
Email: info@zytronic.co.uk
Web: www.zytronic.co.uk