ZYTRONIC

At the forefront of touch technology

ZYTRONIC PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS 2021

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

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

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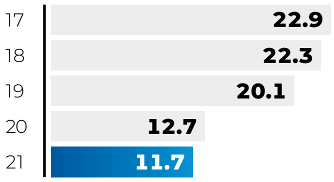
FINANCIAL OVERVIEW

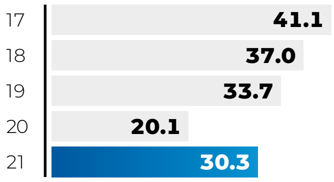
Group revenue (£m)

£11.7m



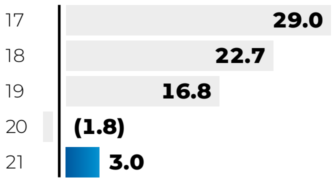
Gross profit margin (%)

30.3%



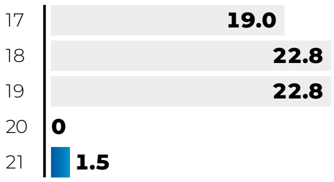
Earnings/(loss) per share (p)

3.0p



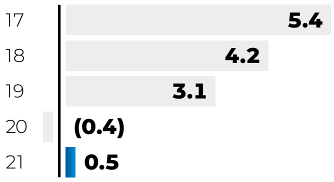
Dividends (p)

1.5p



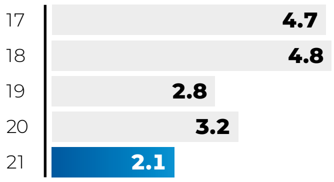
Profit/(loss) before tax (£m)

£0.5m



Cash generated from operating activities (£m)

£2.1m



HIGHLIGHTS

- Recovery in H2 revenue of 44% with growth from Gaming 99%, Vending 63% and Financial 29%
- Gross margin improved to 30.3% (2020: 20.1%), due to production efficiencies from restructuring in 2020
- EBITDA of £1.4m (2020: £0.7m) and a return to profitability with profit before tax of £0.5m (2020: loss of £0.4m)
- Earnings per share of 3.0p (2020: loss per share of 1.8p)
- Dividend proposed of 1.5p (2020: Nil)
- Successful Share Tender offer, returning £6.7m cash and cancellation of 4.6m shares
- Closing net cash of £9.2m (2020: £14.0m)

Why invest in Zytronic?

1

Strong net assets and cash provide sound basis for growth

£9.2m

cash in the Group

Financial review **P26–27**

2

Diversified technologies, products, markets and applications

5

key markets

Our markets **P11**

3

Investment in our already proven and trusted technology

£0.4m

investment in R&D

Our technology **P4**

4

Strength of opportunities pipeline

391

opportunities in pipeline

Chairman's statement **P6**

5

Excellence in manufacturing

16

skilled employees degree level or higher

Our business model **P12–13**

Our technology **empowers people** all over the world

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

What we do

PERFORMANCE

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

DESIGN

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

SERVICE

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

New products

ElectroglaZ™

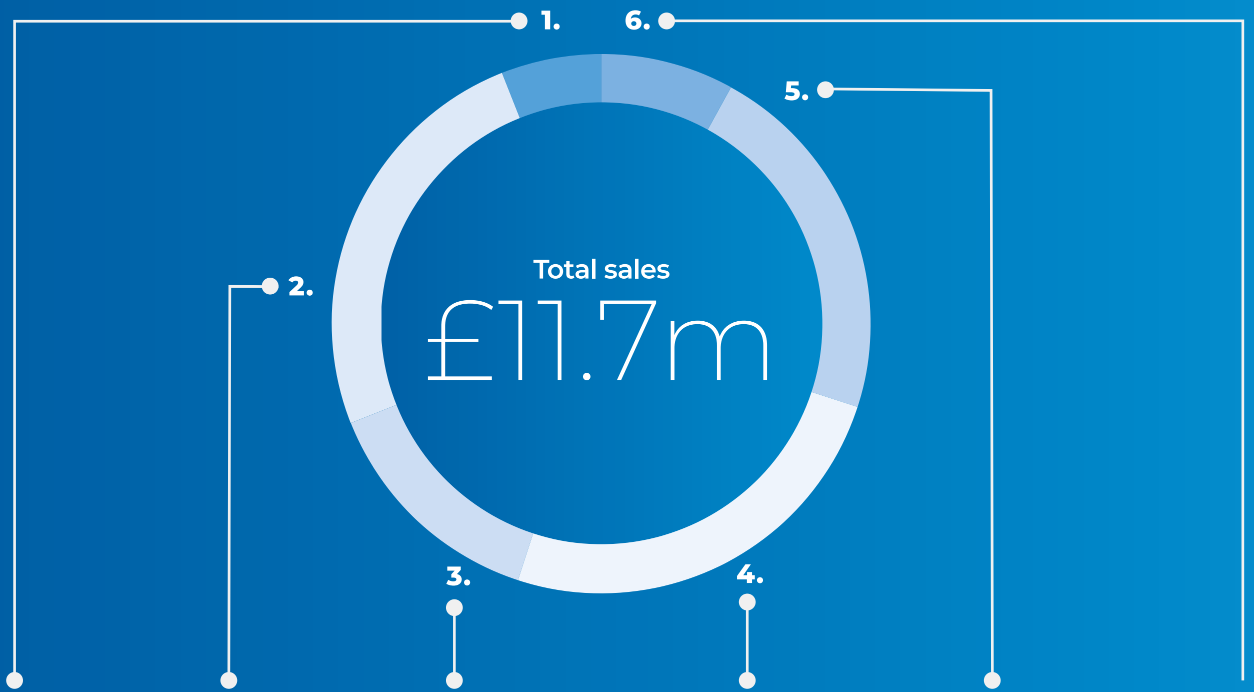
Zytronic's ElectroglaZ™ technology is a bespoke lamination of non-conductive and conductive transparent glass. The arrangement allows power to be transferred across two or more individual layers within the laminate and tapped/extracted at the required locations to power multiple low power (<50V) devices.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

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

Some of our customers

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

Our markets by revenue



1. SIGNAGE
£0.7m
(2020: £1.1m)
6% of revenue
(2020: 9%)

2. GAMING
£2.9m
(2020: £3.1m)
25% of revenue
(2020: 24%)

3. INDUSTRIAL
£1.6m
(2020: £1.6m)
14% of revenue
(2020: 13%)

4. FINANCIAL
£2.9m
(2020: £3.8m)
25% of revenue
(2020: 30%)

5. VENDING
£2.6m
(2020: £2.2m)
22% of revenue
(2020: 17%)

6. OTHER
£1.0m
(2020: £0.9m)
8% of revenue
(2020: 7%)

OUR TOUCHSCREENS ARE EVERYWHERE

GAMING

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

OTHER

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

SIGNAGE

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

INDUSTRIAL

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

VENDING

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

FINANCIAL

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

Internationally **award-winning** and patented technologies

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

Our business model **P12–13**

Awards

Zytronic wins Passive & Electromechanical Product of the Year at the ELEKTRA 2020 awards

We were delighted to receive the award for Passive & Electromechanical Product of the Year for our innovative ZYBRID®hover projected capacitive technology recently. Held annually, the Elektra European Electronics Industry Awards showcase the standout work of leading innovators in the high technology sector and we are honoured to be recognised as part of the awards.

Read more at
https://www.zytronic.co.uk/news/

Display Product of the Year – ZYBRID®hover – Contactless Touch Technology

In response to increased concern regarding contact with public touchscreens, Zytronic has developed a new variant of its durable, all-weather touch sensing product, named ZYBRID®hover. ZYBRID®hover is based upon the patented, award-winning projected capacitive touch technology that Zytronic has pioneered since 2000, and developed and manufactured in the North East of England.

Read more at
https://www.youtube.com/watch?v=02tpglohIQ8

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

Single touch

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

Multi-touch

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

ElectroglaZ™

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

Customisation options

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

Reliability

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

Sensitivity

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

High-impact resistance

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

Continuing to innovate and adapt

I am pleased to report that the year to 30 September 2021 has seen a significant increase in gross margins from last year's restructuring and a return to profitability, driven by a much improved second half with sales increasing by 44% to £6.9m from £4.8m in the first half.

Results

The results for the year produced a Group EBITDA of £1.4m (2020: £0.7m) and Group operating profit of £0.5m (2020: loss of £0.5m) on reduced revenue of £11.7m (2020: £12.7m) with an increase in earnings per share to 3.0p (2020: loss of 1.8p) with 16% of this year's earnings per share arising from the reduction in share capital following the tender and buyback completed in February 2021.

Whilst sales for the year were lower than last year the recovery in second half trading with a 44% increase in sales versus first half was particularly encouraging with the larger markets increasing the most: Gaming by 99%, Vending by 63%, Financial by 29%.

The improvement in operating profit this year principally arose from the considerable increase in gross margins from 20.1% to 30.3%, following the extensive reorganisations initiated in July and September 2020 in response to the second half downturn following the effects of the Coronavirus pandemic.

Current trading

The first two months have seen the positive recovery in our markets continue. Revenue and profits are ahead of the comparable period last year. The order intake for October and November is a very encouraging 77% ahead, and although this does include some large orders for the Gaming market for delivery over several months, provides a sound basis for revenue for the coming months. However, there are still challenges from the well-publicised shortages and supply chain issues, particularly of electronic components.

Cash

The cash position is still strong at £9.2m (2020: £14.0m) as even after distributing £6.7m by way of a share buyback, cash of £2.0m (2020: £3.4m) was generated from operations and control of working capital.

Dividend/return to shareholders

In February 2021 the Board decided it was in shareholders' interests to use our surplus cash balances to fund a tender offer and share buyback at 145p per Ordinary Share which resulted in 4.6 million shares, 28.8% of the then issued share capital, being purchased at a cost of £6.7m.

In the light of a return to profitability and the recent improvement to current trading the Board has decided to recommend a final dividend of 1.5p per share.

Board changes

As announced on 17 November 2021, having remained on the Board past the nine-year corporate governance guidelines whilst the business navigated the significant challenges posed by the COVID-19 pandemic, I shall step down at the AGM when David Buffham, currently a Non-executive Director will take over as Chair. We are in the process of recruiting an additional Independent Non-executive Director to take over David's current responsibilities.

Outlook

The first two months of the year have seen an improvement in order intake, and with the improved margins and levels of demand across most sectors, this provides the basis for good progress in the coming year.

Tudor Davies
Chairman
6 December 2021

Significant **44% growth** in H2 FY21 revenue compared to H1

I would like to begin this review by thanking all of the employees of Zytronic Displays Limited ("ZDL"), the operating subsidiary of the Group, for their understanding of the various decisions made during the course of the year, in what has been one of the most difficult trading years for Zytronic.

In particular, for everyone's efforts in turning an expectation at the start of the fiscal year of a potential trading loss before tax of £0.9m, into the actual reported position of a profit before tax of £0.5m.

There is little doubt that the turmoil caused by the ongoing global effects of the COVID-19 pandemic from its start in FY20 continued into and throughout FY21. Therefore, drawing comparisons between the performance metrics of FY21 with that of FY20 is of limited value. A more thoughtful comparison can be drawn from the half year periods starting H2 FY20.

The mapping of how COVID-19 impacted the business and how it continued to impact is more readily observable by looking at how order intake patterns significantly altered from April 2020 onwards and the resultant measures taken within the business, to mitigate and control the dynamically changing environment.

As with most global manufacturing businesses, April 2020 became an almost overnight watershed moment, having experienced supply chain turmoil manifesting out of Asia and the near closing down of global economies, which for ZDL displayed initially as order delay requests, then order cancellations and subsequently fewer new order placements. The outcome of the above was an order intake value for H2 FY20 of £3.7m being 59% lower than H1 FY20.

As previously reported, this prompted management to look at combinations of the government's Job Retention Scheme through to the end of September 2020, single day shift working as opposed to our normal four-shift pattern and four-day working weeks to balance the declining workload, restructuring and as a last measure redundancy, at various appropriate stages over that period.

As the business moved into the start of FY21, the restructuring process concluded, but the single shift four-day working weeks continued through to the end of Q1. The reasons for this can be observed by analysing the order intake over H1, which although at £6.4m represented a substantial 72% increase compared to that of H2 FY20, was skewed somewhat when looking at the individual quarters. Therefore, when comparing the respective order intake value ratio of Q3 FY20 against that of Q4 FY20, Q1 FY21 and Q2 FY21, the ratio of 0.9:1.0:2.3 is more revealing. What occurred over Q2 FY21, was an initial reinstatement of the order delays and cancellations that arose at the start of the COVID-19 pandemic, particularly from our Gaming market customers. In addition some customers placed longer lead time orders as the news of electronic component shortages emerged. This is further supported by the observed 11% decrease of the H2 FY21 order intake at £5.7m compared to H1.

Although variations in order intake occurred over the year, the manpower controls put in place very much allowed for more of an operational balance in the month-to-month output levels from the end of February 2021 onwards. Unfortunately, production was negatively impacted as the year progressed by the significant down-shift in electronic component supplies, which resulted in significant and well documented major global supply issues and inevitable delays. Due to ZDL's operational size, this left ZDL exposed to major market fluctuations and where necessary to ensure the continuation of some supply volume, our supply chain utilised grey market purchasing for hand-to-mouth component volumes, causing an almost inevitable drag on the achievable production output.

> **"Over the period, the marketing efforts became much more social media and digital content focused and consequently time has been spent in digital content creation, using our own in-house studio and an increase in the number of successful applications made for several electronic media-based industry awards.**

Total FY21 sales revenue of £11.7m was £1.0m lower than that of FY20, but although order intake varied considerably, the business was able to utilise the higher order intake of H1 FY20, to buffer the output through H2 FY20 and whilst the lower order intake of H2 FY20 had an effect on the output of H1 FY21, the combined higher order intake of Q2 and H2 FY21 enabled the significant 44% growth in H2 FY21 revenue compared to H1.

Of our four major contributory markets being Gaming, Financial, Vending and Industrial, it was only Vending which showed year-on-year growth in sales against FY20, with the revenue decline in Financial providing the biggest negative impact. However, when reviewing the FY21 data and comparing H2 against H1, pleasingly, all of the major contributory markets showed a material improvement.

As we consider that the Financial market was probably only slightly impacted by COVID-19 and the true market effect we continue to experience is related to the now well established major move towards a cashless society (digital and mobile banking) and with ZDL not being awarded with the new platform design wins for both of the major ATM global customers several years ago, which have since been launched, a substantial year-on-year decline is more likely and not reverse despite the H2 recovery.

Gaming, although still behind that of FY20, experienced a much-improved performance from February/March onwards, which is reflected in the H2/H1 FY21 comparator data. This market benefited from a resumption of unit builds for our Japanese, USA and Australian based end customers for the Las Vegas markets, which is predominantly where ZDL product finally resides. Pleasingly around that time, the development teams of our end customers also began to look at re-starting previously delayed programmes.

Market	**2021**	2020	% Var (A)	**H1 FY21**	**H2 FY21**	% Var (A)
Other	**£1.0m**	£0.9m	18	**£0.5m**	**£0.4m**	(25)
Signage	**£0.7m**	£1.1m	(38)	**£0.3m**	**£0.4m**	27
Industrial	**£1.6m**	£1.6m	(0)	**£0.7m**	**£0.9m**	31
Vending	**£2.6m**	£2.2m	18	**£1.0m**	**£1.6m**	63
Gaming	**£2.9m**	£3.1m	(7)	**£1.0m**	**£1.9m**	99
Financial	**£2.9m**	£3.8m	(24)	**£1.3m**	**£1.6m**	29
Total	**£11.7m**	£12.7m	(8)	**£4.8m**	**£6.9m**	44

Note: all £ values in the above table are rounded to nearest £0.1m whilst % variance is based on actual values.

Vending, as previously indicated, was our only market to show annual growth against FY20, but again, the growth in FY21 was much more skewed to H2. The majority of this is a result of our European customers resuming demand, particularly through our channel partners in Italy and France for traditional style vending. We also saw a resumption of demand for a drinks fountain unit project in the USA.

As can be seen from the data, Industrial was little affected in comparison, whilst Signage in percentage terms showed the greatest decrease, mostly being attributable to a decline in the supply of large format size units for previously well performing smart city street furniture kiosk programmes through our Asian channels for deployment in the USA.

In total across all markets, we shipped 76.5k touch sensor units in FY21, compared to 78k units in FY20. The mix being more skewed to smaller sized <14.9" diagonal units (FY21: 39%, FY20: 24%) than the large size. A similar volume of the premium MPCT™ were supplied at circa 13k units. Although Gaming resumed stronger growth in H2, the volume of curved units for Gaming customers was 53% lower in FY21 compared to FY20, at 3.4k units (FY20: 7.2k units).

Although the necessary restructuring in ZDL impacted every department including R&D and sales and marketing, it did not over the course of the year diminish the work undertaken by both to continue the innovation within the product offerings and the marketing efforts to increase news flow etc. under very different circumstances.

Over the course of the year, a significant amount of time has been spent by the R&D team in identifying, approving and in some instances redesigning, to accommodate the various electronic component shortages that manifested; a number of key development projects were concluded, including finalising the release of the now multi-industry award-winning ZYBRID®hover (non-touch) technology and productionising the developed ZYBRID®edge controllers for multi-stacked sensor video wall designs, for formal release at the ISE expo in Spain during Q2 FY22.

In combination with the above, a significant amount of effort has also been undertaken to bring the developed ElectroglaZ™ concept to market, and although we have demonstrated facets of the technology at some of the FY21 digital signage and touch trade shows undertaken, it is intended to be more appropriately demonstrated at its own market-specific Light+Building expo in Germany during Q2 FY22.

Q&A

How have you maintained stakeholder engagement?

Communication with all stakeholders is a key priority of the Group, especially so as it continues to navigate the challenges of the pandemic. The Board ensures it regularly communicates with all its employees to enable them to be kept up to date with business and government developments. Supplier communication has been even more important over the year as the shortage of electronic components has meant that the Group has had to manage these relationships more than ever, to ensure adequate supplies were, and continue to be, received. Shareholders have been communicated with over the course of the year through RNS announcements, meetings and discussions with the Board.

What are the key strengths of the business that will ensure its viability?

The Group continues to have a very strong balance sheet, with cash of £9.2m at the year end, despite returning £6.7m to shareholders over the year. It owns all of its properties and remains debt free, with instant access to liquidity should it be required. The prior year's restructuring of its workforce is aligned to present demand with skilled employees in post across all areas of the business.

Where do you see future growth opportunities?

The Group continues to look for future growth opportunities and is constantly developing and enhancing its product offering to do this. Over the course of the year we have released ElectroglaZ™ and are seeing enquiries for the ZYBRID®hover technology that was launched last year. The Chief Executive Officer's review goes into more detail around this.

COVID-19 has had a profound effect on the sales and marketing function over the fiscal period, beyond the restructuring programmes undertaken. As has previously been well documented, our major marketing efforts are normally centred around undertaking numerous end-market and region-specific trade shows and expositions yearly. Such events provide substantial networking and showcasing potential and bolster the consultative technical prospecting nature of the sales and business development process, generally in combination with our substantial channel partner network.

Unfortunately, the numerous travel bans and restrictions, have impacted the sales process, as work from home policies followed by a lot of our customers made and continue to make physical meetings impossible. Similarly, physical trade shows and the like, were also affected during H2 FY20 and H1 FY21, with numerous service providers experimenting pretty unsuccessfully with virtual attendance and participation. It was only towards the latter part of FY21 that physical trade shows reappeared, but unfortunately either the UK or destination country travel restrictions prevented any UK personnel attendance. ZDL did undertake two physical trade shows in that period, Digital Signage Japan and Touch Taiwan, both being solely serviced by our locally based employees.

Over the period, the marketing efforts became much more social media and digital content focused. Consequently, time has been spent in digital content creation, using our own in-house studio and an increase in the number of successful applications made for several electronic media-based industry awards. Details of all relevant news including customer testimonials, thought pieces, technology updates and event attendance, can be referenced at the following: https://www.zytronic.co.uk/news/.

Due to the hiatus in travel and the subsequent restrictions imposed since April 2020 the effect on our sales prospecting and normal marketing activities as detailed above, has meant that the volume and value of our dynamic CRM opportunities log has been affected, as new opportunity entries were at a lower rate than the conversion of existing opportunities to production.

As of 30 September 2021, there were 391 opportunities in our CRM log, with a potential forecasted lifetime value of £28.0m, 17 being classified as "Project" which is the status of an opportunity when a high probability of moving to production at a future point is flagged, which at that point in time are projected to generate £1.5m of revenue over their future production cycle. Over the course of FY21, we had 135 total "Project" status opportunities move to production with a projected revenue generation potential of £2.6m over their production cycle. These being additive to existing business as they move through their production lifecycle.

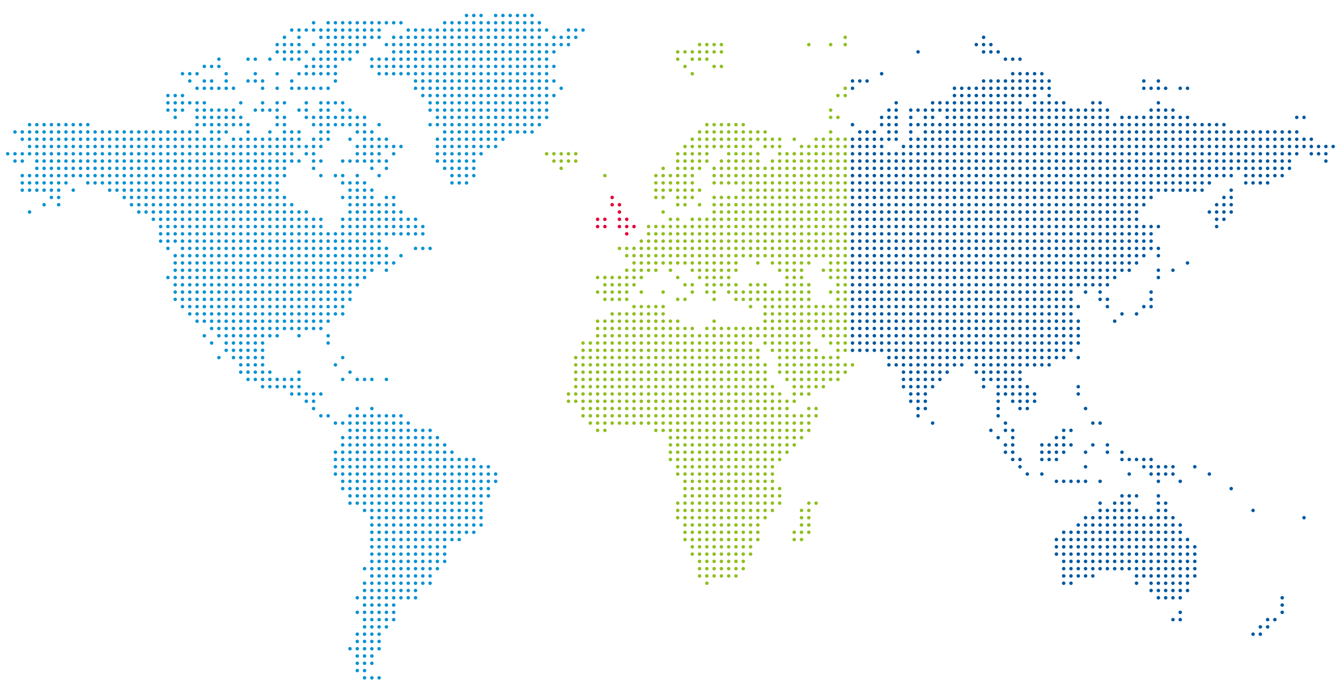
The CRM opportunities log is a very dynamic system, which changes daily, based on new entries and status updates. Two months on from the year-end, on 30 November 2021, it is encouraging to see that the log has positively increased to 420 opportunities with a potential forecasted lifetime value of £31.4m, 23 at "Project" status, projected to generate £3.5m of future revenue over their production cycle.

Mark Cambridge
Chief Executive Officer
6 December 2021

Our business model **P12–13**

Operating globally

We sell all over the world, with 96% of our products sold in the year being exports. To facilitate this, we have a strong network of value-added resellers ("VARs"), local sales and technical personnel in key territories and UK-based key account managers to support our EMEA region.



Americas

Revenue in this region continues to be impacted by the COVID-19 pandemic and saw the biggest reduction over the year.

Total revenue from invoiced sales to the Americas was

£2.2m

(2020: £2.8m)

which represented 20% of total export revenue (2020: 23%).

UK

Revenue in this region has been impacted by the COVID-19 pandemic.

Total revenue from invoiced sales to UK customers was

£0.5m

(2020: £0.6m)

Revenues in the UK account for 4% of total revenue.

EMEA

This continues to be our biggest market with revenues of £4.8m.

Total revenue from invoiced sales to the EMEA region was

£4.8m

(2020: £5.1m)

which represented 43% of total export revenue (2020: 42%).

APAC

Revenue in this area was again impacted as a result of the COVID-19 pandemic.

Total revenue from invoiced sales to the APAC region was

£4.2m

(2020: £4.2m)

which represented 37% of total export revenue (2020: 35%).

Competitive advantages stem from our technology

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

OUR KEY RESOURCES AND RELATIONSHIPS

Proprietary PCT™ technology

Patented MPCT™ technology

ElectroglaZ™

6
new patents applied for in 2020–2021

9
patents granted in total

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

Mechanical

Electronic

Software

Firmware

In-house facilities:

ISO-approved quality and environmental systems proprietary PCT™ technology

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

OUR MANUFACTURING CAPABILITIES

Our products

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

Diverse product range

Since the turn of the century, Zytronic has concentrated on the development and marketing of its range of interactive touch sensor products based upon its unique projected capacitive technologies (PCT™ and MPCT™) to industrial, public access and self-service equipment designers and end-users, in market areas such as financial, gaming, vending, signage, industrial, medical, etc.

Design options

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

Location

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

Coop Drive

Location: Italy

Sector: Vending

Customer: Amtek

A leading manufacturer of self-service systems, Amtek (now a Custom company) is enhancing the automated sale of products and services with an expanding range of "Click & Collect" touchscreen kiosks. The Italian manufacturer of specialist vending machines now depends upon Zytronic's projected capacitive technology (PCT™) for the touchscreens in all its outdoor kiosk designs.

At the start of the COVID-19 pandemic, food shoppers struggled to secure booking slots for home deliveries, and consequently, supermarkets sought to offer more ways to fulfil customers' needs. A good example is Amtek's "Click & Collect Drive" outdoor touchscreen kiosk which is increasingly being installed in supermarket car parks. Customers pre-order and pay for their groceries online and are sent a time slot and secure code, which they enter via the 21.5" all-weather touchscreen without needing to leave their car. An extra advantage compared with a purely online shopping experience is that customers can add "last minute" or impulse items to their shop using the touchscreen kiosk display.

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

HOW WE ADD VALUE

Customers

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

Employees

With well over half a century of glass processing and laminating experience, and over 19 years of experience developing our touch controllers, our employees are experts in their fields.

Shareholders

We continue to deliver value for our shareholders and have returned considerable dividends over the years when results have allowed us to do so.

Partners

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

RE-INVESTMENT

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

ROUTE TO MARKET

Direct presence

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

Sales channel partnerships

We have 33 sales channel partnerships to sell our products around the world, 13 of which are in EMEA, twelve in APAC and eight in the Americas.

Engaging with our stakeholders

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

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

In compliance with the Companies Act 2006, the Board is required to act in accordance with a set of general duties. During the year ended 30 September 2021, the Board considers that it has individually and collectively acted in a way it considers, in good faith, would be most likely to promote the success of the Group for the benefit of its shareholders as a whole having regard to the six matters listed in Section 172(1) (a) to (f) of the Companies Act 2006. In order to achieve long term success for the benefit of all shareholders, the Board recognises the importance of building and maintaining relationships with key stakeholders as well as considering the likely consequences of its decisions in the long term.

Duty to promote the success of the Group

Zytronic's objective is to progress shareholder value through the further development of its touch technology product offerings, targeting growth application areas and expanding its global sales channel footprint. This financial year has continued to be challenging in the execution of this due to the ongoing impact of the COVID-19 pandemic. The decisions the Group made in the previous financial year regarding restructuring and other cost control measures, have enabled a return to profitability and improved shareholder value. The Chief Executive Officer's review talks in more detail around this.

Stakeholder engagement

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

CUSTOMERS

How we engage

- The Board receives feedback from its customer-facing personnel. The key account managers each have territorial responsibility to engage with current and potential customers and there are quarterly team meetings to discuss opportunities across the Group. The Sales and Marketing Director regularly briefs the trading Board as to how we are performing with each of our customers. The Chief Executive Officer briefs the plc Board on these developments.
- Customer feedback is regularly sought and collected by the business through a wide range of channels. This information is processed and analysed and often utilised in future product development to the benefit of all parties. The Sales and Marketing Director and R&D Director both play crucial roles in the development of new business relationships and project success.
- In normal times we regularly participate in a wide range of trade shows and expos. They play an important role in our business development planning and showcasing our offerings. COVID-19 prevented normal attendance at most events during the year but we were able to have local representation where possible.
- We utilise our trading Company website and social media platforms to showcase our products to our customers. This has been critical whilst trade show participation remained impacted due to COVID-19.

Key outcomes

- Increased level of engagement with customers at a strategic level.
- A greater understanding of both customer and market trend requirements better informs the development and refinement of our own strategy.
- A Board-level engagement with our customers will help us convey our commitment to understand and meet their business needs.
- Listening to "the voice of the customer" enables us to be more effective in pre-empting and meeting their evolving needs and wants.
- Trade show attendance not only allows us to present a shop window for attracting the widest range, and deepest concentration, of potential clients over a short time period, but also enables us to observe in one place the broader market sentiment and emerging trends and in particular allows us to benchmark ourselves directly against competitors. The Board receives a summary report on all such events that we participate in.

EMPLOYEES

How we engage

- The Executive Directors communicate with employees following the trading Board meetings and also via internal communication memos and notices. Directors consult and seek opinion from managers and employees on a variety of different matters.
- The Group relies upon highly specialised skill sets in some areas of its business. The Group is willing to invest in its employees through training to ensure that those skills are maintained in the business.
- The Executive Directors are required to be actively visible in the business and offer an open-door policy to employees who would like to ask a question or offer a view.
- We undertook Equality and Diversity training over the year from Board level down to all those in a Manager/ Supervisor capacity.

Key outcomes

- Wider and deeper communication leads to greater transparency throughout the business and facilitates a more engaged, motivated and effective team.
- The Group aims to provide a rewarding long term personal development opportunity environment for its employees.
- A better informed and consulted workforce is more likely to have increased motivation and be more effective.
- We continued to operate COVID-19 control measures throughout the year, despite the relaxing of restrictions, in order to provide a safe working environment for all our employees.

INVESTORS

How we engage

- The Chief Executive Officer and Group Finance Director hold analyst and investor meetings throughout the year both on request and specifically following the release of the annual and half-year results. Feedback from these meetings is shared with the Board.
- The Annual General Meeting is our primary method of engagement with private investors along with the annual report. We encourage investors to attend and ask questions they may have. At the end of the meeting, the Board engages in an open and informal forum with attendees.
- The Group's annual report and accounts is available to shareholders in both hard copy form and online. All announcements and presentations are available on the Company's website.
- The Group's broker, N+1 Singer, provides briefings to the Board on shareholder opinions and independent feedback from investor meetings. Their views are sought on all market related matters or announcements.
- We engaged with all of our investors by offering them a "choice" of whether or not to participate in the return of capital during the year. The Board felt this was the most fair method.

Key outcomes

- A wide range of communication channels are used to engage with investors during the year. Feedback from investors has informed the Board's discussions and can influence decisions on the Group's strategy. All material information that is worthy of investor announcement is made available simultaneously to both shareholders and potential shareholders.
- We value the opportunity to meet with our shareholders and engage in an exchange of views and ideas and, post AGM, we review the feedback we have received.
- We respect that not everyone is "online" and continue to provide shareholders with a choice.
- Regular and frequent interaction between the Group and our broker ensures we receive regular guidance and remain aligned on our engagement with the investment community.

SUPPLIERS

How we engage

- Meetings are sometimes held with key suppliers at both their facilities and ours. This ensures a more intimate knowledge of each other's capabilities and objectives and leads to a closer working relationship.
- Our Group policies are flowed down to our supply chain to ensure compliance with social responsibility and good governance policies.
- The R&D Director has a keen interest in the supply chain and the introduction of new materials to ensure they meet the requirements of our end products.
- The Group aims to play fair with its suppliers and pay in line with the contractual payment terms.
- The well highlighted shortage of micro-processors is something the Group has had to navigate over the year. We have worked hard with our suppliers to ensure we can secure the necessary parts we need, and have re-purposed older stock, through the help of our suppliers, to meet our customer demand.

Key outcomes

- The Group's supplier base is a key part of the Group's ecosystem and effective relationships with our suppliers are essential to the delivery of Group performance. We engage with our suppliers through our engineering and operations teams and we work closely with key suppliers to ensure we take advantage of innovative technical and commercial solutions in the supply chain in order to secure a competitive advantage.
- We minimise our exposure to supplier related risks by requiring them to adhere to our Group policies and for them to confirm they are not in conflict with these policies before or during engagement.
- By playing fair with our suppliers we gain their respect, support and commitment to meeting our own business objectives.

Targeting growth application areas to create value

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

Innovate

We identify development projects that will enhance our technology and increase its ease of use and functionality for customers and end-users, and we listen to existing and potential customers and our markets for future requirements.

What we did in 2020/2021

- We concluded the development of the unique interactive narrow border video wall solution and ensured it passed EMC testing to CE and FCC standards. Samples were being prepared to ship to customers for testing and feedback.
- We completed the work on our unique micro-fine filament system, which provides micro-tracks to allow for power and data transfer from mechanical devices such as buttons and LED lighting features that appear "floating" and "unconnected" within the touch active and display viewable area. We were granted a patent for this work.
- We concluded the development of the mixed metal oxide glass laminate solution for use as a transparent surface power supply and launched this as ElectroglaZ™. We built a concept solution to showcase this at the G2E gaming exhibition.
- Due to the impact of COVID-19 and people's reluctance to touch things, we developed ZYBRID®hover an award-winning touch sensor solution activated by "hovering" over the active area. This is being prototyped with a number of customers.

Our priorities for 2021/2022

- We will obtain feedback from the sampled customers for the video wall solution and make any necessary refinements. User manuals will be produced for customers in setting up. We will also test this design system with the new Microsoft Windows 11 operating system.
- We launched the ElectroglaZ™ offering at the G2E gaming show in Las Vegas in October and we will showcase this at the Lighting + Building show in Germany in March 2022. We will continue further refinement on this product in the meantime.
- We will seek feedback on the ZYBRID®hover product and continue to make refinements to showcase it in a variety of applications.

Link to KPIs

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

Link to risks

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

Grow

We continue to seek opportunities to expand our sales channels and direct presence across the world and aim to establish representation in additional countries, for example the Philippines and in the Middle East.

What we did in 2020/2021

- Despite the continuing disruption to operations from COVID-19 over the year, we returned to profitability.
- We increased our online digital presence through targeted move to grown social media marketing campaigns. This was of huge importance due to the restrictions to travel and trade show attendance due to COVID-19.

Our priorities for 2021/2022

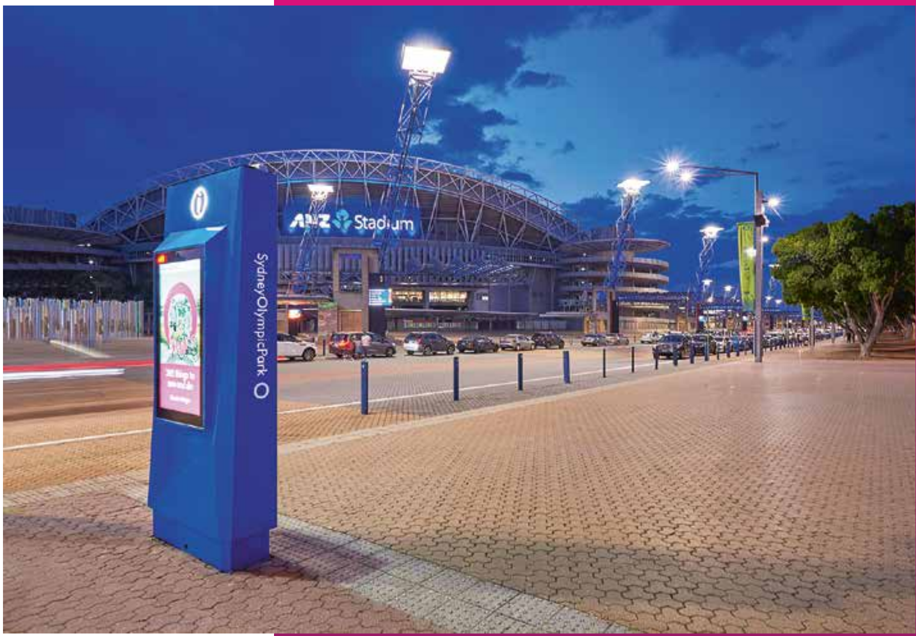
- We will continue our search for new channel partner representation in areas where we have less coverage.
- We aim to continue to grow our opportunities log as our sales managers will hopefully be able to travel again due to the lifting of the restrictions in place as a result of COVID-19.

Link to KPIs

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

Link to risks

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



Invest

We review our manufacturing methods regularly to bring through efficiencies in production. We add new plant and equipment each year, as necessary, to add capacity and replace old equipment. We invest in our marketing activities to promote our business on a global level. We invest in our employees to ensure we have the necessary calibre of people in the organisation.

What we did in 2020/2021

- We invested in a new laser soldering machine to allow both touch sensor manufacturing facilities to have equal capabilities. This was ordered in the year and is due for delivery over the course of financial year 2022.
- We undertook Equality and Diversity training from our Board of Directors to all those in a Manager/Supervisor capacity.

Our priorities for 2021/2022

- We will ensure that all of our remaining employees are trained in Equality and Diversity.
- The Board are currently analysing the internal IT systems and will be considering an upgrade over the coming year to enhance upon what is in place at present.

Link to KPIs

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

Link to risks

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

Zytronic chosen for prestigious Sydney outdoor wayfinder project

Location: Sydney

Sector: Signage

Customer: D2P

Zytronic's all-weather projected capacitive (PCT™ and MPCT™) touch sensors are helping visitors to the Sydney Olympic Park navigate their way around. The site of the 2000 Sydney Olympics still hosts some of Australia's most significant events, year round. Scattered amongst its 660 hectares are sporting venues, recreational facilities, parklands, cafes and restaurants. The Sydney Olympic Park Authority's ("SOPA's") Master Plan 2030 is to deliver outstanding social, economic and environmental benefits for the people of Sydney and New South Wales. Cue Design to Production ("D2P"), which collaborated with its media partners oOh!media to bring this to life with outdoor interactive directories, or wayfinders.

D2P is a digital communications and merchandising solutions provider that specialises in delivering enhanced customer engagement through superior design and customer experience. Whether it is digital signage, interactive wayfinders or kiosks, the Sydney-based company takes a holistic approach to help venue operators, such as SOPA, engage with their community and visitors.

D2P developed the unique, double-sided outdoor interactive wayfinders supported by Zytronic's technology partner JEA Technologies, which is based in Melbourne. Collectively, they produced Australia's first 75" outdoor display fitted with an all-weather, vandal-resistant Zytronic 49" ZYBRID® touch sensor on the front, enabling users to interact with D2P's precise wayfinding software.

Read more at https://www.zytronic.co.uk/news/zytronic-chosen-for-prestigious-sydney-outdoor-wayfinder-project/

Location:
Balearic Islands

Sector:
Signage

Customer:
IBHM

Zytronic's sensor technology hits the beaches of the Balearic Islands

Touchscreens on the beach? Why not? Zytronic's Iberian partner IBHM has been supplying Majorca-based Hi-Services with Zytronic's 43" touch sensor since 2018. The touch sensor provides the interactive interface for the company's Hi Point outdoor health awareness kiosks installed near beaches across the Balearic Islands.

The interactive screen provides information about the local beaches, actions to take in case of an emergency and even the types of jellyfish one might encounter whilst bathing in the sea. Users can also input their hair colour, eye colour and skin tone to generate a personalised report identifying the health risk factors. These include recommendations for the minimum sun protection factor to be used, maximum sun exposure times, ultraviolet ("UV") radiation and essential skin prevention advice.

In these unattended outdoor locations, Hi-Services needed a product that could withstand high ambient temperatures, sand, saltwater and potential tampering with by the public. As a result, the company chose thick, thermally tempered anti-glare glass ZYBRID® touch sensors, which met the brief perfectly.

On top of the kiosk is a UV index indicator, which alerts the population using a code based on five colours (green, yellow, orange, red and violet), established by the World Health Organization ("WHO") with UV index values ranging from 1 to 11. Additional kiosk features include an Automated External Defibrillator ("AED") and emergency service call-out button; there are also power outlets for charging mobile devices, electric wheelchairs and mobility scooters.

Read more at
https://www.zytronic.co.uk/news/zytronics-sensor-technology-hits-the-beaches-of-the-balearic-islands/

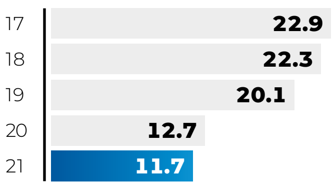
Measuring our performance

Key
- Innovate
- Grow
- Invest

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

Group revenue (£m)

-8%



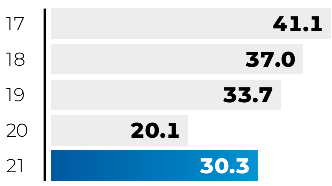
Link to strategy

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

Our performance
The COVID-19 global pandemic has continued to adversely impact revenue over the reporting period.

Gross profit margin (%)

51%



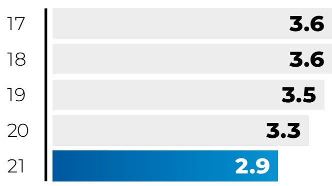
Link to strategy

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

Our performance
Strong operational control has helped improve gross margin.

Administration expenses (£m)

-12%



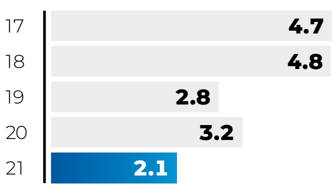
Link to strategy

Definition
The indirect costs incurred in running the Group.

Our performance
Year-on-year cost savings have arisen due to fewer travel and marketing expenses as a result of COVID-19, and the prior year restructure.

Cash generated (£m)

-34%



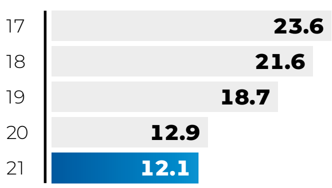
Link to strategy

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

Our performance
Cash generation continues but not at the same rate as in prior years.

Order intake (£m)

-3%



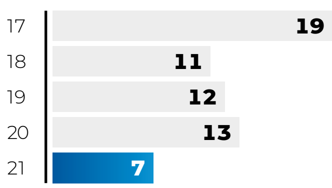
Link to strategy

Definition
Orders received during the financial year.

Our performance
Year-on-year decline impacted wholly by the COVID-19 pandemic.

Recorded accidents

-46%



Link to strategy

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

Our performance
A reduction in accidents occurring over the year. None of the accidents were reportable to RIDDOR.

Continually assessing risks

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

Managing our risks

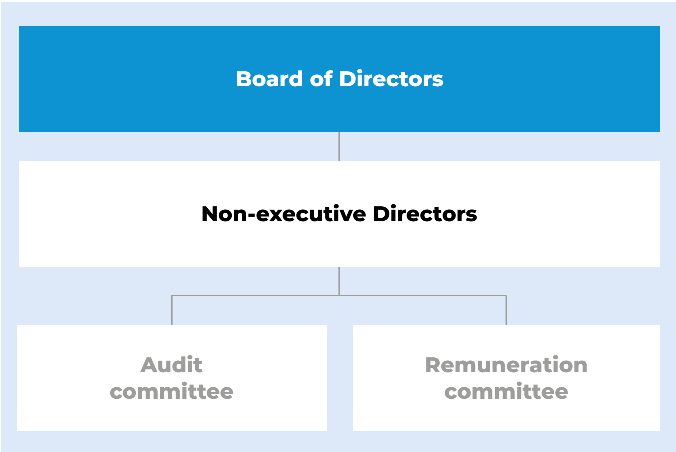
The nature of the risk is reviewed including the possible triggering events and the aggregated impacts before setting appropriate mitigation strategies directed at the causes and consequences of each risk.

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

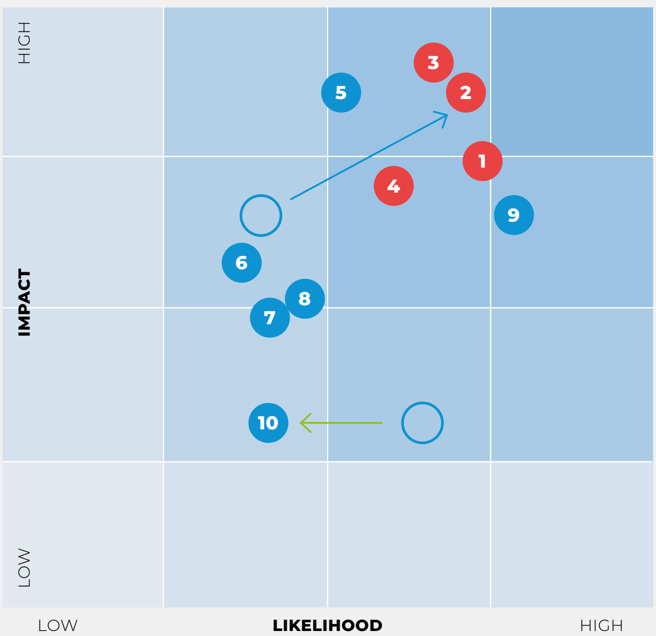
Risk management structure

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

The operational management team is also responsible for reporting and monitoring key risks in accordance with established processes under the Group operational policies. Reporting within the Group is structured so that key issues can be escalated rapidly through the management team to the Board where appropriate.



Risk heat map



1. Downward price pressures from competing technologies
2. Increasing costs of raw material supplies
3. Reliance on key customers
4. Risks associated with timing of customer projects and price reductions
5. COVID-19
6. Advances in competing technologies
7. Managing increases in the overhead base
8. Risks associated with currency movements
9. Cyber security risk
10. Brexit

RISK DESCRIPTION	MITIGATING ACTIONS	POTENTIAL FINANCIAL IMPACT	RISK APPETITE LEVEL	CHANGE

Downward price pressures from competing technologies

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

Increasing costs of raw material supplies

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

Reliance on key customers

At present the Group gets 37% of its revenue from three key customers. The risk to the Group is the loss of one or more of these customers with revenues not being replaced by others.	The nature of the business often means that when a customer is brought into the Group they stay loyal for a long period due to the lengthy engagement process from initial discussion to the raising of the purchase order. It is also difficult for a customer to design out the product once it has been chosen to be incorporated into their product offering. Zytronic's record of excellent customer service pre and post product sale is a big factor in maintaining the strong relationship that occurs with most of its customers. These factors help mitigate the risk of losing key customers. The Group constantly seeks new and increasing opportunities to replace and add to revenue when existing projects naturally come to their conclusion. The Group constantly strives to have a diversified customer base with multiple projects over different time periods occurring at any one time.	Major	2	Unchanged. Whilst still a high risk, the Group can often have numerous projects with any particular customer which helps to reduce the overall reliance.

Impact and change:

Unchanged
Adverse
Improved

Major
Moderate
Minor

Links to strategy:

Innovate
Grow
Invest

Appetite:

1 Acceptable
2 Review
3 Unacceptable

STRATEGIC REPORT

RISK DESCRIPTION	MITIGATING ACTIONS	POTENTIAL FINANCIAL IMPACT	RISK APPETITE LEVEL	CHANGE
Risks associated with timing of customer projects and price reductions				
One of the main risks to the business is that of the timing of customer projects, where as a component supplier the Group is wholly reactive to its customer demands. The Group has to also consider the impact of customer price reduction requests.	The demands of the Group's customers are not something that can be controlled, so in order to mitigate this risk the Group constantly strives to have a diversified customer base with multiple projects over different time periods occurring at any one time. A project log, via the CRM system, is regularly reviewed to ensure that up-to-date information regarding pipeline projects is captured. The Group considers any price reduction requests from its customers and tries to offset this with product re-designs. Due to the uncertainty surrounding COVID-19 the Group has seen deferrals to projects that were expected to commence. Management is still taking a cautious view on when things will return to more normal levels.		2	This risk is still high due to COVID-19. Management continually tries to identify new customers and markets to further mitigate against this in the future.
COVID-19				
The COVID-19 pandemic has continued to significantly impact over the year. Zytronic was able to maintain its operations during the UK lockdown and has met all customer commitments to date. Notwithstanding the fact that the Board has implemented positive measures during the pandemic, there remains a high degree of uncertainty over future events and the consequences for the Group.	Global economic disruption did result in reduced demand for our products. The opportunities pipeline, has seen a number of "Projects" being reclassified as "Prospects", and thereby reducing their likelihood of conversion in the short term. This presents revenue risk to the Group. Economic disruption may also impact financial markets including currencies, interest rates, borrowing costs and the availability of debt finance. The Group is well placed to deal with this due to the large cash resources it has available. The health and safety of our employees is of paramount importance. There is a risk that our colleagues may come into contact with carriers of COVID-19 and bring it into our facilities. In order to manage the risks and adhere to government guidelines the Group continues to maintain COVID-19 protocols in its facilities. COVID-19 has increased cyber threats from cyber criminals and other malicious groups who are targeting businesses by deploying COVID-19 related scams and phishing emails. Employees working from home have also heightened cyber security risks. The Group has remained extra vigilant to this type of risk.		2	This is an ongoing risk to the Group and continues to be closely monitored.
Advances in competing technologies				
A risk to the Group's business is that of advances in competing technology, whereby a new, better touch sensor technology is created.	Management is very conscious of this and monitors competitors' developments and changes within the whole industry. By continually developing and evolving its own technologies, the Group expects to build upon its competitive strengths and thereby keep its technology ahead of its competitors. In order to protect itself the Group has applied for and had patents successfully granted. A further six patent applications have been initiated during the year and the Group has nine patents granted in total.		3	The Group is always looking to develop its product offerings and to protect itself from its competition through its internally generated intellectual property.
Managing increases in the overhead base				
With the significant time that may occur between meeting potential customers and receiving first orders, management must ensure that the capacity of its factories is adequate for future growth in sales and the development of the business, while managing the profitability of the Group.	This is not straightforward when the business is developing new products and manufacturing processes and when the visibility and timing of orders from customers is unclear. Management uses a comprehensive sales pipeline model that is supported by a CRM system to monitor potential future sales levels. It has built in a degree of flexibility in its two main factories by ensuring that all products can be processed across its two buildings to continue to meet variable demand. Overheads are likely to increase in the year ahead as the Group resumes business travel and marketing exhibitions.		1	This risk is unchanged from the previous year.

RISK DESCRIPTION	MITIGATING ACTIONS	POTENTIAL FINANCIAL IMPACT	RISK APPETITE LEVEL	CHANGE
Risks associated with currency movements				
A large proportion of the Group's sales are denominated in US Dollars and Euros, so the Group is subject to risks associated with currency movements. It is the Group's policy to manage these risks and provide a degree of certainty for cashflows into the UK without taking the risks of speculative positions.	Natural hedging is adopted to manage currency risk, whereby goods and services are sometimes sourced in Euros and US Dollars. Surplus currency is then protected through the use of forward foreign exchange contracts for a period of up to four months ahead in line with the working capital cycle.		1	The Group sees this as a moderate risk due to the protection mechanisms in place, but will be impacted by any movements in currency.
Cyber security risk				
The risk to the Group is that of unauthorised access to or external disclosure of Group information, including those caused by "cyber attacks".	Management has implemented technical and procedural controls to minimise the occurrence of information and financial security and data protection breaches. Access to information is only provided on a "need-to-know" and "least privilege" basis consistent with the user's role and also requires the appropriate authorisation. Where sensitive data is made available to third parties it is done under confidentiality agreements.		2	No change to the risk but management continues to take appropriate action to minimise any potential threat.

Brexit

The result of the EU referendum in 2016 increased the level of macroeconomic uncertainty for the Group and the Group has since then continued to consider the impact of this. The Directors believe that the Group's unique positioning as a niche player in a global market with a diverse revenue base means it is well placed to minimise any negative impacts. However, some of the risk areas are considered as follows:

RISK DESCRIPTION	MITIGATING ACTIONS	POTENTIAL FINANCIAL IMPACT	RISK APPETITE LEVEL	CHANGE
Customs delays in importing and exporting goods into the UK, delaying raw materials in and finished goods out to customers.	The Group is a big importer and exporter of goods into and out of the country. There is a risk that goods inward could be impacted by delays at borders, meaning raw materials are delayed going into production. The Group has assessed its space requirements to ensure it can hold higher levels of raw material stock should it need to. The Group also has sufficient cash resources to enable it to do this. At present, 41% of the Group's sales go into the EU and all of these sales are made on an ex-works basis where the customer is responsible for the delivery. This is a mitigating factor as our obligation to the customer in terms of delivery is when the goods are made available for collection.		1	No change to the risk but management continues to keep abreast of any developments.
Fluctuating exchange rates which in turn could impact cashflows.	The Group transacts in three currencies: Pounds, US Dollars and Euros, and adopts natural hedging where possible to mitigate against exchange rate movements. The Group has sufficient cash resources to protect against any short term volatility.		2	The risk remains unchanged.
Delayed payments from customers subject to working capital stresses.	The Group has very good credit control policies and, while this may impact internal working capital in the short term, it has sufficient cash resources to mitigate against this. The Group also regularly reviews customers' credit arrangements to ensure they are reflective of the business needs.		3	Management does not consider there to have been a change to this risk and continues to monitor as appropriate.

People are at the **heart of our business**

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

1. INTEGRITY	Building relationships of mutual respect with colleagues, customers, suppliers, advisers and investors, ensuring that we conduct ourselves at all times in an open, honest and ethical manner.
2. QUALITY	Providing customer satisfaction through the continual improvement of our products and processes and the capabilities of our employees, through innovation, development and training.
3. PERFORMANCE	Driving towards profitable growth and increasing shareholder value through the balance of short term demands and long term strategies.

Environmental

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

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

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

Training

Employee training and development is one of the key factors to our success. Comprehensive training programmes allow us to advance workplace safety, productivity and satisfaction, as well as creating an informed and inspired workforce which can contribute to the advancement of our touch technology. We regularly review this across all departments to ensure that we continue to meet the needs of the Group and also to assist in succession planning. Early in the year we concluded the training for those production personnel undertaking their level three diploma in management. We undertook Equality and Diversity training from our Board of Directors to all those in a Manager/ Supervisor capacity. Our new management accountant is also working towards her Chartered Institute of Management Accounts qualification.

Recycling

We promote environmental awareness throughout the Group and have introduced a number of activities which include the recycling of paper, cardboard, plastics, cans, bottles, metals, etc. Since introducing these recycling activities, Zytronic has reduced pollution into the environment by diverting 97% of its waste away from landfill with the remaining 3% being used as RDF fuel.

Diversity

We pride ourselves on our diversity. Varying characteristics of our employees include, but are not limited to: religious and political beliefs, gender, ethnicity, education, socio-economic background, sexual orientation and geographic location. Over the year we reviewed and revised our Equality and Diversity policy.

Apprenticeships

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

Zytronic apprenticeship scheme

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

Zytronic currently employs two apprentices to serve as a multi-skilled Maintenance Technician and a Production Technician, both of whom are at different stages in their training. Previously, there were three other apprentices, all of whom successfully completed their training.

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

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

Employee engagement
We strive to create the right conditions for all members of our organisation to give their best, be committed to our goals and values, and be motivated to contribute to the organisational success, with an enhanced sense of wellbeing. We ensure we communicate with our employees on a regular basis and we consider their feedback and knowledge when making changes to our processes. We have an employee assistance service through one of our insurers that we encourage staff to utilise if they wish to talk over any matters of personal concern at any time. We have a good mix of long-serving employees and newer recruits which brings a good perspective when it comes to business development. When recruiting new or replacement personnel we ensure we enhance upon the skills and expertise already in place.

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

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

Health and safety

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

During the prior year our health and safety controls were tightened to ensure that social distancing requirements were, and continue to be, in force, to protect all our employees and visitors.

The Board decided that despite the easing of restrictions as announced by the government earlier in the year, it would not remove these controls, as it felt it was in the best interests of everyone to maintain social distancing.

Some of the health and safety testing has had to be postponed over the year as HSE guidance on face-to-face medical testing in the current environment was for this to be halted. We continue to be in discussion with OH3 about when this testing can resume. However, internal risk assessments have continued to be carried out and appropriate action taken if required.

Final dividend declared of 1.5p

Financial review

The global effects of the COVID-19 pandemic have continued to impact the financial performance of the Group over the year with revenue decreasing from that of financial year 2020 of £12.7m to a reported £11.7m. However, what is pleasing is that the Group returned a reported profit before tax of £0.5m (2020: loss of £0.4m) as a result of its previously announced restructuring programme and internal efforts to control costs. Reported EBITDA grew by £0.7m to £1.4m (2020: £0.7m) which generated an increase in cash, excluding the payment of £6.7m for the share tender and £0.6m for the restructuring, of £2.4m to close at £9.2m (2020: £14.0m).

Group revenue

Group revenue decreased by 8% for the year to £11.7m (2020: £12.7m) as the impact of the pandemic continued alongside the well highlighted shortage of electronic component supplies impacting not only the Group, but the customer base it serves. The Chief Executive Officer's review talks in more detail around revenue.

Gross margin

Reported gross margin for the year ended 30 September 2021 improved to 30.3% (2020: 20.1%) as a result of the following:

- the prior year's restructuring enabled savings in gross margin over the year and with the reduction in trading over the Q1 period, the Group operated on single day-shift working and four-day working weeks, which also improved margin;
- the introduction of the four-day working week also saw savings of £0.1m over general factory expenditure; and
- efficiencies were achieved throughout production and with lower year-on-year scrap rates this contributed to an improved margin.

Group trading result

Group trading in the year increased to an operating profit of £0.5m (2020: loss of £1.0m), mainly as a result of the restructuring and cost control measures. Distribution costs were in line with last year at £0.2m as sales where the Group is responsible for carriage were similarly consistent. Administration costs reduced by £0.4m to £2.9m (2020: £3.3m) as the Group saw savings in its salary, marketing and travel expenditure. Marketing and travel costs over the year continued to be reflective of the pandemic as it was not permitted to attend many of the usual exhibitions and travel restrictions were still imposed in a number of key market territories. As the world continues to open up, the Group would expect costs over these areas to increase over the coming year. The Group is also mindful of the rising costs of living which may also impact across the salary costs (and margins) in the year ahead.

Exceptional other income

In the previous year the Group benefited from government support of £0.5m for employees who were furloughed under the CJRS and for our US personnel under the Paycheck Protection Programme ("PPP"). This was not utilised in the current year and so consequently the Group reports no other income received.

Tax

The Group utilises the reliefs available to it, which positively impacts the reported tax charge, which for the year is less than £0.1m (2020: credit of £0.1m). The prior year tax loss, at the time of the last annual report, was being proposed to be carried back to recover cash already paid. However, following the announcement to raise the corporation tax rate to 25% in 2023, the Group made the decision to instead carry forward the loss to obtain future relief at a higher rate of tax. Given the healthy cash position, the Board believe this is appropriate.

Earnings/loss per share

The opening issued shares of 16,044,041 were reduced by 4,624,889 shares following the Tender Offer capital reduction exercise undertaken in H1, leaving 11,419,152 ordinary shares of 1p remaining. With the profit after tax of £0.4m this has resulted in an EPS of 3.0p (2020: LPS of 1.8p), which is calculated on the weighted average shares of 13,346,189 for the year.

Dividend

The Board announced at the time of its last annual report that it would not be considering the resumption of the payment of dividends until there is a return towards normality and at the time of the interim report for FY21 it declared a zero dividend payment. Following the results for the year the Board has proposed a final dividend of 1.5p per share for the year ended 30 September 2021, being the total dividend for the year (2020: Nil). Subject to approval by shareholders, the dividend will be paid on Friday 18 March 2022 to shareholders on the register as at the close of business on Friday 4 March 2022, with an ex-dividend date of Thursday 3 March 2022. The Board believes that this is an appropriate level of payment given the performance for the year.

Capital expenditure

The Group continued to spend on capital investments over the year totalling £0.3m (2020: £0.4m) across both tangible and intangible expenditure. £0.1m (2020: £0.2m) of this was incurred to further develop ElectroglaZ™ and its ZYBRID®hover product offerings to enable market launches during the year, and also commence new patent applications. £0.2m (2020: £0.2m) was spent on tangible acquisitions with an approval being granted for a second laser bonding machine, of which £0.1m of the total cost of £0.4m was incurred in 2021. The remaining £0.1m spend occurred across a number of replacement pieces of kit. Depreciation and amortisation reduced over the year to £1.0m (2020: £1.2m).

Cash position

Despite the impact of the COVID-19 pandemic, the Group was in a comfortable cash position and continued to strategically assess its operations to improve future returns for shareholders. In early February 2021 the Company announced a proposed return of up to £10.0m of capital by way of a Tender Offer. This Tender Offer concluded later in the month of February and resulted in a reduction of 28.8% in the number of shares to 11,419,152 (2020: 16,044,041 shares) and returned £6.7m of cash to shareholders.

The Group also announced in the prior year a significant restructuring programme which completed in late October and early November of this financial year, the costs of which at £0.6m were provided for in the 2020 results but the cash was paid out during this financial year.

The cash position opened at £14.0m and closed at £9.2m, which adjusting for the one-off items above of £7.3m, generated an increase to cash of £2.4m. Net cash from operating activities was £2.1m, £0.6m of which arose from the unwinding of the working capital (2020: £3.2m) and £1.0m from depreciation and amortisation. Stocks decreased by £0.9m over the year as the Group utilised its supply of raw materials and reduced its value of goods manufactured for invoicing post year end. Creditors also increased by £0.1m as the orders placed with suppliers increased in the later months of the year, with the previous year's stock being sufficient to fulfil the earlier demand. Debtors, however, saw an increase as the sales made in H2 were considerably higher, and with a mix of credit terms being offered, this elevated the year-end debtor position. No bad debts materialised over the period and the excellent work in cash collection continues.

Cashflow used in investing activities was £0.3m (2020: £0.3m), wholly due to the costs of investment in capital expenditure, and cashflow used in financing activities was £6.7m (2020: £2.0m) due to the payment for the return of cash in the Tender Offer.

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

The Group remains debt free at the year end and despite the continuing uncertainty the Group remains in a strong financial position for the year ahead.

The strategic report was approved by the Board on 6 December 2021 and signed on its behalf by:

Claire Smith
Group Finance Director
6 December 2021

About our leadership team

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

Tudor Griffith Davies

A R

Non-executive Chairman

Experience and skills

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

Mark Cambridge

Chief Executive

Experience and skills

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

Claire Smith

Group Finance Director

Experience and skills

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

David John Buffham

A R

Independent Non-executive Director

Experience and skills

David is Chairman of the audit and remuneration committees of the Board and has been a Director of the Company since October 2010.

David has held a number of other Non-executive Director positions. Until October 2019 David was a Director of William Leech (Investments Ltd), where he additionally sat on the investment committee and served as a trustee of the William Leech Foundation. He was also a Non-executive Director of Newcastle Building Society until June 2019 and sat on the Society's board risk committee, which he chaired for eight years until 2018. He has corporate governance experience in his roles as the Society's Senior Independent Director and Deputy Chairman. He also has remuneration and nominations committee experience, sitting on both of these for the Society. Until 2010 David worked for the Bank of England, most recently as the Bank's regional agent for the North East for nine years. During his time with the Bank, David covered a wide range of areas, including risk management, macroeconomic policy and treasury operations.

Board composition

Executive
2
Non-executive
2

Board meetings

Attendance
100%

Key

- A Member of audit committee
- R Member of remuneration committee
- Committee Chair

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

Board skills

Strategy

Technology

Business development

Digital

Financial

Transformation

Achieving high standards of corporate governance

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

Tudor Davies
Chairman

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

The workings of the Board and its committees

The Board

Throughout the year, Tudor Davies, the Non-executive Chairman, Mark Cambridge, the Chief Executive, Claire Smith, the Group Finance Director, and David Buffham, the Independent Non-executive Director, were members of the Board.

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

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

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

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

The workings of the Board and its committees continued

The Board continued

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

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

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

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

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

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

Audit committee

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

Remuneration committee

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

Relations with shareholders

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

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

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

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

The Board uses both the annual report and financial statements and the Annual General Meeting to communicate directly with private and institutional investors and welcomes their participation. The Chairman aims to ensure that the Chairman of the audit and remuneration committees is available at the Annual General Meeting to answer questions.

Details of resolutions to be proposed at the Annual General Meeting on 3 March 2022 can be found in the Notice of Annual General Meeting on pages 69 to 71.

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

Board effectiveness

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

Internal control

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

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

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

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

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

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

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

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

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

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

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic report. The financial position of the Group, its cashflows, liquidity position and borrowing facilities are also described within the Financial review section of the Strategic report. In addition, note 21 to the financial statements includes the Group's objectives and policies of its financial risk management and details of its financial instruments and hedging activities and its exposure to credit risk and liquidity risk.

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

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

2021 key shareholder engagements

January
- Trading update
  - RNS

February
- Proposed return of capital and Notice of AGM
  - RNS
- AGM
  - Meeting
- Result of Tender Offer and result of GM
  - RNS

May
- Interim results
  - Meetings/RNS

September
- Trading update
  - RNS

October
- Pre-close trading update
  - RNS

December
- Preliminary results
  - Meetings/RNS
- Annual report published
  - Report

The audit committee comprises the Non-executive Director, David Buffham (Chairman), and Tudor Davies, the Non-executive Chairman. The Board considers that the members collectively have the balance of skills and experience required to discharge their duties effectively.

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

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

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

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

Audit committee meetings

Number of meetings in 2021

1

Attendance

100%

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

Risk of fraud in revenue recognition and cut-off

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

Capitalisation of development expenditure

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

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

Response to key audit matters

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

- challenged the work undertaken by the auditor to test management's assumptions and estimates in the key risk areas;
- reviewed reports received from the auditor on these and other matters;
- received and considered feedback from management; and
- held private meetings with the auditor that provided the opportunity for open dialogue and feedback between the committee and the auditor without management being present.

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

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

After careful consideration of the advice of the audit committee, the Board has concluded that the 2021 annual report is fair, balanced and understandable and provides the necessary information for the Group's shareholders to assess the Group's risks, performance, business model and strategy.

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

The remuneration committee is responsible for determining the remuneration and other terms of employment for the Executive Directors of Zytronic plc and the Directors of its trading subsidiary, Zytronic Displays Limited. The committee is composed of the Independent Non-executive Director, David Buffham, as its Chairman, and the Group's Chairman, Tudor Davies. In determining remuneration for the year, the committee has given full consideration to the requirements of the UK Corporate Governance Code.

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

Remuneration policy

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

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

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

The remuneration packages of Executive Directors comprise the following elements:

Basic salary and benefits

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

Annual bonus

For the financial year 2021 there was a bonus payable of 3% of salary. The remuneration committee believes that this is a reasonable situation given the financial performance of the Group.

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

Service contracts

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

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

Non-executive Directors

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

Directors' emoluments (audited)

Emoluments of the Directors for the year ended 30 September 2021 are shown in the table overleaf.

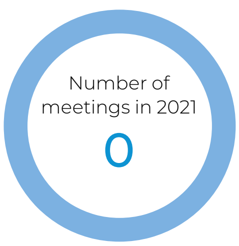
Pension contributions (audited)

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

Details of contributions payable by the Company are:

Director	**2021 £'000**	2020 £'000
Mark Cambridge	**13**	12
Claire Smith	**8**	8
Total	**21**	20

Remuneration committee meetings



Directors' shareholdings (audited)

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

	30 September 2021		30 September 2020	
	Number	**%**	Number	%
Mark Cambridge	**92,458**	**0.81**	92,458	0.58
Tudor Davies	**90,909**	**0.80**	90,909	0.57
Claire Smith	**42,381**	**0.37**	42,381	0.26
David Buffham	**18,500**	**0.16**	18,500	0.12

There has been no change in Directors' shareholdings since 30 September 2021.

Directors' emoluments for the year ended 30 September 2021 (audited)

	Salary £'000	Fees £'000	Benefits £'000	**Total emoluments* 2021 £'000**	Total emoluments* 2020 £'000
Non-executive Chairman					
Tudor Davies	—	63	—	**63**	80
Executive					
Mark Cambridge	146	—	7	**153**	155
Claire Smith	93	—	4	**97**	95
Non-executive					
David Buffham	—	28	—	**28**	35
	239	91	11	**341**	365

* Excluding pension contributions.

Share price during the year

During the year to 30 September 2021, the highest share price was 180.0p and the lowest share price was 113.0p. The market price of the shares at 30 September 2021 was 170.0p.

Directors' interests in material contracts

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

The Directors present their annual report and financial statements for the year ended 30 September 2021.

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

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

Principal activities

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

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

Likely future development

Our priorities for 2021/2022 are disclosed in the Strategic report on pages 16 and 17.

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 96% of all products are directly exported from the UK, with a large proportion of UK sales eventually being exported as well.

The Group draws strength from the diverse spread of its worldwide selling operations, particularly given the current uncertain economic conditions affecting different countries. The incorporation of Zytronic Inc. has further strengthened the Group's presence in the USA.

The employment of a Taiwanese and Japanese national in the APAC region has also increased the Group's presence in that region. Management continues to look for and engage with suitable appointees to expand the Group's network of value-added resellers ("VARs") worldwide.

Capital management

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

Management ensures that the Group has sufficient facilities to provide the Directors with comfort on the Group's foreseeable needs and its liquidity position and to consider any acquisition possibilities. The Financial review includes a paragraph discussing the cashflows which occurred in the year ended 30 September 2021 and the overall net funds position.

No changes were made to these objectives, policies or processes during the years ended 30 September 2020 and 2021.

Research and development

The research and development team has crucially continued to innovate throughout the year on a number of different projects, one of which arose as a result of COVID-19 in terms of surface protection.

Further details on the Group's R&D activities are included in the Chief Executive Officer's review section of the Strategic report.

Results and dividends

The consolidated statement of comprehensive income is set out on page 40. The Group profit after tax amounted to £0.4m (2020: loss of £0.3m). The Directors propose the payment of a final dividend of 1.5p being the total dividend for the year (2020: Nil).

Directors

The Directors of the Company are shown on page 28. All of the Directors were Directors for the whole of the year. The emoluments and interests of the Directors in the shares of the Company are set out in the Remuneration report.

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

The Directors are responsible for preparing the annual report and the Group and Parent Company financial statements in accordance with international standards in conformity with the requirements of the Companies Act 2006. The Parent Company financial statements are prepared in accordance with FRS 101 Reduced Disclosure Framework.

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

- present fairly the financial position, financial performance and cashflows of the Group and Parent Company;
- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements that are reasonable;
- provide additional disclosures when compliance with the specific requirements of IFRS, in accordance with international standards in conformity with the requirements of the Companies Act 2006, is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's and Parent Company's financial position and financial performance; and
- state whether the Group and Parent Company financial statements have been prepared in accordance with IFRS, in accordance with international standards in conformity with the requirements of the Companies Act 2006, subject to any material departures disclosed and explained in the financial statements.

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

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

Disclosure of information to the auditor

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

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

Annual General Meeting ("AGM")

The AGM will be held at the office of Zytronic plc on 3 March 2022 at 9.30 am. The Notice of Meeting accompanies this annual report and is also available on the Group's website at www.zytronicplc.com. Four resolutions will be proposed as special business.

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

Auditor

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

On behalf of the Board

Claire Smith
Company Secretary
6 December 2021

Registration number
03881244

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF ZYTRONIC PLC

Opinion
We have audited the financial statements of Zytronic plc (the "Parent Company") and its subsidiaries (the "Group") for the year ended 30 September 2021, which comprise:

- the Group statement of comprehensive income for the year ended 30 September 2021;
- the Group and Parent Company statements of financial position as at 30 September 2021;
- the Group statement of cashflows for the year then ended;
- the Group and Parent Company statements of changes in equity for the year then ended; and
- the notes to the financial statements, including significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 September 2021 and of the Group's profit for the period then ended;
- the Group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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

Conclusions relating to going concern
In auditing the financial statements, we have concluded that the Director's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the entity's ability to continue to adopt the going concern basis of accounting included:

- reviewing the cashflow model provided by management and challenging the assumptions made;
- reviewing management's forecasts which show continued growth in both revenue and profitability. Our assessment therefore considered if this will be feasible in light of past losses and recent economic conditions;
- considering the accuracy of past budgeting, as well as a review of the October 2021 management accounts compared to forecast; and
- considering the cash position of the business.

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

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

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

Based on our professional judgement, we determined overall materiality for the Group financial statements as a whole to be £75,000 (FY2020: £125,000), based on 5% of adjusted Group profit before tax on a three-year average. The Parent Company materiality was determined as £60,000 based on 5% of adjusted profit before tax on a three-year average.

We use a different level of materiality ("performance materiality") to determine the extent of our testing for the audit of the financial statements. Performance materiality is set based on the audit materiality as adjusted for the judgements made as to the entity risk and our evaluation of the specific risk of each audit area having regard to the internal control environment and is approximately £42,000.

Overview of our audit approach continued

Materiality continued

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

We agreed with the Audit Committee to report to it all identified errors in excess of £3,000 (2020: £6,000). Errors below that threshold would also be reported to it if, in our opinion as auditor, disclosure was required on qualitative grounds.

Overview of the scope of our audit

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

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

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

Key audit matters

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

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

Key audit matter	How the scope of our audit addressed the key audit matter
Revenue recognition Revenue is recognised in accordance with the accounting policy set out in the financial statements. Revenue is the key driver of the business and is used as an important benchmark by shareholders. We considered there to be a significant risk in respect of overstatement as this is the area considered to be most susceptible to management bias.	Our audit procedures consisted of: ▶ assessing the design effectiveness of the relevant controls in place associated with revenue recognition; ▶ validating that revenue is recognised in accordance with the accounting policies through testing an appropriate sample of revenue transactions to proof of delivery and cash receipts; and ▶ assessing the appropriateness of the related disclosures in the financial statements.
Capitalisation of development costs Development costs are capitalised for both ongoing and new projects during the year and include subcontract costs as well as internal labour costs. There is a risk that the carrying value of development costs may be impaired.	We have assessed the appropriateness of development costs capitalised during our audit to assess whether costs are being correctly capitalised. Development costs capitalised in the year relate predominantly to internal salary costs. We substantively tested significant projects agreeing external costs to supporting invoices, and agreed amounts recorded in respect of internal time, to supporting payroll records to assess whether capitalised costs meet the requirements. We have corroborated revenue derived from current projects and expected future revenues from new projects developed during the year.

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

Other information

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

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

Opinion on other matters prescribed by the Companies Act 2006

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

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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

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

Responsibilities of the Directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

Use of our report

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

Mark Evans (Senior Statutory Auditor)
for and on behalf of
Crowe U.K. LLP
Statutory Auditor
Black Country House
Rounds Green Road
Oldbury, West Midlands
B69 2DG
6 December 2021

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 SEPTEMBER 2021

	Notes	2021 £'000	2020 £'000
Group revenue	2	**11,683**	12,680
Cost of sales		**(8,146)**	(10,130)
Cost of sales excluding exceptional items		**(8,146)**	(9,015)
Exceptional items	3(a)	**—**	(1,115)
Gross profit		**3,537**	2,550
Distribution costs		**(183)**	(196)
Administration expenses		**(2,901)**	(3,318)
Administration expenses excluding exceptional items		**(2,901)**	(3,060)
Exceptional items	3(b)	**—**	(258)
Group trading profit/(loss)	4	**453**	(964)
Exceptional other income	5	**—**	500
Group operating profit/(loss)		**453**	(464)
Finance revenue	7	**—**	41
Profit/(loss) before tax		**453**	(423)
Tax (expense)/credit	8	**(47)**	129
Profit/(loss) for the year		**406**	(294)
Other comprehensive income		**—**	—
Total comprehensive income/(loss)		**406**	(294)
Earnings/(loss) per share			
Basic	10	**3.0p**	(1.8p)

All activities are from continuing operations.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 SEPTEMBER 2021

	Equity share capital £'000	Share premium £'000	Capital redemption reserve £'000	Retained earnings £'000	Total £'000
At 1 October 2019	160	8,994	—	16,644	25,798
Loss for the year	—	—	—	(294)	(294)
Dividends	—	—	—	(2,439)	(2,439)
At 30 September 2020	160	8,994	—	13,911	23,065
Profit for the year	—	—	—	406	406
Repurchase and cancellation of shares	(46)	—	46	(6,706)	(6,706)
At 30 September 2021	**114**	**8,994**	**46**	**7,611**	**16,765**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 SEPTEMBER 2021

	Notes	**2021 £'000**	2020 £'000
Assets			
Non-current assets			
Intangible assets	11	**733**	1,043
Property, plant and equipment	12	**5,370**	5,820
		6,103	6,863
Current assets			
Inventories	13	**1,435**	2,332
Trade and other receivables	14	**2,200**	1,888
Cash and short term deposits	15	**9,157**	14,038
		12,792	18,258
Total assets		**18,895**	25,121
Equity and liabilities			
Current liabilities			
Trade and other payables	16	**1,080**	591
Derivative financial liabilities	17	**16**	—
Provisions	18	**—**	582
Accruals	16	**551**	376
Government grants	19	**26**	27
Tax liabilities		**121**	—
		1,794	1,576
Non-current liabilities			
Deferred tax liabilities (net)	20	**336**	480
		336	480
Total liabilities		**2,130**	2,056
Net assets		**16,765**	23,065
Capital and reserves			
Equity share capital	22	**114**	160
Share premium	22	**8,994**	8,994
Capital redemption reserve	22	**46**	—
Retained earnings		**7,611**	13,911
Total equity		**16,765**	23,065

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

Mark Cambridge
Chief Executive
6 December 2021

Claire Smith
Group Finance Director

Zytronic Group plc: Registered number 03881244

CONSOLIDATED CASHFLOW STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2021

	Notes	**2021 £'000**	2020 £'000
Operating activities			
Profit/(loss) before tax		**453**	(423)
Finance income		**—**	(41)
Depreciation and impairment of property, plant and equipment		**629**	718
Amortisation, impairment and write-off of intangible assets		**379**	457
Amortisation of government grant		**(1)**	(442)
Fair value movement on foreign exchange forward contracts		**16**	(21)
Loss on disposal of asset		**23**	—
Working capital adjustments			
Decrease in inventories		**897**	702
(Increase)/decrease in trade and other receivables		**(433)**	2,360
Increase in trade and other payables and provisions		**85**	88
Cash generated from operations		**2,048**	3,398
Tax received/(paid)		**48**	(220)
Net cashflow from operating activities		**2,096**	3,178
Investing activities			
Interest received		**—**	41
Payments to acquire property, plant and equipment		**(179)**	(153)
Payments to acquire intangible assets		**(92)**	(201)
Net cashflow used in investing activities		**(271)**	(313)
Financing activities			
Dividends paid to equity shareholders of the Parent		**—**	(2,439)
Receipt of government grants		**—**	469
Repurchase and cancellation of shares		**(6,706)**	—
Net cashflow used in financing activities		**(6,706)**	(1,970)
(Decrease)/increase in cash and cash equivalents		**(4,881)**	895
Cash and cash equivalents at the beginning of the year	15	**14,038**	13,143
Cash and cash equivalents at the year end	15	**9,157**	14,038

1. Accounting policies

(a) Authorisation of financial statements and statements of compliance

The financial statements of Zytronic plc and its subsidiaries (the "Group") for the year ended 30 September 2021 were authorised for issue by the Board of Directors on 6 December 2021 and the statement of financial position was signed on behalf of the Board by Mark Cambridge and Claire Smith. Zytronic plc is a public limited company, limited by shares, incorporated, domiciled and registered in England and Wales (company registration number 03881244). The Company's ordinary shares are traded on AIM. The address of the registered office is Whiteley Road, Blaydon-on-Tyne NE21 5NJ.

The consolidated financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The Directors consider the following accounting policies to be relevant in relation to the Group's financial statements.

(b) Adoption of new and revised standards

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

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

(c) Judgements and key sources of estimation uncertainty

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

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

Development costs

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

(d) Key sources of estimation uncertainty

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

(e) Going concern

As stated in the Directors' report, the Directors believe there are no material uncertainties that call into doubt the Group's ability to continue as a going concern and the accounts have therefore been prepared on that basis. In light of the current climate in relation to the COVID-19 pandemic, the Directors have reviewed the Group's finances. In the short term, cash holdings are sufficient to ensure adequate cashflow for the foreseeable future. In the medium to long term, plans for, and the structure of, Zytronic plc remain extant and will continue to be regularly reviewed.

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

1. Accounting policies continued

(f) Basis of consolidation and goodwill

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

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

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

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

(g) Foreign currencies

The consolidated financial statements are presented in Sterling, which is the Group's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the statement of financial position date. All differences are taken to the statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. The Group enters into forward exchange contracts for up to four months ahead to manage its foreign exchange risk. Refer to note 21.

(h) Property, plant and equipment

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

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

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

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

1. Accounting policies continued

(i) Intangible assets

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

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

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

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

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

Patent applications

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

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

(j) Research and development costs

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

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

(k) Inventories

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

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

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

(l) Financial instruments

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

(m) Trade and other receivables

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

1. Accounting policies continued

(n) Cash and cash equivalents

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

Financial liabilities

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

Fair value measurement of financial instruments

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

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

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

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

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

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

(o) Derecognition of financial assets and liabilities

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

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

(p) Pension scheme

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

(q) Revenue recognition

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

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

Sales of finished goods product

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

Sales of vendor managed inventory

Zytronic supported two of its customers over the year by holding inventory in third party locations near to the customer's production facility. Revenue is recognised when the goods have been moved out of the location by the customer and a purchase order has been provided or if a maximum stock holding period has arisen. The performance obligation is satisfied when control has passed to the customer or the stock holding period reached. There is no arrangement in place at the year end.

1. Accounting policies continued

(r) Government grants and subsidies

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

(s) Tax

Current tax

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

Deferred tax

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

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

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

2. Group revenue and segmental analysis

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

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

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

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

	30 September 2021		30 September 2020	
	Touch £'000	**Non-touch £'000**	Touch £'000	Non-touch £'000
Sale of goods – Americas (excluding USA)	**273**	**13**	154	31
– USA	**1,683**	**183**	2,419	175
– EMEA (excluding UK and Hungary)	**3,658**	**220**	3,513	239
– Hungary	**757**	**165**	1,263	223
– UK	**233**	**257**	316	241
– APAC (excluding South Korea)	**1,230**	**299**	918	89
– South Korea	**2,544**	**168**	2,956	143
	10,378	**1,305**	11,539	1,141
Total revenue	**11,683**		12,680	

Individual revenues from three major customers exceeded 10% of total revenue for the year. The total amount of revenue was £4.3m (2020: £4.9m).

The individual revenues from each of these three customers were: £1.6m (2020: £1.9m); £1.4m (2020: £1.1m); and £1.3m (2020: £1.9m). Included on page 3 is the disaggregation of revenue by market type.

3. Exceptional costs

(a) Cost of sales

	30 September 2021 £'000	30 September 2020 £'000
Costs of restructuring	—	652
Costs of Furlough	—	463
Total exceptional costs	—	1,115

These charges have arisen as a direct result of the COVID-19 impact on the Group whereby restructuring was necessary to align headcount with operations.

(b) Administration expenses

	30 September 2021 £'000	30 September 2020 £'000
Costs of restructuring	—	144
Costs of Furlough	—	114
Total exceptional costs	—	258

These charges have arisen as a direct result of the COVID-19 impact on the Group whereby restructuring was necessary to align headcount with operations.

4. Group trading profit/(loss)

This is stated after charging/(crediting):

	30 September 2021 £'000	30 September 2020 £'000
R&D costs	**393**	471
Amortisation and impairment of development expenditure	**343**	414
	736	885
Auditor's remuneration – in respect of audit services*	**57**	57
Depreciation of owned assets	**629**	718
Amortisation, impairment and write-off of licences	**36**	40
Cost of inventories recognised as an expense including:	**3,894**	4,213
– the net movement in the stock provision	**96**	200
Amortisation of capital grants	**(1)**	(442)
Net foreign currency contract differences	**16**	1

* £16,000 of this relates to the Company (2020: £16,000).

5. Exceptional other income

	30 September 2021 £'000	30 September 2020 £'000
Grant monies received	—	500
Total grant monies received	—	500

The income received as above is as a result of claims made under the CJRS for when personnel were on Furlough leave.

6. Staff costs and Directors' emoluments

	30 September 2021 £'000	30 September 2020 £'000
Wages and salaries	**3,626**	5,274
Social security costs	**345**	420
Other pension costs	**134**	182
	4,105	5,876

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

The total of Directors' emoluments is £341,000 (2020: £365,000). The aggregate value of contributions paid to money purchase pension schemes includes £21,000 (2020: £20,000) in respect of two Directors (2020: two).

Amounts paid to the highest paid Director are £153,000 (2020: £155,000) plus a contribution paid to the money purchase pension scheme of £13,000 (2020: £12,000).

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

	30 September 2021 Number	30 September 2020 Number
Production	**79**	120
Administration and sales	**32**	40
	111	160

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

7. Finance revenue receivable

Finance revenue

Interest receivable	**30 September 2021 £'000**	30 September 2020 £'000
Bank interest receivable	**—**	41

8. Tax

	30 September 2021 £'000	30 September 2020 £'000
Current tax		
UK corporation tax	**122**	(92)
Tax due on foreign subsidiary	**1**	2
Corporation tax under/(over)-provided in prior years	**70**	(4)
Total current tax charge/(credit)	**193**	(94)
Deferred tax		
Origination and reversal of temporary differences	**(106)**	(108)
Movement related to change in tax rates	**26**	60
Movement related to prior year adjustments	**(66)**	13
Total deferred tax credit*	**(146)**	(35)
Tax charge/(credit) in the statement of comprehensive income	**47**	(129)

* Note 20.

8. Tax continued

Reconciliation of the total tax charge/(credit)

The effective tax rate of the tax charge in the statement of comprehensive income for the year is 10% (2020: credit of 30%) compared with the average rate of corporation tax charge in the UK of 19% (2020: 19%). The differences are reconciled below:

	30 September 2021 £'000	30 September 2020 £'000
Accounting profit/(loss) before tax	**453**	(423)
Accounting profit/(loss) multiplied by the average UK rate of corporation tax of 19% (2020: 19%)	**86**	(80)
Effects of:		
Expenses not deductible for tax purposes	**19**	1
Depreciation in respect of non-qualifying items	**19**	19
Enhanced tax reliefs – R&D	**(100)**	(140)
Effect of deferred tax rate reduction and difference in tax rates	**18**	60
Tax under provided in prior years	**4**	9
Tax due on foreign subsidiary	**1**	2
Total tax expense/(credit) reported in the statement of comprehensive income	**47**	(129)

Factors that may affect future tax charges

The main rate of corporation tax has remained at 19% throughout the period ended 30 September 2021. An increase in the main rate of corporation tax to 25% was enacted prior to the year end. This is applicable from 1 April 2023, and therefore the Group has considered the timing of the unwind of its deferred tax and has calculated its deferred tax balances at the rates at which they are expected to unwind. This has resulted in a range of rates from 19% to 25% being applied to deferred tax balances at the year end. As a result of the impending increase in the main rate of corporation tax, the Group expects its effective tax rate to increase in the medium term.

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

9. Dividends

The Directors propose the payment of a final dividend of 1.5p per ordinary share for this year's results. This will bring the total dividend for the year to 1.5p (2020: Nil).

	30 September 2021 £'000	30 September 2020 £'000
Ordinary dividends on equity shares		
Final dividend of 15.2p per ordinary share paid on 7 February 2020	**—**	2,439
	—	2,439

10. Earnings/(loss) per share

Basic EPS/LPS is calculated by dividing the profit/(loss) 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/LPS arising from total operations and EPS/LPS arising from continuing operations.

	Profit 30 September 2021 £'000	**Weighted average number of shares 30 September 2021 Thousands**	**EPS 30 September 2021 Pence**	Loss 30 September 2020 £'000	Weighted average number of shares 30 September 2020 Thousands	LPS 30 September 2020 Pence
Profit/(loss) on ordinary activities after tax	**406**	**13,346**	**3.0**	(294)	16,044	(1.8)
Basic EPS/LPS	**406**	**13,346**	**3.0**	(294)	16,044	(1.8)

There are no dilutive or potentially dilutive instruments.

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11. Intangible assets

	Software £'000	Goodwill £'000	Patents and licences £'000	Development expenditure £'000	Total £'000
Cost					
At 1 October 2019	598	235	2,006	3,770	6,609
Additions	—	—	45	156	201
Disposals	—	—	(6)	—	(6)
At 1 October 2020	598	235	2,045	3,926	6,804
Additions	—	—	49	43	92
Disposals	—	—	(46)	—	(46)
At 30 September 2021	**598**	**235**	**2,048**	**3,969**	**6,850**
Amortisation and impairment					
At 1 October 2019	598	—	1,800	2,912	5,310
Provided during the year	—	—	40	414	454
Disposals during the year	—	—	(3)	—	(3)
At 1 October 2020	598	—	1,837	3,326	5,761
Provided during the year	—	—	36	343	379
Disposals during the year	—	—	(23)	—	(23)
At 30 September 2021	**598**	**—**	**1,850**	**3,669**	**6,117**
Net book value at 30 September 2021	**—**	**235**	**198**	**300**	**733**
Net book value at 1 October 2020	—	235	208	600	1,043
Net book value at 1 October 2019	—	235	206	858	1,299

Included within cost is £0.5m (2020: £0.4m) relating to capitalised development costs which have been fully amortised but continue to be utilised in the business.

Impairment of goodwill

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

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

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

The cashflows for the cash-generating unit have been discounted using a pre-tax discount rate of 6%, derived from the Group's weighted average cost of capital.

The calculation of value in use is most sensitive to the forecast operating cashflows, the discount rate and the growth rate of 3% used to extrapolate cashflows beyond the budget period. The operating cashflows are based on assumptions of revenue, cost of sales and general overheads. These assumptions are influenced by several factors both internally and externally.

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

12. Property, plant and equipment

The amounts carried in the statement of financial position comprise:

	Land £'000	Freehold property £'000	Long leasehold property £'000	Plant and machinery £'000	Total £'000
Cost					
At 1 October 2019	207	3,070	2,463	8,806	14,546
Additions	—	—	—	153	153
At 1 October 2020	207	3,070	2,463	8,959	14,699
Additions	—	—	—	179	179
Disposals	—	—	—	(52)	(52)
At 30 September 2021	**207**	**3,070**	**2,463**	**9,086**	**14,826**
Depreciation and impairment					
At 1 October 2019	—	706	774	6,681	8,161
Provided during the year	—	62	72	584	718
At 1 October 2020	—	768	846	7,265	8,879
Provided during the year	—	61	70	498	629
Disposals	—	—	—	(52)	(52)
At 30 September 2021	**—**	**829**	**916**	**7,711**	**9,456**
Net book value at 30 September 2021	**207**	**2,241**	**1,547**	**1,375**	**5,370**
Net book value at 1 October 2020	207	2,302	1,617	1,694	5,820
Net book value at 1 October 2019	207	2,364	1,689	2,125	6,385

13. Inventories

	30 September 2021 £'000	30 September 2020 £'000
Raw materials and consumables	**929**	1,622
Work in progress	**326**	311
Finished goods	**180**	399
	1,435	2,332

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

14. Trade and other receivables

Current assets

	30 September 2021 £'000	30 September 2020 £'000
Trade receivables	**1,981**	1,474
VAT recoverable	**69**	48
Prepayments	**150**	187
Government grants	**—**	58
Corporation tax	**—**	121
	2,200	1,888

Trade receivables are denominated in the following currencies:

	30 September 2021 £'000	30 September 2020 £'000
Sterling	**993**	453
US Dollar	**501**	896
Euro	**487**	125
	1,981	1,474

Out of the carrying amount of trade receivables of £2.0m (2020: £1.5m), £0.9m (2020: £0.9m) is the amount of debts owed by three major customers (2020: four major customers). Regular reviews are undertaken on these major customers so as to ascertain that there are no recoverability issues with them.

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

As at 30 September 2021, trade receivables at a nominal value of £Nil (2020: £4k) were impaired due to poor payment history. Movements in the provision for impairment of trade receivables were as follows:

	£'000
At 1 October 2019	—
Charge for the year	4
At 1 October 2020	4
Utilised during the year	(4)
At 30 September 2021	**—**

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

14. Trade and other receivables continued

Current assets continued

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

30 September 2020	Weighted average loss rate	Gross carrying amount £'000	Impairment loss allowance £'000	Credit impaired
Performing	0.00%	1,027	—	No
Underperforming	0.00%	443	—	No
Write-off	100.00%	4	(4)	Yes
		1,474	(4)	

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

		Past due		
	Not due	<3 months £'000	>3 months £'000	Total £'000
2021	**1,731**	**248**	**2**	**1,981**
2020	1,017	416	41	1,474

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

15. Cash and short term deposits

	30 September 2021 £'000	30 September 2020 £'000
Cash at bank and in hand	**8,886**	11,503
Short term deposits	**271**	2,535
	9,157	14,038

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

At 30 September 2021, the Group had available a net £1.0m (total cash less overdrawn accounts) overdraft facility from Barclays Bank plc which will fall for review in October 2022.

The fair value of cash and cash equivalents is £9.2m (2020: £14.0m).

16. Trade and other payables

	30 September 2021 £'000	30 September 2020 £'000
Trade payables*	**970**	522
Other taxes and social security costs	**110**	69
	1,080	591
Accruals	**551**	376
	1,631	967

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

17. Financial liabilities

	30 September 2021 £'000	30 September 2020 £'000
Foreign exchange forward contracts	**16**	—
Total	**16**	—
Total current	**16**	—

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

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

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

At 30 September 2021, the Group has used a Level 2 valuation technique to determine the fair value of all forward exchange contracts and loans.

Derivative financial instruments

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

18. Provisions

	30 September 2021 £'000	30 September 2020 £'000
Costs of restructuring	**—**	582
Total exceptional costs	**—**	582

The prior year provision related wholly to the restructuring that was announced in mid-September 2020 and concluded early in the financial year 2021.

19. Government grants

	30 September 2021 £'000	30 September 2020 £'000
Grant income received	**—**	469
Released to the consolidated statement of comprehensive income	**(1)**	(442)
At 30 September	**26**	27

The Group made claims over the financial year 2020 under the UK government's CJRS for when its employees were on Furlough leave. The total amount of money received under the scheme up to September 2020 was £437k and the total utilised over the year was £437k. The Group was also able to make a claim for its US employees under the US PPP loan scheme. The total amount of money received for this was £32k, of which £5k had been utilised at the end of September 2020.

20. Deferred tax liability/(asset)

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

	30 September 2021 £'000	30 September 2020 £'000
Deferred tax liability		
Accelerated capital allowances	**392**	358
Capitalised R&D	**58**	115
Other	**10**	12
Fair value movement on currency contracts	**4**	—
	464	485
Deferred tax asset		
Pension asset	**(5)**	(5)
Losses	**(123)**	—
	(128)	(5)
Disclosed on the statement of financial position	**336**	480

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

	30 September 2021 £'000	30 September 2020 £'000
Deferred tax in the statement of comprehensive income		
Accelerated capital allowances	**33**	(3)
R&D tax credits	**(56)**	(30)
Other – losses	**(123)**	2
Deferred income tax credit	**(146)**	(35)

21. Financial risk management policy and financial instruments

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

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

Credit risk

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

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

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

Liquidity risk

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

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

The Group has an unsecured net overdraft facility of £1.0m arranged with its principal banker, Barclays Bank plc. This facility extends until October 2022 and is to provide funding for working capital.

Maturity profile of financial liabilities

Year ended 30 September 2021

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

Year ended 30 September 2020

	On demand £'000	<3 months £'000	3–12 months £'000	Total £'000
Trade and other payables	758	140	—	898
Foreign exchange forward contracts – outflows	—	671	116	787
Total	758	811	116	1,685

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

21. Financial risk management policy and financial instruments continued

Foreign exchange risk

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

The Group has a policy in that forward contracts are used to sell surplus US Dollars and Euros, generated from sales less purchases in those currencies. Contracts are in place at 30 September 2021 for a period of up to four months ahead in line with working capital requirements. Any additional surplus currency at the end of each month is dealt with at spot rates.

The Group entered into forward vanilla contracts during the year in both US Dollars and Euros. The US Dollar forward vanilla contracts are fixed over a series of four individual contracts over a period of four months at rates between $1.3676 and $1.3643 and are in place until January 2022. The Euro forward vanilla contracts are fixed over a series of four individual contracts over a period of four months at rates between €1.1650 and €1.1600 and are also in place until January 2022.

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

	Change in US Dollar rate	Effect on profit before tax £'000	Change in Euro rate	Effect on profit before tax £'000
2021				
Sterling	**+10%**	**(96)**	**+10%**	**(33)**
	-10%	**118**	**-10%**	**40**
2020				
Sterling	+10%	(130)	+10%	(38)
	-10%	159	-10%	47

Capital management

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

22. Equity share capital

(a) Share capital

	2021 Number Thousands	2020 Number Thousands	**2021 £'000**	2020 £'000
Allotted, called up and fully paid				
Ordinary shares of 1p each	**11,419**	16,044	**114**	160

(b) Share premium

	£'000
At 1 October 2020	8,994
At 30 September 2021	**8,994**

(c) Capital redemption reserve

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

23. Capital commitments

Amounts contracted for at 30 September 2021 but not provided for in the financial statements amounted to £213,000 (2020: £76,000) for the Group.

24. Pension scheme commitments

Contributions for the year ended 30 September 2021 amounted to £134,000 (2020: £182,000) and the outstanding contributions at the statement of financial position date were £29,000 (2020: £27,000). The Group is a member of a group personal pension scheme which is a defined contribution scheme. Contributions are charged to the statement of comprehensive income as they become payable in accordance with the rules of the scheme.

25. Related party transactions

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

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

	2021 £'000	2020 £'000
Salaries/fees	**379**	415
Bonus	**9**	—
Pension contributions	**24**	23
	412	438

26. Guarantees

Zytronic plc has given a guarantee to Barclays Bank plc in connection with the overdraft facility detailed in note 15.

Consolidated statement of comprehensive income

For the five years ended 30 September 2021

	2021 £'000	2020 £'000	2019 £'000	2018 £'000	2017 £'000
Group revenue	**11,683**	12,680	20,104	22,288	22,892
Cost of sales	**(8,146)**	(10,130)	(13,311)	(14,047)	(13,481)
Cost of sales excluding exceptional items	**(8,146)**	(9,015)	(13,311)	(14,047)	(13,481)
Exceptional items	**—**	(1,115)	—	—	—
Gross profit	**3,537**	2,550	6,793	8,241	9,411
Distribution costs	**(183)**	(196)	(350)	(461)	(393)
Administration expenses	**(2,901)**	(3,318)	(3,462)	(3,639)	(3,591)
Administration expenses excluding exceptional items	**(2,901)**	(3,060)	(3,462)	(3,639)	(3,591)
Exceptional items	**—**	(258)	—	—	—
Group trading profit/(loss)	**453**	(964)	2,981	4,141	5,427
Other income	**—**	500	—	—	—
Group operating profit/(loss)	**453**	(464)	2,981	4,141	5,427
Finance costs	**—**	—	—	(21)	(24)
Finance revenue	**—**	41	76	68	10
Profit/(loss) before tax	**453**	(423)	3,057	4,188	5,413
Tax (expense)/credit	**(47)**	129	(366)	(541)	(825)
Profit/(loss) for the year	**406**	(294)	2,691	3,647	4,588
Other comprehensive income	**—**	—	—	—	—
Total comprehensive income/(loss)	**406**	(294)	2,691	3,647	4,588
Earnings/(loss) per share					
Basic	**3.0p**	(1.8p)	16.8p	22.7p	29.0p
Diluted	**3.0p**	(1.8p)	16.8p	22.7p	28.8p
Dividends per share	**1.5p**	0p	22.8p	22.8p	14.7p

All activities are from continuing operations.

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

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

Consolidated statement of financial position

At 30 September 2017 to 2021

	2021 £'000	2020 £'000	2019 £'000	2018 £'000	2017 £'000
Assets					
Non-current assets					
Intangible assets	**733**	1,043	1,299	1,585	1,633
Property, plant and equipment	**5,370**	5,820	6,385	6,605	7,030
	6,103	6,863	7,684	8,190	8,663
Current assets					
Inventories	**1,435**	2,332	3,034	3,021	2,996
Trade and other receivables	**2,200**	1,888	4,127	3,738	3,506
Derivative financial assets	**—**	—	—	—	54
Cash and short term deposits	**9,157**	14,038	13,143	14,626	14,099
	12,792	18,258	20,304	21,385	20,655
Total assets	**18,895**	25,121	27,988	29,575	29,318
Equity and liabilities					
Current liabilities					
Trade and other payables	**1,080**	591	962	1,446	1,042
Derivative financial liabilities	**16**	—	21	7	—
Provisions	**—**	582	—	—	—
Accruals	**551**	376	499	767	862
Government grants	**26**	27	—	—	—
Tax liabilities	**121**	—	192	13	3
	1,794	1,576	1,674	2,233	1,907
Non-current liabilities					
Government grants	**—**	—	—	15	25
Deferred tax liabilities (net)	**336**	480	516	562	610
	336	480	516	577	635
Total liabilities	**2,130**	2,056	2,190	2,810	2,542
Net assets	**16,765**	23,065	25,798	26,765	26,776
Capital and reserves					
Equity share capital	**114**	160	160	160	160
Share premium	**8,994**	8,994	8,994	8,994	8,994
Capital redemption reserve	**46**	—	—	—	—
Retained earnings	**7,611**	13,911	16,644	17,611	17,622
Total equity	**16,765**	23,065	25,798	26,765	26,776

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

PARENT COMPANY STATEMENT OF FINANCIAL POSITION
AT 30 SEPTEMBER 2021

	Notes	2021 £'000	2020 £'000
Assets			
Non-current assets			
Property, plant and equipment	4	**3,948**	4,061
Investments	5	**10,106**	10,106
		14,054	14,167
Current assets			
Trade and other receivables			
– amounts falling due within one year	6	**6**	6
– amounts falling due after one year	6	**1,402**	960
Cash and short term deposits		**5,744**	10,272
		7,152	11,238
Total assets		**21,206**	25,405
Equity and liabilities			
Current liabilities			
Trade and other payables	7	**216**	183
Non-current liabilities			
Deferred tax liabilities (net)	8	**224**	176
Total liabilities		**440**	359
Net assets		**20,766**	25,046
Capital and reserves			
Equity share capital	9	**114**	160
Share premium	9	**8,994**	8,994
Capital redemption reserve	9	**46**	—
Retained earnings		**11,612**	15,892
Total equity		**20,766**	25,046

The Company's profit for the year was £2,426,000 (2020: £2,561,000).

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

Mark Cambridge
Chief Executive
6 December 2021

Claire Smith
Group Finance Director

Zytronic Group plc: Registered number 03881244

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PARENT COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2021

	Equity share capital £'000	Share premium £'000	Capital redemption reserve £'000	Retained earnings £'000	Total £'000
At 1 October 2019	160	8,994	—	15,770	24,924
Profit for the year	—	—	—	2,561	2,561
Dividends	—	—	—	(2,439)	(2,439)
At 1 October 2020	160	8,994	—	15,892	25,046
Profit for the year	—	—	—	2,426	2,426
Repurchase and cancellation of shares	(46)	—	46	(6,706)	(6,706)
At 30 September 2021	**114**	**8,994**	**46**	**11,612**	**20,766**

1. Accounting policies

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

(a) Judgements and key sources of estimation

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

(b) Basis of preparation

The financial statements of Zytronic plc were approved for issue by the Board of Directors on 6 December 2021. The financial statements are prepared in accordance with FRS 101 Reduced Disclosure Framework.

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

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

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 30 September 2021.

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

- the requirements of IFRS 7 Financial Instruments. The disclosures are available in the Group financial statements of Zytronic plc;
- the requirements in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
  - paragraph 73(e) of IAS 16 Property, Plant and Equipment; and
  - paragraph 79(a)(iv) of IAS 1 Presentation of Financial Statements;
- the requirements of paragraphs 10(d), 16, 111 and 134–136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirement of paragraph 17 of IAS 24 Related Party Transactions;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is party to the transaction is wholly owned by such a member; and
- the requirements of IFRS 1 First-time Adoption of International Financial Reporting Standards paragraphs 6–21 to present an opening statement of financial position at transition.

(c) Property, plant and equipment

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

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

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

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

(d) Investments

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

1. Accounting policies continued

(e) Financial instruments

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

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

Cash and cash equivalents

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

Interest-bearing loans and borrowings

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

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

(f) Tax

Current tax

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

Deferred tax

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

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

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

2. Auditor's remuneration

Auditor's remuneration for the year ended 30 September 2021 was £16,000 (2020: £16,000).

3. Staff costs and Directors' emoluments

	30 September 2021 £'000	30 September 2020 £'000
Fees	**91**	115
Social security costs	**10**	15
	101	130

The total of Directors' emoluments is £91,000 (2020: £115,000). This is in relation to fees for services provided. There are no charges for pension costs.

Amounts paid to the highest paid Director are £63,000 (2020: £80,000).

3. Staff costs and Directors' emoluments continued

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

	30 September 2021 Number	30 September 2020 Number
Administration	**2**	2
	2	2

4. Property, plant and equipment

	Land £'000	Freehold property £'000	Long leasehold property £'000	Total £'000
Cost				
At 1 October 2020 and 30 September 2021	207	3,070	2,097	5,374
Depreciation				
At 1 October 2020	—	768	545	1,313
Provided during the year	—	61	52	113
At 30 September 2021	**—**	**829**	**597**	**1,426**
Net book value at 30 September 2021	**207**	**2,241**	**1,500**	**3,948**
Net book value at 1 October 2020	207	2,302	1,552	4,061

5. Investments

Investments in subsidiary companies

	2021 £'000	2020 £'000
Shares in subsidiary companies		
At beginning of year	**10,106**	10,106
At end of year	**10,106**	10,106

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

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

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

6. Trade and other receivables

	2021 £'000	2020 £'000
Prepayments and accrued income	**6**	6
VAT	**—**	—
	6	6

Amounts falling due after more than one year are:

	2021 £'000	2020 £'000
Amounts owed by Group undertakings	**1,402**	960

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7. Trade and other payables

	2021 £'000	2020 £'000
Trade creditors	**1**	1
Other creditors and accruals	**49**	51
Other amounts owed to subsidiary undertakings	**81**	81
Corporation tax	**85**	50
	216	183

8. Deferred tax liability

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

	2021 £'000	2020 £'000
Accelerated capital allowances	**224**	176
At 1 October	**176**	163
Credit in the statement of comprehensive income	**48**	13
At 30 September	**224**	176

9. Equity share capital

(a) Share capital

	2021 Number Thousands	2020 Number Thousands	**2021 £'000**	2020 £'000
Allotted, called up and fully paid				
Ordinary shares of 1p each	**11,419**	16,044	**114**	160

(b) Share premium

	£'000
At 1 October 2020	8,994
At 30 September 2021	**8,994**

(c) Capital redemption reserve

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

10. Guarantees

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

(a) Borrowing facilities

The Group has an unsecured overdraft facility of £1.0m arranged with its principal banker, Barclays Bank plc. This facility extends until October 2022. This facility is to provide funding for working capital.

In light of the prevailing government guidance in relation to COVID-19, it is proposed that the AGM be convened with the minimum quorum of shareholders present in order to conduct the business of the meeting. This will be facilitated by Zytronic plc.

In the interests of protecting the health and safety of our shareholders, colleagues and the wider public, shareholders will not be admitted to the AGM. Our advisers and other guests have also been asked not to attend. Instead, we ask all shareholders to appoint the Chairman as their proxy to vote on the resolutions set out in the notice as early as possible. The Form of Proxy must be received by no later than 9.30 am on Tuesday 1 March 2022 (or, if the meeting is adjourned, no later than 48 hours (excluding any part of a day that is not a working day) before the time of any adjourned meeting). Questions to the Chairman can be posed via the following email address: info@zytronicplc.com.

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of Zytronic plc (the "Company") will be held at the Company's registered office at Whiteley Road, Blaydon-on-Tyne, Tyne and Wear NE21 5NJ, at 9.30 am on Thursday 3 March 2022 to consider and, if thought fit, pass the following resolutions:

Ordinary business

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

1. To receive the financial statements for the year ended 30 September 2021 and the reports of the Directors and auditor thereon.
2. To re-elect Mark Cambridge as a Director.
3. To re-appoint Crowe UK LLP as auditor and to authorise the Directors to fix its remuneration.

Special business

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

1. That, pursuant to Section 551 of the Companies Act 2006 (the "Act"), the Directors be generally and unconditionally authorised to exercise all powers of the Company to allot Relevant Securities up to an aggregate nominal amount of £37,683.20, provided that (unless previously revoked, varied or renewed) this authority shall expire at the conclusion of the Company's Annual General Meeting held in 2023 or at the close of business on the date which is 15 months after the date of this Annual General Meeting (whichever is the earlier), but in each case prior to its expiry the Company may make offers, and enter into agreements, which would, or might, require Relevant Securities to be allotted after the authority expires and the Directors may allot Relevant Securities under any such offer or agreement as if the authority had not expired.

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

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

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

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

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

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

   (b) the allotment of equity securities or sale of treasury shares (otherwise than under paragraph 2(a) above) up to a nominal amount of £5,709.58,

   such authority to expire at the conclusion of the Company's Annual General Meeting held in 2023 (or, if earlier, at the close of business on the date which is 15 months after the date of this Annual General Meeting) but, in each case, prior to its expiry the Company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the authority expires and the Directors may allot equity securities (and sell treasury shares) under any such offer or agreement as if the authority had not expired.

Special business continued

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

   (a) limited to the allotment of equity securities or sale of treasury shares up to a nominal amount of £5,709.58; and

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

   such authority to expire at the conclusion of the Company's Annual General Meeting held in 2023 or at the close of business on the date which is 15 months after the date of this Annual General Meeting (whichever is the earlier) but, in each case, prior to its expiry the Company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the authority expires and the Directors may allot equity securities (and sell treasury shares) under any such offer or agreement as if the authority had not expired.

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

   (a) the maximum number of ordinary shares hereby authorised to be purchased shall be 1,141,915;

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

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

   (d) unless previously renewed, revoked or varied, the authority hereby conferred shall expire at the conclusion of the Company's Annual General Meeting held in 2023 or at the close of business on the date which is 15 months after the date of this Annual General Meeting (whichever is the earlier) save that the Company may, prior to such expiry, enter into a contract to purchase ordinary shares which will or may be executed wholly or partly after the expiry of such authority and may purchase ordinary shares pursuant to such contract as if such authority has not expired, and that all ordinary shares so purchased in pursuance of this authority shall be held as treasury shares (as defined by Section 724 of the Act) for future resale for cash, transfer for the purposes of an employees' share scheme or cancellation.

By order of the Board

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

6 December 2021

Notes

1. Every member entitled to attend and vote at the meeting may appoint a proxy or proxies to attend, speak and vote (whether on a show of hands or on a poll) at the meeting on their behalf. A proxy need not be a member of the Company. A prepaid Form of Proxy accompanies this document.
2. Completed Forms of Proxy must be returned to the Company's registrars at the address shown on the Form of Proxy not later than 9.30 am on Tuesday 1 March 2022 or two working days prior to any adjourned meeting or, in the case of a poll taken more than 48 hours after it is demanded, one working day before the time appointed for the taking of the poll. The sending of a completed Form of Proxy to the Company's registrars will not preclude members from attending and voting at the meeting, or any adjournment thereof, in person, should they so wish.
3. The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 (as amended), specifies that only those holders of ordinary shares of 1p each of the Company registered in the Register of Members of the Company:

   (a) as at close of business or 6.00 pm on 1 March 2022; or

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

   shall be entitled to attend and vote at the meeting in respect of the number of ordinary shares of 1p each in the capital of the Company registered in their name at that time. Changes to entries on the Register of Members after 6.00 pm on Tuesday 1 March 2022 shall be disregarded in determining the rights of any person to attend or vote at the meeting.
4. Copies of contracts of service between the Directors and the Company or any of its subsidiary undertakings will be available for inspection during normal business hours by members at the registered office of the Company on each business day from the date of this notice until the date of the Annual General Meeting, and at the place of the Annual General Meeting for at least 15 minutes prior to, and during, that meeting.

CORPORATE INFORMATION

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

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