



ZYTRONIC PLC INTERIM REPORT FOR THE SIX MONTHS TO 31 MARCH 2005



The front cover shows five examples of the Group's touchscreen and display products:

1. The very successful anti-reflective filter incorporated into the GPS navigation system in the right hand photograph. The left hand photograph shows the reflection which would otherwise occur on the car's windscreen without the display filter. This filter option is currently offered as an optional extra by two leading car manufacturers.
2. A state of the art audio/video jukebox, called Music Post.
3. A fast food selection kiosk. Pro-tech's DuraView Kiosk, incorporating the ZYTOUCH[®] touchscreen, won the award for "Best Creative/Best Use of an Input Device in a Kiosk Application" at the annual Kioskoom Interactive Kiosk Excellence Awards held in Las Vegas in April 2004.
4. A foetal monitor for use in maternity departments.
5. A Westland's helicopter simulation machine. The touchscreen is the full-width display in front of both seats.

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Business description

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

Based on this lamination expertise, Zytronic has developed a **unique range of touchscreen products employing projected capacitive technology** which enables the pointing device to sense through an anti-vandal screen in front of the display. This system offers significant benefits to electronic display manufacturers.

Operating from two modern factories near Newcastle-upon-Tyne in England, Zytronic assembles touchscreens and filters, utilising special glass and plastic materials, in environmentally controlled clean rooms.

Financial highlights

Orders have strengthened in all areas of the business but in particular in sales of ZYTOUCH® touchscreens. The Group is continually winning new accounts which will further serve the overall growth of the business.

- Group turnover of £5.1m showed growth of 33% (2004: £3.9m).
- Pre-tax profit showed a significant recovery to £437,000 (2004: loss £71,000).
- Basic EPS increased to 2.1p (2004: loss 0.3p).
- Interim dividend of 0.5p payable on 29 June 2005.

Chairman's statement

“In the six months to 31 March 2005, growth in all aspects of the Group's business has led to a significant improvement in trading results over the corresponding period last year.”

Results

Sales at £5.11m (2004: £3.85m) grew by 33% producing pre-tax profits of £437,000 (2004: loss £71,000).

Trading

Sales in the Group's two primary product groupings, optical filters and displays (“optical filters”) and touchscreens, have shown substantial improvement. Whilst sales of the Group's optical filters grew by more than 25%, strong growth in ZYTOUCH® touchscreens pushed sales ahead by more than 40%. We continue to open new accounts for the sale of ZYTOUCH®, which in turn provide new opportunities for the sale of the Group's optical filter products.

The sales network in North America has now been put in place. This significantly strengthened presence, combined with our continuing successful exhibiting at major US trade shows over the last three years, leads the Directors to anticipate a steady increase in activity from this important economic region.

ZYPOS®

Following the installation of the pilot production plant in November 2004, the resolution of initial teething problems and successful completion of the environmental testing in January 2005, the product launches took place in Shanghai in March at the “ElectronicaChina 2005” Trade Show and this month in Boston at the “Society for Information Display” Trade Show. The product has

Summary of the chairman's statement

- Turnover increased 33%
- Pre-tax profit of £437,000 (2004: loss £71,000)
- Return to H1 profitability after three years of losses
- Dividend of 0.5p (2004: Nil)
- New ZYPOS® product successfully launched

been well received in both regions and, as a consequence, a number of new enquiries have been generated in both the gaming and point-of-sale markets, prototype samples for which are currently being delivered. ZYPOS® is expected to make a significant contribution to growth in future years.

Dividend

The Directors have declared an interim dividend of 0.5p per share (2004: Nil) payable on 29 June 2005 to shareholders on the Register at 10 June 2005.

Outlook

The Group's solid return to profitability, the resumption of dividend payments, the continued growth in optical filters, strong growth in sales of ZYTOUCH®, and the introduction of ZYPOS® into the product range, provide a healthy and exciting future for the Group.

J M Kennair MBE

Chairman

26 May 2005

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Group profit and loss account

unaudited results for the six months to 31 March 2005

	Notes	Six months to 31 March 2005 Unaudited £'000	Six months to 31 March 2004 Unaudited £'000	Year to 30 September 2004 Audited £'000
Turnover		5,112	3,853	8,756
Cost of sales		3,465	2,783	6,187
Gross profit		1,647	1,070	2,569
Distribution costs		62	54	121
Administrative expenses		1,141	1,078	2,078
		1,203	1,132	2,199
Operating profit/(loss)		444	(62)	370
Interest payable		(18)	(13)	(26)
Interest receivable		11	4	6
Profit/(loss) on ordinary activities before taxation		437	(71)	350
Tax (charge on profit)/credit on loss on ordinary activities	3	(140)	28	(114)
Profit/(loss) on ordinary activities after taxation		297	(43)	236
Ordinary dividend on equity shares	4	(71)	—	—
Retained profit/(loss) for the period		226	(43)	236
Earnings/(loss) per share – basic	5	2.1p	(0.3)p	1.7p
– diluted	5	2.0p	(0.3)p	1.6p

There were no recognised gains or losses as defined in Financial Reporting Standard No. 3 other than those stated above.

Group balance sheet

unaudited results for the six months to 31 March 2005

	31 March 2005 Unaudited £'000	31 March 2004 Unaudited £'000	30 September 2004 Audited £'000
Fixed assets			
Intangible assets	2,122	2,194	2,172
Tangible assets	2,420	2,158	2,155
	4,542	4,352	4,327
Current assets			
Short term property investment	—	75	75
Stocks	1,188	1,352	1,084
Debtors: amounts falling due within one year	2,098	1,725	1,873
Cash at bank and in hand	919	308	1,171
	4,205	3,460	4,203
Creditors: amounts falling due within one year	1,653	1,308	1,569
Net current assets	2,552	2,152	2,634
Total assets less current liabilities	7,094	6,504	6,961
Creditors: amounts falling due after more than one year	278	298	394
Provisions for liabilities and charges	195	90	172
	6,621	6,116	6,395
Capital and reserves			
Called up share capital	143	143	143
Share premium	6,212	6,212	6,212
Profit and loss account	266	(239)	40
Equity shareholders' funds	6,621	6,116	6,395

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Group statement of cash flows

unaudited results for the six months to 31 March 2005

	Notes	Six months to 31 March 2005 Unaudited £'000	Six months to 31 March 2004 Unaudited £'000	Year to 30 September 2004 Audited £'000
Net cash inflow/(outflow) from operating activities	6a	319	(425)	520
Returns on investments and servicing of finance				
Interest received		11	4	6
Interest paid		(6)	—	—
Interest element of finance lease rental payments		(12)	(13)	(26)
Net outflow from returns on investments and servicing of finance		(7)	(9)	(20)
Taxation				
Corporation tax repayment		11	—	—
Capital expenditure and financial investment				
Payments to acquire intangible fixed assets		(53)	(20)	(164)
Payments to acquire tangible fixed assets		(486)	(127)	(237)
Receipt from sale of short term property investment		75	—	—
Net outflow from capital expenditure and financial investment		(464)	(147)	(401)
Net cash (outflow)/inflow before financing		(141)	(581)	99
Financing				
Receipt from new bank loan		—	—	250
Repayments of bank loan		(42)	—	—
Repayments of capital element of finance lease		(69)	(65)	(132)
Net (outflow)/inflow from financing		(111)	(65)	118
(Decrease)/increase in cash		(252)	(646)	217
Reconciliation of net cash flow to movement in net (debt)/funds				
(Decrease)/increase in cash		(252)	(646)	217
Receipt from new bank loan		—	—	(250)
Repayments of bank loan		42	—	—
Repayments of capital element of finance lease		69	65	132
Movement in net funds		(141)	(581)	99
Net funds at beginning of period		554	455	455
Net funds/(debt) at end of period	6b	413	(126)	554

Notes

unaudited results for the six months to 31 March 2005

1. Basis of preparation

The financial information in this interim statement is prepared under the historical cost convention and in accordance with applicable accounting standards. It does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. The financial information for the full preceding year is based on the statutory accounts for the year to 30 September 2004. Those accounts, upon which the auditors issued an unqualified opinion, have been delivered to the Registrar of Companies.

The interim financial information has been prepared on the basis of the accounting policies set out in the Group's statutory accounts for the year ended 30 September 2004. The taxation (charge)/credit is calculated by applying the Directors' best estimate of the annual tax rate to the profit/(loss) for the period. Other expenses are accrued in accordance with the same principles used in the preparation of the annual accounts.

2. Basis of consolidation

The Group results consolidate the accounts of Zytronic Plc and all its subsidiary undertakings drawn up to 31 March 2005.

3. Tax charge on profit on ordinary activities

The estimated tax rate for the year of 32% has been applied to the half year's profit before tax, in accordance with the ASB's statement on interim reports.

4. Dividends

The Directors have declared an interim dividend of 0.5p per share (2004: Nil), payable on 29 June 2005 to shareholders on the Register at 10 June 2005.

5. Earnings/(loss) per share

The calculations of earnings/(loss) per share are based on a profit after taxation of £297,000 (2004: loss £43,000) and a basic and diluted weighted average of 14,291,539 and 14,528,351 shares respectively in issue (2004: basic and diluted 14,291,539). The calculations of earnings per share for the full year to 30 September 2004 are based on a profit after taxation of £236,000 and a basic and diluted weighted average of 14,291,539 and 14,338,685 shares in issue respectively.

Notes (continued)

unaudited results for the six months to 31 March 2005

6. Notes to the Group statement of cash flows**a) Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operating activities:**

	Six months to 31 March 2005 Unaudited £'000	Six months to 31 March 2004 Unaudited £'000	Year to 30 September 2004 Audited £'000
Operating profit/(loss)	444	(62)	370
Depreciation	204	241	402
Amortisation	124	110	229
Gross cash inflows	772	289	1,001
(Increase) in debtors	(225)	(563)	(747)
(Increase)/decrease in stocks	(104)	(266)	2
(Decrease)/increase in creditors	(124)	115	264
Net cash inflow/(outflow) from operating activities	319	(425)	520

b) Analysis of net funds/(debt):

	31 March 2005 Unaudited £'000	31 March 2004 Unaudited £'000	30 September 2004 Audited £'000
Cash at bank and in hand	919	308	1,171
Bank loan	(208)	—	(250)
Finance lease	(298)	(434)	(367)
	413	(126)	554

Board of directors, contact details and advisors

John Martin Kennair MBE
Chairman and Chief Executive

Denis Gerald Wilson Mullan B.Sc FCA
Finance Director

David Eric Banks MA (Cantab), FCA
Non-executive Director

Sir David Robert Macgowan Chapman Bt., DL, B Comm
Independent Non-executive Director

Tudor Griffith Davies B.Sc
Senior Independent Non-executive Director

Website	www.zytronic.co.uk
Secretary	Denis Mullan Email: denis.mullan@zytronic.co.uk
Registered office	Patterson Street Blaydon-on-Tyne Tyne & Wear NE21 5SG Telephone: 0191 414 5511 Fax: 0191 414 0545
Registration number	3881244
Stockbrokers and nominated advisor	Brewin Dolphin Securities Limited 48 St. Vincent Street Glasgow G2 5TS
Registrars	Computershare Investor Services Plc P O Box 82 The Pavilions Bridgwater Road Bristol BS99 7NH
Bankers	Lloyds TSB Bank Plc P O Box 686 First Floor Black Horse House 91 Sandyford Road Newcastle-upon-Tyne NE99 1JW
Auditors	Ernst & Young LLP Citygate St James' Boulevard Newcastle-upon-Tyne NE1 4JD
Solicitors	Ward Hadaway Sandgate House 102 Quayside Newcastle-upon-Tyne NE1 3DX



Zytronic Plc
Patterson Street
Blaydon-on-Tyne
Tyne & Wear
NE21 5SG

Tel: 0191 414 5511

Fax: 0191 414 0545

E-mail: info@zytronic.co.uk

Website: www.zytronic.co.uk