


ZYTRONIC PLC

INTERIM REPORT FOR THE SIX MONTHS TO 31 MARCH 2006

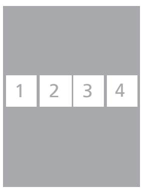
BUSINESS DESCRIPTION

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.

Contents



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

1/2 A seven inch Zypos® touchscreen used in a Sat Nav car navigation system. The viewing angle is shown on the second photograph. Optical displays are also supplied for car navigation systems to reduce glare and/or reflection.

3 Radio frequency interference ("RFI") products contain micro-fine mesh within the laminate to prevent the passage through of radio or electro-magnetic waves.

4 An mjoy jukebox manufactured in Germany incorporating a Zytouch® touchscreen.

HIGHLIGHTS

Orders have strengthened significantly 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 and the Directors are optimistic about the future growth of ZYTOUCH® and ZYPOS® touchscreens.

Financial highlights

- Group turnover of £5.7m showed growth of 11% (2005: £5.1m)
- Profit before tax increased 6% to £464,000 (2005: £437,000)
- Proposed interim dividend of 1.0p per share (2005: Interim 0.5p)
- Basic earnings per share increased 14% to 2.4p (2005: 2.1p)

Operational highlights

- Strong growth in touchscreen orders
- ZYPOS® touchscreens being specified in several projects already
- Completed acquisition of adjacent freehold factory premises in January 2006 to provide dedicated facility for future manufacture of ZYPOS® touchscreens

CHAIRMAN'S STATEMENT

"The very significant growth in new orders received in the first half of this year, combined with the enthusiastic reception that ZYPOS® has received in the market place, particularly in the Far East, leads the Directors to have continued confidence in the future prospects of the Group."

In the six months to 31 March 2006, the business has again shown solid improvement over the corresponding period last year.

Results

Sales at £5.7m (2005: £5.1m) grew by 11% producing a 6% increase in pre-tax profits to £464,000 (2005: £437,000).

Trading

New orders received in the first half have grown by 33% over the same period last year. The primary growth in orders has come from the touchscreen sector and has been fairly evenly spread over the territories of North America, the Far East and Europe. This growth in orders has necessitated putting additional production facilities in place and training new staff which, in turn, has contributed to a temporary reduction in gross profit margins of 2.5% over the corresponding period last year. These additional production facilities will benefit output and improve margins in the second half.

ZYPOS®

As I reported in my statement of 20 January 2006, the Directors anticipate that the sales of the new ZYPOS® product will begin to impact on the business towards the end of the 2006 financial year. Nevertheless, sales of approximately £100,000 were achieved in the first half. Significant interest has been shown in the product, particularly in the Far East and North America. The number of enquiries received, and the number of projects in which this new technology has now been specified, lead the Directors to be optimistic about the future growth in this product sector.

The production facilities already in place for ZYPOS® within the existing factory will be adequate for the rest of this calendar year. As indicated in my statement in January 2006, the conversion of part of the factory premises acquired in January will proceed in the October/December quarter of 2006.

Cash

In the six months to 31 March 2006, £1.5m has been spent on fixed assets, including the purchase of the adjoining factory premises at £775,000. In addition, working capital has increased by £313,000 resulting from the strength in the order book as we prepare for the second half. These investments have been funded by a £750,000 medium term loan and from the Group's cash resources.

Dividend

The Directors have declared an interim dividend of 1.0p per share (2005: 0.5p per share) payable on 30 June 2006 to shareholders on the Register at 9 June 2006.

Outlook

The very significant growth in new orders received in the first half of this year, combined with the enthusiastic reception that ZYPOS® has received in the market place, particularly in the Far East, leads the Directors to have continued confidence in the future prospects of the Group.

J Kennair, MBE
Chairman
25 May 2006

Summary of Chairman's Statement

- Turnover up 11% to £5.7m (2005: £5.1m)
- Profit before tax £464,000 (2005: £437,000)
- ZYTOUCH® touchscreen sales increased 6%
- Interim dividend proposed of 1.0p (2005: 0.5p)
- Orders received increased by 33%
- Solid basis for continued improvement

GROUP PROFIT AND LOSS ACCOUNT

unaudited results for the six months to 31 March 2006

	Notes	**Six months to 31 March 2006 Unaudited £'000**	Six months to 31 March 2005 Unaudited £'000	Year to 30 September 2005 Unaudited £'000
Turnover		**5,670**	5,112	10,590
Cost of sales		**3,987**	3,465	7,312
Gross profit		**1,683**	1,647	3,278
Distribution costs		**82**	62	140
Administrative expenses		**1,124**	1,141	2,137
		1,206	1,203	2,277
Operating profit		**477**	444	1,001
Interest payable		**(18)**	(18)	(33)
Interest receivable		**5**	11	16
Profit on ordinary activities before taxation		**464**	437	984
Tax charge on profit on ordinary activities	3	**(116)**	(140)	(310)
Profit on ordinary activities after taxation		**348**	297	674
Earnings per share				
Earnings per share – basic	4	**2.4p**	2.1p	4.7p
Earnings per share – diluted	4	**2.4p**	2.0p	4.6p

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

unaudited accounts for the six months to 31 March 2006

There were no recognised gains or losses as defined in Financial Reporting Standard No. 3 other than those stated above. In addition the effect of implementing Financial Reporting Standard 21 ("FRS 21") – events after the balance sheet date – is that an amount of £71,000 for the six months to 31 March 2005 (£215,000 for the year to 30 September 2005) previously included within creditors has been added back to the profit and loss account reserve.

GROUP BALANCE SHEET

unaudited results for the six months to 31 March 2006

	Notes	**Six months to 31 March 2006 Unaudited £'000**	Six months to 31 March 2005 Unaudited (restated) £'000	Year to 30 September 2005 Unaudited (restated) £'000
Fixed assets				
Intangible assets		**2,046**	2,122	2,133
Tangible assets		**3,731**	2,420	2,494
		5,777	4,542	4,627
Current assets				
Stocks		**1,504**	1,188	1,201
Debtors: amounts falling due within one year		**2,639**	2,098	2,641
Cash at bank and in hand		**316**	919	810
		4,459	4,205	4,652
Creditors: amounts falling due within one year	6	**1,993**	1,582	1,878
Net current assets		**2,466**	2,623	2,774
Total assets less current liabilities		**8,243**	7,165	7,401
Creditors: amounts falling due after more than one year		**783**	278	161
Provisions for liabilities and charges		**239**	195	239
		7,221	6,692	7,001
Capital and reserves				
Called up share capital		**144**	143	143
Share premium		**6,299**	6,212	6,215
Profit and loss account	6	**778**	337	643
Equity shareholders' funds		**7,221**	6,692	7,001

GROUP STATEMENT OF CASH FLOWS

unaudited results for the six months to 31 March 2006

	Notes	**Six months to 31 March 2006 Unaudited £'000**	Six months to 31 March 2005 Unaudited £'000	Year to 30 September 2005 Unaudited £'000
Net cash inflow from operating activities	7a	**516**	319	939
Returns on investments and servicing of finance				
Interest received		**5**	11	16
Interest paid		**(11)**	(6)	(12)
Interest element of finance lease rental payments		**(7)**	(12)	(21)
Net outflow from returns on investments and servicing of finance		**(13)**	(7)	(17)
Taxation				
Corporation tax repayment/(paid)		**10**	11	(28)
Capital expenditure and financial investment				
Payments to acquire intangible fixed assets		**(44)**	(53)	(209)
Payments to acquire tangible fixed assets – property		**(792)**	–	–
Payments to acquire tangible fixed assets – plant and equipment		**(666)**	(486)	(830)
Receipt from sale of short term property investment		**–**	75	75
Net outflow from capital expenditure and financial investment		**(1,502)**	(464)	(964)
Equity dividends paid		**(215)**	–	(71)
Net cash outflow before financing		**(1,204)**	(141)	(141)
Financing				
Issue of ordinary share capital re options		**84**	–	3
Receipt from new bank loan – property		**750**	–	–
Repayments of bank loans		**(51)**	(42)	(83)
Repayments of capital element of finance lease		**(73)**	(69)	(140)
Net inflow/(outflow) from financing		**710**	(111)	(220)
Decrease in cash		**(494)**	(252)	(361)
Reconciliation of net cash flow to movement in net (debt)/funds				
Decrease in cash		**(494)**	(252)	(361)
Receipt from new bank loan – property		**(750)**	–	–
Repayments of bank loans		**51**	42	83
Repayments of capital element of finance lease		**73**	69	140
Movement in net funds		**(1,120)**	(141)	(138)
Net funds at beginning of period		**416**	554	554
Net (debt)/funds at end of period	7b	**(704)**	413	416

NOTES TO THE INTERIM REPORT

unaudited results for the six months to 31 March 2006

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 2005. 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 2005 as adjusted for the change in accounting for dividends discussed below. The taxation charge is calculated by applying the Directors' best estimate of the annual tax rate to the profit for the period. Other expenses are accrued in accordance with the same principles used in the preparation of the annual accounts.

FRS 21 requires a change of accounting policy in respect of the accrual of proposed dividends. Dividends are now included in the profit and loss account reserve in the accounting period in which the dividend is approved for payment. The interim accounts for the six months ended 31 March 2005 and the full year accounts for the year ended 31 September 2005 have been restated via a prior year adjustment to reflect this change in accounting policy.

Dividends proposed or paid are no longer to be shown as part of the profit and loss account statement.

2. Basis of consolidation

The Group results consolidate the accounts of Zytronic Plc and all its subsidiary undertakings drawn up to 31 March 2006.

3. Tax charge on profit on ordinary activities

The estimated tax rate for the year of 25% has been applied to the half year's profit before tax, in accordance with the ASB's statement on interim reports. The estimated rate is lower than the standard rate of UK corporation tax (30%) due, in particular, to the effect of allowances from the exercise of share options but also because of the continuing beneficial effect of the Research & Development tax credit scheme.

4. Earnings per share

The calculations of earnings per share are based on a profit after taxation of £348,000, (2005: £297,000) and a basic and diluted weighted average of 14,306,408 and 14,455,781 shares respectively in issue (2005: basic and diluted 14,291,539 and 14,528,351). The calculations of earnings per share for the full year to 30 September 2005 are based on a profit after taxation of £674,000 and a basic and diluted weighted average of 14,292,242 and 14,594,284 shares in issue respectively.

NOTES TO THE INTERIM REPORT (CONTINUED)

unaudited results for the six months to 31 March 2006

5. Dividends

The Directors propose the payment of an interim dividend of 1.0p per share (2005: 0.5p), payable on 30 June 2006 to shareholders on the Register on 9 June 2006. As stated in note 1 above, this dividend has not been accrued in these Interim Accounts. The dividend payment will be £145,000.

Under FRS 21 the dividends in the current and prior year have been restated as follows:

	Six months to 31 March 2006 Unaudited £'000	Six months to 31 March 2005 Unaudited £'000	Year to 30 September 2005 Unaudited £'000
Ordinary dividends on equity shares			
Interim dividend of 0.5p per ordinary share paid on 29 June 2005	**–**	–	71
Final dividend of 1.5p per ordinary share paid on 24 March 2006	**215**	–	–
	215	–	71

6. Creditors and profit and loss account – prior year adjustment

As explained in note 1, FRS 21 requires a change of accounting policy in respect of the accrual of proposed dividends. These are now no longer to be accrued in the accounts until they have been approved by the shareholders or been paid.

As a consequence it is necessary to restate the comparative figures for creditors and profit and loss account reserve as at 31 March 2005 and as at 30 September 2005.

	Six months to 31 March 2005 Unaudited (restated) £'000	Year to 30 September 2005 Unaudited (restated) £'000
Creditors – as previously shown	1,653	2,093
Prior year adjustment	(71)	(215)
As restated	1,582	1,878
Profit and loss account reserve – as previously shown	266	428
Prior year adjustment	71	215
As restated	337	643

7. Notes to the Group statement of cash flows

a) Reconciliation of operating profit to net cash inflow from operating activities:

	Six months to 31 March 2006 Unaudited £'000	Six months to 31 March 2005 Unaudited £'000	Year to 30 September 2005 Unaudited £'000
Operating profit	**477**	444	1,001
Depreciation	**221**	204	427
Amortisation	**131**	124	246
Gross cash inflows	**829**	772	1,674
Decrease/(increase) in debtors	**2**	(225)	(117)
Increase in stocks	**(303)**	(104)	(767)
(Decrease)/increase in creditors	**(12)**	(124)	149
Net cash inflow from operating activities	**516**	319	939

b) Analysis of net (debt)/funds:

	31 March 2006 Unaudited £'000	31 March 2005 Unaudited £'000	30 September 2005 Unaudited £'000
Cash at bank and in hand	**316**	919	810
Bank loans	**(866)**	(208)	(167)
Finance lease	**(154)**	(298)	(227)
	(704)	413	416

8. Contingent liability regarding Ian Lawson, former Chief Executive

The contract of employment for Ian Lawson, the former Chief Executive, ceased on 30 June 2005, after he had served out his notice period of 12 months on gardening leave. On 29 September 2005, Mr Lawson filed an unfair dismissal claim against Zytronic Displays Limited. This claim was heard by an Employment Tribunal in March 2006. In its ruling in April 2006, the Employment Tribunal found that Mr Lawson had been unfairly dismissed and that his dismissal was by way of redundancy. Zytronic Displays Limited has appealed against the decision. Running parallel to this appeal, a separate remedies hearing is scheduled for June 2006 at which the level of compensation will be determined by the Employment Tribunal.

If the appeal is unsuccessful, then Zytronic Displays Limited will have to pay the level of compensation imposed by the tribunal.

The maximum compensation payable under the Employment Tribunal ruling is £58,060. Due to the uncertainties of the outcome of the appeal process and the findings of the remedies hearing, a provision for compensation has not been included in these accounts.

Mr Lawson has reserved his position against the Company as regards the lapse of his share options, over 142,857 shares granted at 70p per share, following the cessation of his employment. A provision has not been made as there is currently no legal action in this regard.

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 and Deputy Chairman

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

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

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