Zytronic plc

Annual Report and Financial Statements 2014

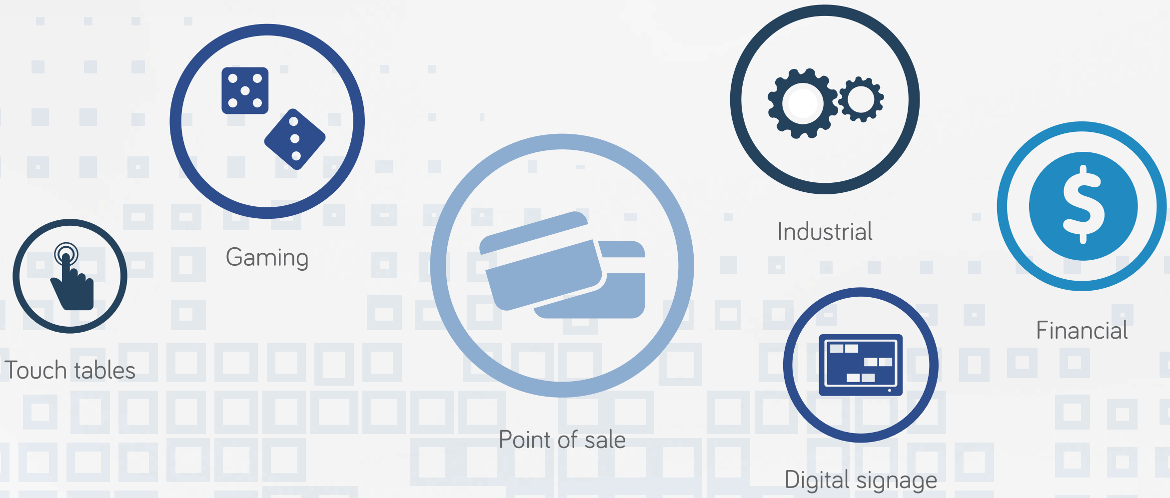
A global touch

Zytronic is a leading global manufacturer of touch-based products for public access and industrial applications.

Over 14 years we have developed our patented PCT™ and MPCT™ sensing technologies into a family of product offerings. **Operating through a network of channel partners across the globe**, our integrated technologies are being used at leisure, on the street and in the workplace.

Unlike the majority of other touch technologies, the active component of Zytronic's technology is embedded behind the glass front for protection, providing a true safety laminated, pure-glass fronted construction.

Areas we operate in



Where our touch sensors are used

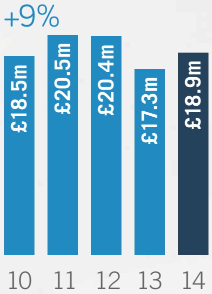
Highlights

- Group revenue increased by 9% to £18.9m (2013: £17.3m)
- Touch revenue accounts for 79% (2013: 73%)
- Touch sensor units sold increased to 139,100 units (2013: 125,500 units)
- Gross profit margin increased to 36.6% from 28.4% in 2013
- Profit before tax increased by 68% to £3.3m (2013: £1.9m)
- Basic earnings per share of 19.6p (2013: 11.1p) with adjusted diluted earnings per share of 19.5p (2013: 13.8p)
- Net cash generated from operating activities of £4.2m (2013: £3.3m)
- Net cash balances increased by £2.3m to £7.8m
- Total dividend for the year increased by 10% to 10.0p (2013: 9.1p)

Group revenue

£18.9m

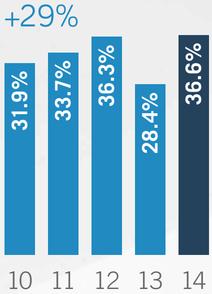
+9%



Gross profit margin

36.6%

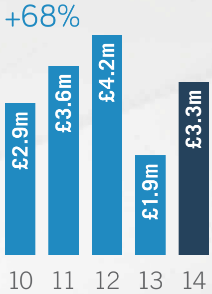
+29%



Profit before tax ("PBT")

£3.3m

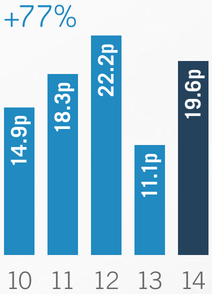
+68%



Earnings per share

19.6p

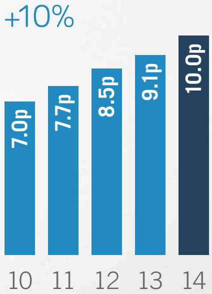
+77%



Dividends

10.0p

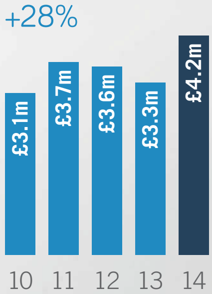
+10%



Cash generated from operating activities

£4.2m

+28%



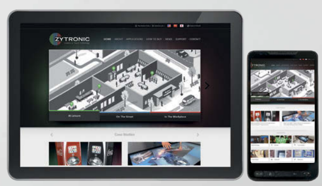
Strategic report

Corporate governance

Financial statements

Group accounts

Parent Company accounts



www.zytronic.co.uk

In-depth view of our technology and applications

About us

We offer fully customisable touch technology solutions.

Our unique touchscreen capabilities are allowing us to create more products and meet demands in a variety of applications.

Our commitment to innovative touch and composite technology development, stringent (ISO approved) quality controls and fast-response customer service is complemented by our own dedicated external sales team, undertaking both direct sales to major customers and assisting with sales through the extensive worldwide network of agents and distributors.

Representation

60 countries

Channel partner agreements

37

Profiling

Our long experience in machining glass using in-house CNC controlled equipment enables us to provide our clients with bespoke touchscreen designs quickly, from ground and polished edges, to slots for credit card accepters.

Printing

In recent years we have invested in state of the art multi-colour silk-screen printing technology and are able to offer system designers with customised touchscreens that make their concepts a reality.

Curved

As our gaming clients take advantage of the development of curved LCDs and OLED displays to differentiate their upright cabinet machine designs, our glass bending capability allows us to "stay ahead of the curve" and provide stunning looking interactive player interfaces.

p. 10

Read more about our curved products on page 10.

Our competitive advantages

The Group's competitive advantages are based upon both the patented technology relating to the operation of the touch sensors and the lamination techniques and processes, built up over more than 40 years of operations, which are a feature of all the Group's products.

These advantages allow the Group to produce products that have optical clarity and ruggedness and can be customised to include individual features for customers, including privacy filters and anti-reflective and anti-glare properties. In the case of touch sensors, these advantages also result in the significant ability for them to be used by bare fingers and gloved hands and result in their not experiencing positional drift and therefore not requiring periodic re-calibration.

The growth of the Group and its future prospects come from the exploitation of this relatively new touch sensor technology. Our focus on the development of this patented technology has resulted in both the continual improvement to the operation and functionality of the touch sensors and the expansion of the range of different glass-based products available.

Optical clarity

Zytronic's proprietary projected capacitive touchscreen technology doesn't rely upon surface coatings to function, meaning they have inherently high light transmission, maximising the performance of high brightness displays.

Work outside

Our PCT™ touchscreens are proven in some of the most demanding and extreme environments, working reliably in applications ranging from control panels on North Sea oil rigs to external ATM screens in Arizona, reducing total cost of ownership and increasing end user satisfaction.

Technical support

Zytronic is one of the very few touchscreen manufacturers that develop and design both the touchscreens themselves and the control electronics and software that links them to the outside world. This end-to-end support means that we can quickly adapt our products to provide cost effective solutions to our clients.

Multi-touch

Our newest MPCT™ products are capable of detecting up to 40 independent touch points, all with millisecond response times, in thick, toughened and ultra large glass formats. This unrivalled capability means that users can experience a "tablet" like touch performance, in ruggedised self-service systems.

pp. 10 and 11

Read more about our multi-touch products in the case studies on pages 10 and 11.

Large format

Our flexible manufacturing process enables an almost limitless range of sizes to be produced, currently up to 85 inches, allowing our touchscreens to match large commercial displays in growing vertical markets such as interactive digital signage and touch tables.

p. 14

Read more about our large screen products in the case study on page 14.

Chairman's statement

> "Revenues for the year ended 30 September 2014 increased by 9% to £18.9m."

Summary

- Profit after tax increased by 78% to £3.0m (2013: £1.7m)
- EPS increased by 77% to 19.6p (2013: 11.1p)
- Total dividend for year increased by 10% to 10.0p (2013: 9.1p)
- Touch revenue accounts for 79% of Group revenue (2013: 73%)
- Gross profit margin increased to 36.6% from 28.4%
- Net cash generated from operating activities of £4.2m (2013: £3.3m)
- Net cash balances increased by £2.3m to £7.8m

We are pleased to announce a significantly improved set of results for the year ended 30 September 2014 with performance benefitting from the initiatives taken last year to improve production efficiencies and to concentrate on the development and growth of our touch products.

Results

The significant improvement in performance this year has principally arisen from a resumption in revenue growth driven by demand for our proprietary touch sensor products, which accounted for 79% of sales and grew by 18%, and also an improvement in gross profit from 28.4% to 36.6%.

As our CEO, Mark Cambridge, explains in the comprehensive Operational review that follows, we increased sales across all our main sectors of financials, vending, industrial, signage and gaming, where the unique durability of our products is a prerequisite, but also because of the appeal of our larger format touchscreens' capabilities and our recently developed proprietary multi-touch solutions.

Revenues for the year ended 30 September 2014 increased by 9% to £18.9m (2013: £17.3m); profit before tax increased by 68% to £3.3m (2013: £1.9m); and basic earnings per share was 19.6p (2013: 11.1p).

The Group continues to convert a high proportion of its profits into cash with cash generation from operating activities for the year ended 30 September 2014 being £4.2m (2013: £3.3m). We have continued our policy of continuing investment in research and development, and capital equipment, with investment activities for the year totalling £0.5m (2013: £0.6m) and a progressive dividend policy with dividends paid during the year of £1.4m (2013: £1.3m).

Dividend

The Directors propose a final dividend of 7.16p (2013: 6.35p) payable on 13 March 2015 to shareholders on the Register on 27 February 2015, which increases the total dividend for the year by 10% to 10.0p (2013: 9.1p) at a total cost for the year to 30 September 2014 of £1.5m.

Outlook

Whilst we are only a couple of months into the new financial year the sales and order book are ahead of last year and our focus is on continuing to increase value for shareholders now and into the future. We shall update shareholders on progress and material developments during the course of the coming year.

Tudor Davies BSc
Chairman
8 December 2014

2001

First commercial PCT-based product to market – trade named ZYTOUCH® sensor.

2002

ZYTOUCH® design wins in ATMs (two of global top three) and BT Webphone.

2005

ZYTOUCH® design wins in petrol pump applications; North America sales rep network introduced, followed by agreements in EMEA and APAC over next four years.

2006

New design of ZYPOS® touch sensor launched, opening the way to new application markets.

2008

New ZYPOS® manufacturing facility becomes operational.

2009

Announcement of the Coca-Cola Company®'s use of ZYPOS® sensor in its new Freestyle™ beverage dispenser.

2010

ZXY100 Series controllers and chipset solution to market.

2011

Announcement of ZYPOS® design win for Bosch Siemen's Gaggenau induction cooktop.

2012

Development and introduction of new mutual capacitance PCT multi-touch, multi-user technology, MPCT™.

2014

Incorporation of Zytronic Inc. in Atlanta, Georgia, to focus on OEM and channel partner technical sales support.

Our strategy

Our mission is to increase the profitability of our business by growing revenues from touch sensors through continual improvement and development of our PCT™ and MPCT™ touch technologies.

Our aim is to continue to roll out sales channels around the world, while investing in the manufacturing facilities to enable the Group to meet that sales growth.

Innovate

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

What we did in 2013/2014

- We further developed and commercialised our large format curved touch sensors.
- We continued to develop our encrypted touch sensor solutions and progressed our relationship with Cryptera A/S, the encrypted device specialist company.
- We released a new ZXY300 controller providing customers with multi-touch performance characteristics at levels similar to that in our present 22–50-inch range using the ZXY200 controller.

Our priorities for 2014/2015

- We will develop a new ZXY150 controller for our MPCT™ range for sizes below 19 inches.
- We will look to develop an MPCT™ Application Specific Integrated Chip ("ASIC") to reduce the footprint and cost of our multi-touch controllers.

Grow

We continue to seek opportunities to expand our sales channels across the world. We have new additions in the USA and China and aim to establish representation in new countries, for example, Indonesia and in the Middle East.

- We continued to sell more units in 2014 than in 2013.
- We established Zytronic Inc. in Atlanta, Georgia, and employed our first USA resident to focus on OEM and channel partner technical sales support.
- We signed up for a new initiative in mainland China, referred to as FastTrack China, to aid engagement in this market.

- We will strengthen our presence in the APAC region by establishing a sales office in Taiwan to grow our business in Greater China.
- We will continue to engage with potential customers to demonstrate our products' capabilities.

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 increased the number and size of equipment to produce large sensors enabling us to respond quicker to demand for MPCT™ sensors.
- We exhibited at G2E, ISE and InfoComm during the year. Our products were also well exhibited at a number of local trade shows through our regional partners.
- We introduced microsites in the year in support of China, Japan and the USA to provide local language and regional-specific information.

- We will undertake an expansion and refurbishment of our original cleanroom to increase our manufacturing capacity.
- We will add further equipment within our facilities to optimise the manufacturing flow.

Measuring our performance

Our key performance indicators reflect the business' financial success throughout the year.

Commentary on the actual performance of the Group against each of these KPIs is set out in the Chairman's statement and the Operational and Financial review.

- The current KPIs consist of: setting targets for and monitoring the level and growth of sales; improving the gross profit margin; controlling the level of overheads (administration expenses); and managing cashflow from operating activities.
- In addition, the Directors review a sales pipeline log which the sales team uses to record validated sales opportunities, the key dates in the development of each sale's prospect with the customer, volumes and values of the opportunities and expected production commencement dates.

Group revenue

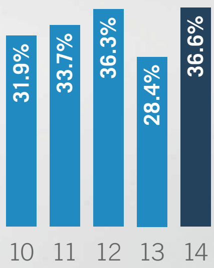
£18.9m

+9%

Gross profit margin

36.6%

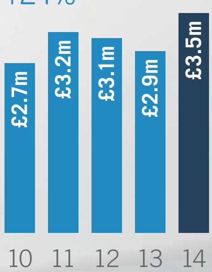
+29%



Administration expenses

£3.5m

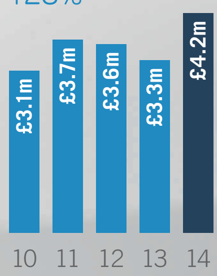
+21%



Cash generated from operating activities

£4.2m

+28%



Risk management

Key — no change, decreased risk, increased risk

Risk description	Mitigation	Change
Advances in competing technologies The main risk to the Group's business is that of advances in competing technology, whereby a new, better touch sensor technology is created.	Management is 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.	no 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 pressure in those markets does have a knock-on effect on prices throughout the industry: new, better touch sensor technology is created.	Management has successfully met these challenges to date by re-designing and re-engineering the ZYTOUCH® touch sensor in developing the ZYPOS® touch sensor. This 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 has subsequently taken the touch sensor manufacturing process changes and applied them to the re-design and manufacture of the optical display filters which it also produces.	decreased risk
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 can also be purchased in US Dollars and Euros, whereby 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 the manufacture. Where possible, it has used increases in volume purchases to obtain price reductions, discounts and improved specifications. Foreign exchange contracts are in place to mitigate FX movements.	no change
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 to monitor potential future sales levels and has built in a degree of flexibility to its two main factories.	increased risk
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 sourced from Europe and the USA and the liability arises in the respective currencies. Surplus currency is then protected through the use of forward foreign exchange contracts for a period of twelve months ahead. This ensures the business knows its position around FX in the current year.	decreased risk
Risks associated with timing of customer projects One of the main risks to the business is that of the timing of customer projects, where as a component supplier we are wholly reactive to our customer demands.	The demands of our customers is not something we can control so in order to mitigate this risk we constantly strive to have a diversified customer base with multiple projects over different time periods occurring at any one time.	no change

Operational review

> "The 2014 fiscal year has shown a significant improvement in trading over the year with sales in the second half reaching £10.1m."

Summary

- Total revenue grew by 9% to £18.9m (2013: £17.3m)
- Touch revenue accounts for 79% of Group revenue (2013: 73%)
- Touch sensor units sold increased to 139,100 units (2013: 125,500 units)
- Gross profit margin increased to 36.6% from 28.4% in 2013
- Profit before tax increased by 68% to £3.3m (2013: £1.9m)

	2014 H1 £'000	2014 H2 £'000	Total 2014 £'000
Group revenue	8,828	10,058	**18,886**
Cost of sales	5,839	6,140	**11,979**
Gross profit	2,989	3,918	**6,907**
Distribution costs	72	84	**156**
Administration expenses	1,500	1,988	**3,488**
Group operating profit	1,417	1,846	**3,263**
Finance costs	18	17	**35**
Finance revenue	12	21	**33**
Profit before tax	1,411	1,850	**3,261**
Tax expense	254	47	**301**
Profit for the year	1,157	1,803	**2,960**

Overview

The 2014 fiscal year has shown a significant improvement in trading over the previous year and has continued the trend of second half trading being better in both revenue and profitability than the first.

Total 2014 revenues of £18.9m were stronger than that of 2013 by 9% (2013: £17.3m). Touch product revenues at £14.9m accounted for 79% of total revenues and were £2.3m (18%) higher than the prior year (2013: £12.6m). Non-touch product revenues of £4.0m showed an expected decline from the £4.7m reported for 2013.

The higher proportion and better mix of touch product sales reported in the second half of 2013 were maintained over the first half of 2014 as reported by management at the interim results and improved further over the second half of the year. This, together with management actions to maintain and where possible improve cost control and production efficiencies, resulted in a significantly higher gross margin of 36.6% (2013: 28.4%) and a resultant 68% increase in profit before tax to £3.3m (2013: £1.9m).

Sales

Total sales in the year were £18.9m (2013: £17.3m). Sales in the first half of the fiscal year at £8.8m were only slightly higher than the same period in 2013 (2013 H1: £8.5m) but showed a considerable improvement in the second half of the year at £10.1m (2013 H2: £8.8m).

Non-touch product sales, as management has previously indicated, have reduced again in 2014 to £4.0m (2013: £4.7m), with product revenues from the primary ATM display filter glass contributing £2.8m (71%) of the total (2013: £3.5m, 75%). Other non-touch products – non-ATM display filters, electronic noise filtering laminates and light diffusers – maintained combined overall sales at £1.2m (2013: £1.2m).

Zytronic continues to be heavily export focused, with £17.6m, or 94%, of total invoiced revenues being export derived (2013: £15.8m, 92%). The EMEA region remains by far our largest exporting region, growing by 9% and accounting for £9.2m or 52% of the exports (2013: £8.5m, 55%).

The Americas, significantly influenced by sales in the gaming market, showed the largest revenue growth of nearly £1.0m to £4.3m which accounted for 25% of the total exports (2013: £3.3m, 21%) whilst the balance of exports were to the APAC region, accounting for £4.1m or 23% (2013: £4.0m, 25%).

Curved products

Combining outstanding durability and lightning fast multi-touch responsiveness, projective capacitive touch technology is leading the way in the design of innovative interactive products in recent years.

Standing head and shoulders above the crowd

Large concave touchscreen displays have the ability to absorb the user in an all-encompassing environment, immersing them in the content and enhancing their experience. This is seen in practice at the Global Gaming Expo in Las Vegas 2014 where a number of upright cabinet slot machines were on display. Featuring a dual 42-inch display and curved touchscreen, the unit stands tall amongst a sea of bright and flashing casino games.

Touchscreen technology like never before

During the design process of a display unit, gaming cabinet, vending machine or a kiosk, aesthetics are sometimes secondary to usability. However, with Zytronic projected capacitive technology ("PCT™"), incredible functionality and proven performance go hand in hand with pioneering near limitless levels of customisation, so design ideas are rarely compromised. Combining cutting edge touch sensing electronics, PCT™ allows for beautifully responsive, accurate and rugged touch sensing.

Multi-touch sensors can boost the density of touch data captured by the screen, significantly increasing touch resolution whilst still maintaining millisecond response times. Supporting up to 40 simultaneous touch points, multi-user designed product experiences are enriched by the capabilities of MPCT™ multi-touch sensors. By creating these surfaces in which multiple users can interact simultaneously, sharing their experiences, new opportunities have arisen for companies using touch displays.

MPCT™ touch sensors support large format displays up to 85 inches and will react to a finger or a conductive stylus but not a carelessly dropped book, or the brush of a sleeve – making them ideal for table applications. As the touch sensors are made from thick toughened glass, the Zytronic enabled tables shrug off the kind of abuse that would see other touch technologies run for the hills.

As industrial design, marketing and technological concepts collide, the outcome is a new innovative digital experience that is equally as beneficial to the vendor as it is to the end users.

Sales *continued*

Touch sales at £14.9m have increased 18% over the £12.6m reported for 2013 and were comprised of £13.3m of total sensor revenues (2013: £11.4m) and £1.6m of electronic controller and component revenues (2013: £1.2m).

Export touch sales were £14.2m, an increase of 19% over the £11.9m reported for 2013. The EMEA region represented £6.9m of touch revenues and a growth of £1.3m over the comparable period (2013: £5.6m). As very little non-touch product is sold into the Americas, a more direct correlation exists between touch exports and total exports, with touch revenues increasing £0.8m to £4.0m (2013: £3.2m).

Although the mix of products was different, the overall touch revenues generated from APAC and the UK remained fairly consistent with the comparable period at £3.2m and £0.7m respectively (2013: £3.1m and £0.7m).

The total volume of sensor units sold increased in 2014 by 11% to 139,100 units (2013: 125,500). A total of 93,100 (2013: 81,200) sensor units were manufactured with a diagonal size of greater than 15 inches and account for over two-thirds of the total volume of sensors produced. In the ultra-sized sensor size range of greater than 30 inches, the total volumes produced doubled to 6,400 units (2013: 2,300 units).

Generally the smaller sized (smaller than 15 inches) sensors, are mostly used in applications for appliance controls, e.g. the Bosch induction cooktop, heavy duty in-vehicle telematics systems and service vending, e.g. ticket issuing machines and industrial machine controls. Although the proportional mix of sensors produced across those applications varied in 2014 compared with 2013, the total unit volumes produced increased marginally to 45,900 units (2013: 44,300 units).

The following provides details of the influencing factors on the major touch market areas:

Financial applications

Financial applications continues to be our largest market, accounting for £5.7m (2013: £5.5m) of sales and 49,400 units of the volume manufactured (2013: 45,000 units), and includes application uses such as ATMs, bill payment kiosks and financial point of information ("POI") kiosks.

“Significant growth has come through the industrial, gaming and signage markets.”

This market remains the strongest touch market area due to the unique durability and reliability of our touch products, especially for high volume unattended use and locations.

The total volume increase was driven by a substantial 15,000 unit increase of ATM sensors sold to 46,100 units (2013: 31,100 units) as some new customer projects moved into production and existing customer demand increased after the prior year re-designs and cost reduction work was fully realised. However, the re-design work, coupled with the year on year different customer mix of high option and low option value sensors, resulted in an approximate 24% (£33) reduction in the average selling price (“ASP”) across our ATM touch products from that of the prior year.

Non-ATM kiosks, a buoyant application area in the former CIS territories in 2012 and 2013, countered the ATM unit increase with a 10,500 unit decline to 3,300 units. This was due to the geopolitical conflict effects in the region in 2014, which reduced overall infrastructure spend.

Vending

Vending maintains its ranking as the second largest market area in both volume and sales, with revenue growth of 20% to £3.0m (2013: £2.5m) and unit growth of 26% to 32,100 units (2013: 25,400 units). The volume of sensors sold in 2014 for the Coca Cola Company® Freestyle™ drinks dispenser was in line with expectations for the year and at a level similar to 2013 at 4,700 units. Unit sales into our fuel vend application area were also similar to 2013, albeit with a slightly different customer and size mix, whilst growth came mainly from sales into the service vend application area in Eastern Europe.

Industrial, gaming and signage

Other significant growth has come through the industrial, gaming and signage markets, with revenues from sales into the industrial market for human machine interface (“HMI”) control devices and general application kiosks growing by 54% to £2.0m (2013: £1.3m) and in unit terms by 61% to 26,300 units (2013: 16,400 units).

The gaming and signage markets both benefited in the year from our ability to manufacture and supply ultra large sized (greater than 30 inches) sensors coupled with our mutual projected capacitive technology (“MPCT™”) multi-touch solution, which continues to attain greater market acceptance within the touch ecosystem. Gaming revenues increased by £1.1m to £1.9m (2013: £0.8m) whilst volume increased by 2,700 units, all of which is attributable to ultra large sized casino upright cabinet “slot” machine designs.

Although as described earlier, sensors smaller than 15 inches exhibited overall unit growth, the prior year volume drivers of the Bosch brands cooktop unit and the in-vehicle agricultural telematics system both reduced to customer forecasted levels. The volume of cooktop units produced decreased by more than half to 6,400 units (2013: 13,800 units) whilst the agricultural telematics project declined by approximately one-third to 6,900 units (2013: 10,200 units).

Strategic initiatives

To maintain our export sales focus we undertook further territory reviews, continuing the work initiated in 2013 on the Americas and in particular the established USA manufacturer’s representative channel network and the region critical technical sales support. In May, after the establishment of the USA entity Zytronic Inc., a wholly owned subsidiary of Zytronic Displays Limited earlier in the year, we employed our first USA resident employee whose focus is on OEM and channel partner technical sales support from an Atlanta, Georgia, base.

During 2014, we also agreed to participate in FastTrack China, a new agency initiative in mainland China, organised by the former UKTI northern region China representative. The agency has the support of regional provinces and Chinese private equity funding and is developing a network of business centres in mainland China to showcase UK SME manufactured products. The first centre in the fast growing city of Zhengzhou, Henan Province, opened in October 2014. As well as offering local sales and marketing support, and a year-long showroom, the agency acts as a financial trading intermediary, receiving and invoicing local customers’ purchase orders in Yuan and issuing and paying purchase orders on the SME in Sterling.

Multi-touch

Encouraging social interaction through advanced touch technology in the home and leisure environments.

Zytronic, with the assistance of its French distributor Eurocomposant, has secured ongoing business with interactive furniture producer HUMElab. The touchscreen manufacturer is now producing ultra-durable p-cap sensors for a series of multi-touch table products, targeted at use in home, restaurant and hospitality settings.

Combining beautifully designed furniture with Zytronic’s innovative multi-touch solutions, each HUMElab TABATA table incorporates a large format, HD, touch-enabled display, through which users can carry out a wide range of exciting functions, such as playing complex multi-user games, ordering food, surfing the web and connecting with friends via social media.

Supplied to HUMElab in 22, 32 and 42-inch formats, each sensor features elegant customised printed borders with sleek polished edges, offering an attractive bezel-less design. While anti-glare, thermally toughened 4 and 6mm glass allows for excellent readability in all light conditions and protects the sensing elements from environmental and physical damage.

The technology allows recognition of complex gestures and enables up to four people to operate the sensor at the same time, sharing the exciting, immersive experience. Furthermore, the state-of-the-art “palm rejection” firmware enables the touchscreens to ignore anomalous, large touch points.

Operational review *continued*

“Our sales efforts during 2014 have been underpinned with a more focused marketing effort as we strengthen our digital trade PR approach.”

Sales *continued*

Strategic initiatives *continued*

The overall channel partner network has experienced little change since last reported upon in the 2013 review, except for the appointment of Priconics, a North American representative for the Midwest states, and the termination of Nishicom, our previous under-performing representative in Brazil. As we look to expand the coverage of our Mexican channel partner Phoenix in 2015, we anticipate that it will initiate coverage for Brazil as well as several other South American countries.

In total we currently have 37 global channel partner agreements in place providing active coverage across 60 countries.

Marketing

Our sales efforts during 2014 have been underpinned with a more focused marketing effort as we strengthen our digital trade PR approach including YouTube, LinkedIn and Twitter to work more in tandem with our traditional printed trade PR and Zytronic Displays Limited website. Regional trade microsites in support of China, Japan and the USA were also introduced during the year, with the aim of providing local language and regional-specific sales and technical information.

As well as undertaking for the first time during the financial year the Global Gaming Expo (“G2E”) in October 2013, we also for the second time exhibited at the European Integrated Systems Europe (“ISE”) exhibition in January 2014 and for the first time at its sister exhibition InfoComm in the USA in June 2014. Our products were also well represented at a number of local trade shows such as CeBIT Turkey, Touch Panel Korea and Display Paris, undertaken by our respective local regional partners. In total nine local shows were attended during the year.

Projects

Although being a project driven component supplier on an average four week order to delivery schedule, which creates short order book visibility, we have successfully countered this through the broad applications base for our components and the strength of the developing opportunities pipeline.

During the year, a total of 342 enquiries have been validated and logged, bringing the total of validated enquiries to 718 since the initiation of the revised opportunities pipeline logging system that was introduced in February 2013. 120 of these enquiries have been converted into customer production and orders throughout the current financial year.

As at 30 September 2014 we have 69 active projects. Digital signage remains the strongest application area in terms of project volume. Strengthening is also observed in the financial, gaming and industrial sectors, where the number of active projects at the period end is almost double in each instance compared with the period start.

Operations

The maintenance and improvement of the cost controls and production efficiencies established in the second half of 2013 was a major goal for 2014, particularly as the first half of 2014 was expected to perform at similar levels. We have continued to implement tight labour controls during the year, with a temporary lay-off of FTEs occurring in October 2013, reducing the productive labour complement by an average of 14 persons over the first half period to 91 persons. This subsequently increased after the lay-off ended in order to accommodate increasing demand through the high vacation period months, standing at 96 persons at the period end.

To accommodate an increasing demand for MPCT™ sensors in the over 65-inch range, a strategic investment was made during the year to treble the manufacturing capacity with the capital investment of £0.2m for two additional large format plotters, with sensor size capabilities up to 100 inches diagonally.

A further review of the touch manufacturing capacity and capability requirements across the full three factory facilities as we look into 2015 and beyond has also resulted in the initiation of a capital project to remove the oldest section of our original 1989 cleanroom and refurbish our existing 2001 cleanroom to fully expand into the floor space created. It is expected that the total capital spend will be £0.4m.

Once the revised cleanroom layout is established, further manufacturing equipment for plotting, lamination and flexi tail bonding will be required to meet future capacity demand and optimise the facility’s manufacturing flow.

R&D

The research and development team has continued to concentrate on further refinements in sensor designs and controlling electronics for our MPCT™ products during the year, in sizes from 50 to 90 inches. This culminated in February 2014 with the release of a new ZXY300 series controller, which allowed for the control of up to 15,000 individual capacitive matrix nodes, providing Zytronic customers with multi-touch performance characteristics at levels similar to that in our present 22 to 50-inch range, using the ZXY200 series controller.

We still continue to await the outcome of the initial MPCT™ development UK patent applications made in May 2012, but have progressed to the next stages of international patent application, having moved forward with the international national phase applications for three of the key patents for Europe, USA and China.

Significant time was also devoted to the further development and commercialisation of our large format curved touch solutions, which has culminated with several working upright gaming cabinets being showcased by new and existing customers at the 2014 G2E tradeshow in Las Vegas.

The R&D engineers have also continued the significant joint development work with Cryptera A/S, a globally renowned company that has over 30 years’ experience in the development and manufacture of encrypted systems and hardware for the international payment card industries (“PCI”). Their new PCI3 certified encrypted touch solution, named CryptoTouch®, has been designed for the ATM and unattended self-service payment kiosks. This unique product range was formally launched at a major payment technology exhibition during November 2014.

I would finally like to thank all Zytronic employees who have contributed to the improved performance of the business during the 2014 fiscal year.

Mark Cambridge BSc (Hons), FIoD
Chief Executive Officer
8 December 2014

Financial review

Group revenue

£18.9m

Gross profit

£6.9m

Summary

- Profit after tax increased by 78% to £3.0m (2013: £1.7m)
- EPS increased by 77% to 19.6p (2013: 11.1p)
- Total dividend for year increased by 10% to 10.0p (2013: 9.1p)
- Working capital decreased by £0.1m (2013: £0.9m)
- Net cash generated from operating activities of £4.2m (2013: £3.3m)
- Net cash balances increased by £2.3m to £7.8m

Overview

The year ended 30 September 2014 delivered a strong financial performance from the Group, with sales up 9% to £18.9m and gross profit margin significantly improving to 36.6% (2013: 28.4%). This has resulted in an increase in Group EBITDA to £4.3m (2013: £2.9m), trading profit of £3.3m (2013: £1.8m) and profit before tax of £3.3m (2013: £1.9m).

Gross margin

Gross margin improved to 36.6% (2013: 28.4%) in the year, having been impacted positively by the changes in the mix and volumes of touch products sold, the year on year decline of our legacy product range and the product re-designs as described in detail in the Operational review. Labour costs remained controlled throughout the year and also contributed to the year on year increase in margins, despite the increased costs for the mandatory introduction of auto-enrolment in April. We invested in spend in the maintenance of our manufacturing equipment during the year to ensure our operations were fully efficient and that the risk of downtime was minimised.

Group trading profit

Group trading profit has also increased during the year through the increase in sales and gross margin, despite the increase in administration expenses, which has been impacted by a number of factors. Staff costs have increased by £0.4m for a bonus provision and £0.1m for a share option charge following the implementation of the annual bonus and long term incentive plan by the remuneration committee to reward executives of the Group for enhanced performance. The Group has also charged to profit a net £0.2m for the year-end FX hedges in place following the strengthening of the US Dollar post the contracts being entered into. Professional fees have increased in the year for additional R&D tax relief claims for financial years 2012 to 2014 inclusive. The benefit of this, however, is a further recovery of tax of £0.3m relating to that period. Distribution costs show a reduction from the prior year, as we have negotiated changes to the way in which we are delivering our goods to some of our customers.

Taxation

The Group's taxation charge for the year ended 30 September 2014 of £0.3m represents an effective tax rate of 9.2%, reflecting the benefit of the announced changes to the UK corporation tax rate, allowances for the exercising of share options which occurred during the year and the utilisation of R&D tax credits including a recovery for under claimed R&D tax relief claims for 2012 to 2014.

Earnings per share

The issued share capital is 15,193,468 ordinary shares of 1.0p each and the resultant EPS for the year is 19.6p, which represents a 77% increase from that reported last year (2013: 11.1p).

Capital expenditure

Total additions to capital expenditure in the year were £0.3m in property, plant and equipment, of which £0.2m was incurred on large format plotters to meet increasing demands for larger format touch sensors. £0.3m of capital expenditure was incurred in intangible assets over a variety of development projects. Depreciation and amortisation for the year was at similar levels to that reported for 2013 at just over £1.0m.

Cash and debt

The Group retains a robust financial position and continues to be cash generative, recording an increase in cash and cash equivalents in the year of £2.3m (2013: £1.3m), enabling it to continue to invest in internal R&D, capital refurbishments and maintain its progressive dividend policy.

Financial review *continued*

Large format

Opticians store wows customers with mirrored point of sale system that encourages online social interaction.

Zytronic has built up a strong, widely recognised brand – producing highly responsive, accurate and durable touch sensors of sizeable proportions. Through the success of these sensors, based on its patented projective capacitive technology ("PCT™"), the company now boasts an expansive client base, as well as a series of high profile industry awards. Furthermore, the array of end applications its products have been specified for is growing constantly.

One area of increasing interest is putting touchscreen functionality into reflective surfaces. This is seeing significant uptake in both domestic and retail sectors. Through its integration partner Display Technology, Zytronic's proprietary sensing technology has been involved in a recent deployment of this kind, carried out for fashionable high street optician Kite GB.

The trailblazing, touch-enabled point of sale unit located at Kite's flagship store in London's East End, utilises a PCT touch sensor with a 42-inch active area, sourced from Zytronic. The sensor has been applied to mirror-finished toughened glass and is capable of supporting up to 40-point multi-touch operations. Via the unit, customers are able to take photos of themselves wearing different frames, then post them on Twitter, Facebook, Instagram and other social media platforms – so that their friends and family can look at the chosen frames and give their opinions.

In addition to the Zytronic PCT sensor, the system consists of an ultra-thin LCD digital signage monitor, supplied by Display Technology, with high brightness output, 1920x1080 pixel resolution and wide viewing angle. Moreover, the Logitech HD Pro C920 web camera provides high resolution photos and video that can be stored on the host PC, then manipulated and subsequently uploaded. The customised software facilitates social interaction and the sharing of content with others.

Zytronic's PCT touch sensors rely on a matrix of 10µm thick copper capacitors, in an XY configuration, embedded inside a laminated substrate. This protects the sensor matrix from sources of damage, such as scratches, impacts, extreme temperatures and exposure to harsh chemicals that often compromise the lifespan of touch sensors based on resistive and surface capacitive technologies. Likewise, in contrast to infrared ("IR"), optical and surface acoustic wave ("SAW") technologies, PCT negates the need for a bezel in which to accommodate sensors/emitters, so that sleek, attractive, smooth-fronted designs can be realised. This is particularly in keeping with the aesthetic demands of the Kite project.

"The Group continues to generate cash with cash balances reported at £7.8m."

Cash and debt *continued*

Net cash balances at 30 September 2014 were £7.8m (2013: £5.5m), of which £2.6m was held between instant access and 95 days' notice interest-bearing deposit accounts with the remainder being managed through a set-off arrangement.

The Group retains a property mortgage with Barclays Bank plc, entered into in 2012, which is repayable at £0.2m per annum for five years, at which time it will either be re-financed or repaid. As of the 30 September 2014, the outstanding property mortgage is £1.5m.

There is also an overdraft facility available to the Group, which it utilises in US Dollars and Euros, as part of the hedging of its FX exposure. Prior to the year-end, forward exchange contracts in both currencies were in place, with US Dollars to the end of September 2015 and Euros to the end of March 2015, as a means to further reduce the Group's exposure to currency movements. Following the year end the Group has implemented a policy whereby we are hedged for a minimum period of twelve months ahead and so further contracts have been entered into in both currencies.

At 30 September 2014, the Group had cash balances net of the property-backed mortgage of £6.3m and was therefore not geared.

Claire Smith BA (Hons), ACMA, CGMA, CertICM
Group Finance Director
8 December 2014

Board of Directors

Tudor Griffith Davies BSc (63) •

Non-executive Chairman

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

Mark Cambridge BSc (Hons), FIoD (50)

Chief Executive

Mark graduated with a BSc (Hons) in Materials Science in 1986 and has a Securities Institute Certificate in Corporate Finance (2003). Joining the Romag Group of companies in 1991, he held the positions of Technical Manager, Quality Manager and Technical and Quality Director, up to the demerger and flotation of Zytronic plc. Since 2000 he has overseen the development, market introduction and sales of the ZYTOUCH® touch sensor product and the market launch of ZYPOS® touch sensors. Mark was Sales and Marketing Director of Zytronic Displays Limited from 2002 until his appointment as its Managing Director in February 2006. On 1 June 2007 Mark was appointed to the Board and promoted to Chief Executive on 21 January 2008.

Claire Smith BA (Hons), ACMA, CGMA, CertICM (36)

Group Finance Director

Claire graduated in 2000 in Business and Finance, 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 operating subsidiary Zytronic Displays Limited and Finance Director of Zytronic plc in January 2014.

David John Buffham (55) • ◆

Independent Non-executive Director

David is a Director of Newcastle Building Society, where he chairs the Group Risk Committee and sits on the nominations and remuneration committees. He is a Director of William Leech (Investments) Ltd, where he additionally sits on the investment committee and serves as a trustee of the William Leech Foundation. Until 2010 David worked for the Bank of England. This included spells in banking supervision, risk management and advising overseas central banks on the conduct of monetary policy operations. Most recently, he was the Bank's regional agent for the North East for nine years.

Sir David Robert Macgowan Chapman Bt., DL, B Comm (73) • ◆

Senior Independent Non-executive Director

Sir David, a former Chairman of the CBI North East, has held a variety of Non-executive roles including Northern Rock Plc and the London Stock Exchange. He is currently Chairman of Virgin Money Pension Scheme and is an Advisory Board member of North East Finance in addition to being a Director of several regional venture capital funds. A former First Vice President of Merrill Lynch International Bank and a consultant to UBS Wealth Management, Sir David was a member of the Greenbury Committee on Directors' remuneration. He is currently Chairman of the remuneration committee.

• Member of audit committee.

◆ Member of remuneration committee.

All of the Directors served throughout the financial year.

Corporate governance

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

As an AIM listed company, Zytronic is not obliged to comply with The UK Corporate Governance Code published in September 2012 (the "Code") but instead uses the provisions of the Code as a guide, applying them as the Board considers appropriate to the circumstances of the Company.

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 Sir David Chapman, Bt. and David Buffham, the two Independent Non-executive Directors, were members of the Board.

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

The Board normally meets at least five times per year. Its direct responsibilities include setting annual budgets, reviewing trading performance, approving significant capital expenditure, ensuring adequate funding, setting and monitoring strategy, examining major acquisition possibilities and reporting to shareholders. Between meetings there is regular informal discussion between the Chairman, Chief Executive, Group Finance Director and individual Non-executive Directors. The Non-executive Directors have a particular responsibility to ensure that the strategies proposed by the Executive Directors are fully considered.

To enable the Board to discharge its duties, all Directors receive appropriate and timely information. Briefing papers are distributed by the Company Secretary to all Directors in advance of Board meetings. The Chairman ensures that the Directors are able to take independent professional advice as required, at the Company's expense.

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

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

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

Remuneration committee

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

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

Audit committee

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

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

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

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

Relations with shareholders

Communication with shareholders is given high priority. There is regular dialogue with major and/or institutional shareholders including presentations after the Company's announcements of the half year and full year results in May and December respectively. Presentations are also made to analysts and journalists at those times to present the Group's results and report on developments. This assists with the promotion of knowledge of the Group in the investment marketplace and with shareholders. The financial statements include a review of the business and future developments. These financial statements, the presentations and other 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 Company's financial PR advisers and the Company's Nomad also each produce a feedback report from those meetings which is made available to all Directors. The Executive Directors also report to the Board on any meetings with shareholders or institutional investors that may take place at other times of the year.

Number of meetings and the attendance of Directors

The Board

2014 total: 6 meetings

Tudor Davies (5)

Mark Cambridge (6)

Claire Smith (6)

David Buffham (6)

Sir David Chapman, Bt. (6)

Remuneration committee

2014 total: 2 meetings

Sir David Chapman, Bt. (2)

David Buffham (2)

Audit committee

2014 total: 2 meetings

Tudor Davies (1)

Sir David Chapman, Bt. (2)

David Buffham (2)

The Board uses both the annual report and financial statements and the Annual General Meeting to communicate directly with private and institutional investors and welcomes their participation. The Chairman aims to ensure that the Chairmen of the audit and remuneration committees are available at the Annual General Meeting to answer questions. Details of resolutions to be proposed at the Annual General Meeting on Thursday 26 February 2015 can be found in the Notice of Annual General Meeting on pages 54 and 55.

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

Internal control

The Board is responsible for establishing and maintaining the Group's system of internal control and for reviewing its effectiveness. The system is designed to manage rather than eliminate the risk of failure to achieve the Group's strategic objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. As an AIM listed company, the Company does not need to comply with Code provision C2.1 regarding the Directors giving a summary of the process applied by the Board in reviewing the effectiveness of the system of internal control. Instead, the Directors set out below some of the key aspects of the Group's internal control procedures.

An ongoing process, in accordance with the guidance of the Turnbull Committee on internal control, has been established for identifying, evaluating and managing the significant risks faced by the Group. The process has been in place for the full year under review and up to the date of approval of the annual report and financial statements. The Board regularly reviews this process as part of its review of such risks within Board meetings. Where any weaknesses are identified, an action plan is prepared to address the issues and is then implemented.

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

Authority to operate the trading subsidiary, Zytronic Displays Limited, is delegated to its Board of Directors and through 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. The reports reviewed by the Board include reports on operational as well as financial issues.

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

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

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

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

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report. The financial position of the Group, its cashflows, liquidity position and borrowing facilities are described within the Financial review section of the Strategic report also. In addition, note 20 to the financial statements includes the Group's objectives, policies, its financial risk management objectives, details of its financial instruments and hedging activities and its exposure to credit risk and liquidity risk.

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

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

Directors' report

"The Group will continue to identify further opportunities for the development of new product groups and expends a considerable amount on R&D."

The Directors present their annual report and financial statements for the year ended 30 September 2014.

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.

Likely future development

Our priorities for 2014/15 are disclosed in the Strategic report on pages 6 and 7.

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 94% 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 and the employment of a local national in the APAC region in the coming year will increase our presence there. Management is continuing to look for suitable appointees to expand the Group's presence 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. The Financial review includes a paragraph referring to the continuing strength of cashflows which occurred in the year ended 30 September 2014 and the absence of net gearing.

No changes were made to these objectives, policies or processes during the years ended 30 September 2013 and 2014.

Research and development

The Group has continued with the development of its electronic controllers, software and firmware used in the touch sensors. The Group has also further developed and commercialised its large format curved touch sensors during the year.

The R&D team continues to investigate the use of other sensor configurations and processing media in the manufacture of its touch sensors, strengthening its relationship with Cryptera A/S in the year. Further details on the Group's R&D activities are included in the Operational review section of the Strategic report.

Results and dividends

The consolidated statement of comprehensive income is set out on page 24. The Group profit after taxation amounted to £3.0m (2013: £1.7m). The Directors propose the payment of a final dividend of 7.16p per share (2013: 6.35p). Following the dividend of 2.85p per share paid in July 2014, this will bring the total dividend for the year to 10.0p per share (2013: 9.1p), an increase of 10%.

Directors

The Directors of the Company are shown on page 15. All of the Directors were Directors for the whole of the year. The emoluments and interests of the Directors in the shares of the Company are set out in the Remuneration report.

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

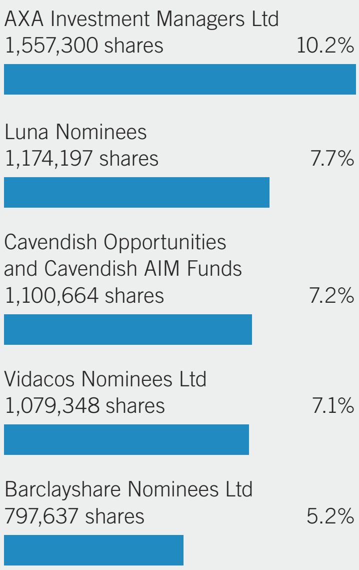
The Directors are responsible for preparing the annual report and the Group financial statements in accordance with UK law and those International Financial Reporting Standards ("IFRS") as adopted by the European Union.

Under company law the Directors must not approve the Group financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit and loss of the Group 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;
- 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 in IFRS, as adopted in the European Union, is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- state whether the Group financial statements have been prepared in accordance with IFRS, as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements.

Significant interests in shares

On 27 November 2014, the following had significant interests in the ordinary shares of the Company:



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

Disclosure of information to auditors

The Directors who were members of the Board at the time of approving the Directors' report are listed on page 15. Having made enquiries of fellow Directors and of the Company's auditors, each of these Directors confirms that:

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

Special business

Three special resolutions are to be proposed at the AGM this year. The special resolutions provide for the granting of share allotment and share buy-back authorities which are sought by the Company on an annual basis at the AGM to permit the Company to issue or buy back shares in accordance with terms of the authorities granted to the Company and its Directors, should the need arise.

A resolution will be proposed at the forthcoming Annual General Meeting to renew the existing authority of the Directors, last conferred by a resolution passed at the Annual General Meeting held in 2014, to allot unissued ordinary shares of the Company. The authority (special resolution 1 in the Notice of Annual General Meeting) will extend until the Annual General Meeting held in 2016 and is in respect of one-third of the Company's issued share capital.

The Directors consider it advisable that they continue to have power to make allotments of ordinary shares of the Company for cash without reference to the statutory pre-emption rights, up to a maximum of 759,673 ordinary shares, being 5% of the issued ordinary share capital of the Company at 30 September 2014. The authority (special resolution 2 in the Notice of Annual General Meeting) will extend until the Annual General Meeting held in 2016 and also would enable the Directors to implement a rights issue.

In addition, the Directors consider it advisable that the Company has the authority to make market purchases of its own shares up to a maximum of 1,519,346 ordinary shares of the Company, being 10% of the issued ordinary share capital. The authority (special resolution 3 in the Notice of Annual General Meeting) will extend until the Annual General Meeting held in 2016. The power conferred by this authority would only be used after careful consideration by the Directors, having taken into account market conditions prevailing at the time, the investment needs of the Company, its opportunities for expansion and its overall financial position. The authority would only be exercised by the Directors if they considered it to be in the best interests of shareholders generally and if the purchase(s) could be expected to result in an increase in EPS.

Auditors

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

On behalf of the Board

Claire Smith BA (Hons), ACMA, CGMA, CertICM
Company Secretary
8 December 2014

Registration number
3881244

Remuneration report

As the Company is AIM listed, the Directors are not required, under Section 420(1) of the Companies Act 2006, to prepare a Directors' Remuneration report for each financial year of the Company and so Zytronic plc makes the following disclosures voluntarily, which are not intended to, and indeed do not, comply with the requirements of 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 some of the Directors in its trading subsidiary, Zytronic Displays Limited. The committee is composed of the Senior Independent Non-executive Director, as its Chairman, and the Independent Non-executive Director. In determining remuneration for the year, the committee has given full consideration to the requirements of the Combined Code.

Remuneration policy

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

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

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

The remuneration packages of Executive Directors comprise the following elements:

Basic salary and benefits

Basic salaries for Executive Directors are reviewed annually having regard to individual performance and market practice. In most cases benefits provided to Executive Directors comprise the provision of a company car, or appropriate allowance, health insurance and contributions to a Group personal pension scheme. Details of emoluments for the Directors of Zytronic plc are set out on page 21.

Annual bonus

During the year the remuneration committee implemented a three-year annual bonus plan linked to corporate performance targets, being the achievement of certain profit before tax ("PBT") measures.

A maximum bonus of 50% of base salary for both the Chief Executive and the Group Finance Director will be payable if these targets are met.

In the financial year 2014 actual bonus payments of 50% of base salary are payable. The remuneration committee believes that this is a reasonable situation given the financial performance of the Group.

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

Long term incentive

The remuneration committee also agreed during the year, a long term cumulative cash bonus incentive scheme, payable in addition to the annual bonus scheme following the finalisation of the fiscal year 2016 annual report and financial statements, providing certain performance measures have been achieved.

A bonus of 60% will be payable to the Chief Executive and 45% to the Group Finance Director, on achievement of the performance measures.

Share options and incentive schemes

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

The Company has executive share option and incentive schemes, which are designed to promote long term improvement in the performance of the Group, sustained increase in shareholder value and clear linkage between executive reward and the Group's performance. The share options and incentive schemes of the Directors of Zytronic plc are set out on pages 21 and 22.

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

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

Emoluments of the Directors for the year ended 30 September 2014 are shown in the table on the right.

Pension contributions

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

Details of contributions payable by the Company are:

Director	2014 £'000	2013 £'000
Mark Cambridge	4	4
Claire Smith	3	—
Total	7	4

"The Company has executive share option and incentive schemes, which are designed to promote long term improvement in the performance of the Group."

Directors' shareholdings

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

	30 September 2014		30 September 2013	
	Number	%	Number	%
Tudor Davies	**90,909**	**0.60**	90,909	0.60
Mark Cambridge	**50,791**	**0.33**	42,958	0.29
Sir David Chapman, Bt.	**40,000**	**0.26**	40,000	0.27
David Buffham	**18,500**	**0.12**	18,500	0.12
Claire Smith	**714**	**0.00**	—	—

There has been no change in Directors' shareholdings since 30 September 2014.

Directors' emoluments for the year ended 30 September 2014

	Salary £'000	Fees £'000	Benefits £'000	Bonus £'000	Total emoluments* 2014 £'000	Total emoluments* 2013 £'000
Non-executive Chairman						
Tudor Davies	—	65	—	—	**65**	65
Executive						
Mark Cambridge	116	—	16	58	**190**	129
Denis Mullan**	—	—	—	—	**—**	161
Claire Smith***	79	—	10	40	**129**	3
Non-executive						
Sir David Chapman, Bt.	—	28	—	—	**28**	28
David Buffham	—	26	—	—	**26**	26
	195	119	26	98	**438**	412

* Excluding pension contributions.
** Denis Mullan retired from the Board on 16 September 2013.
*** Claire Smith joined the Board on 16 September 2013.

The Directors have opted to pay some of their bonus into their pension scheme.

Directors' share incentive scheme

The remuneration committee agreed, in March 2014, an incentive award scheme for Mark Cambridge, Chief Executive, and Claire Smith, Group Finance Director, to offer them each up to 125,000 shares each at a price of 200.0p per share to vest based on specified performance criteria:

- the consolidated PBT, after bonuses payable to certain individuals, of the Group for the accounting period ending 30 September 2016 being in excess of £4.5m; and
- the consolidated PBT, after bonuses payable to certain individuals, of the Group for the three accounting periods ending 30 September 2014, 2015 and 2016 being together at least £10m (where a loss in any such period shall be treated as a minus for those three years).

If the performance target set out above is satisfied, option shares will vest on the date on which the consolidated accounts for the Group for the accounting period ending 30 September 2016 are finalised.

The exercise of this option shall be conditional on the option holder entering into an agreement with the Company pursuant to which the option holder shall agree to retain one-third in aggregate of the shares acquired pursuant to the exercise of this option for a period of two years from the date of exercise of the option and to deposit the share certificate in respect of such shares with the Company Secretary for the retention period.

Remuneration report *continued*

Share price during the year

During the year to 30 September 2014, the highest share price was 268.5p and the lowest share price was 163.0p. The market price of the shares at 30 September 2014 was 252.5p.

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.

Directors' share options

Enterprise Management Incentive Scheme	30 September 2013 Number	Granted during year Number	Lapsed during year Number	Exercised during year Number	**30 September 2014 Number**	Exercise dates	Option price
Mark Cambridge*	27,250	—	—	27,250	—	6 October 2013 to 5 October 2016	176.0p
Mark Cambridge	21,750	—	—	—	**21,750**	29 March 2014 to 28 March 2021	172.8p
Mark Cambridge	—	71,787	—	—	**71,787**	December 2016 to December 2018	200.0p
Claire Smith	5,000	—	—	—	**5,000**	28 February 2011 to 27 February 2018	216.5p
Claire Smith**	5,000	—	—	5,000	—	15 July 2013 to 15 July 2020	177.5p
Claire Smith***	5,000	—	—	5,000	—	29 March 2014 to 28 March 2021	216.0p
Claire Smith	10,000	—	—	—	**10,000**	25 January 2015 to 24 January 2022	194.8p
Claire Smith	10,000	—	—	—	**10,000**	25 January 2016 to 24 January 2022	194.8p
Claire Smith	10,000	—	—	—	**10,000**	25 January 2017 to 24 January 2022	194.8p
Claire Smith	—	67,800	—	—	**67,800**	December 2016 to December 2018	200.0p

* 27,250 shares were exercised at 247.5p, realising a gain of £19,484.
** 5,000 shares were exercised at 246.5p, realising a gain of £3,450.
*** 5,000 shares were exercised at 253.0p, realising a gain of £1,850.

Unapproved Scheme	30 September 2013 Number	Granted during year Number	Lapsed during year Number	Exercised during year Number	**30 September 2014 Number**	Exercise dates	Option price
Mark Cambridge	—	53,213	—	—	**53,213**	December 2016 to December 2018	200.0p
Claire Smith	—	57,200	—	—	**57,200**	December 2016 to December 2018	200.0p

Independent auditors' report

To the members of Zytronic plc

We have audited the financial statements of Zytronic plc for the year ended 30 September 2014 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet and Parent Company Balance Sheet, the Consolidated Cashflow Statement and the related notes 1 to 25 for the Group and the related notes 1 to 13 for the Parent Company. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union. 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 (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' responsibilities statement set out on pages 18 and 19, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

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 2014 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- 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.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by 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.

Stuart Watson (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Newcastle-upon-Tyne
8 December 2014

Notes

1. The maintenance and integrity of the Zytronic plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated statement of comprehensive income

For the year ended 30 September 2014

	Notes	2014 £'000	2013 £'000
Group revenue	2	**18,886**	17,282
Cost of sales		**11,979**	11,961
Exceptional costs	3	—	413
Gross profit		**6,907**	4,908
Distribution costs		**156**	210
Administration expenses		**3,488**	2,858
Group trading profit		**3,263**	1,840
Other operating income		—	94
Group operating profit	4	**3,263**	1,934
Finance costs	6(a)	**35**	39
Finance revenue	6(b)	**33**	44
Profit before tax		**3,261**	1,939
Tax expense	7	**301**	277
Profit for the year		**2,960**	1,662
Earnings per share			
Basic	9	**19.6p**	11.1p
Diluted	9	**19.5p**	11.0p
Adjusted earnings per share excluding exceptional costs			
Basic	9	**19.6p**	13.9p
Diluted	9	**19.5p**	13.8p

All profits are from continuing operations.

Consolidated statement of changes in equity

For the year ended 30 September 2014

	Called up share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
At 30 September 2012	149	6,862	8,569	15,580
Profit for the year	—	—	1,662	1,662
Tax recognised directly in equity	—	—	(69)	(69)
Exercise of share options	1	141	—	142
Share-based payments	—	—	80	80
Dividends	—	—	(1,294)	(1,294)
At 30 September 2013	150	7,003	8,948	16,101
Profit for the year	—	—	2,960	2,960
Tax recognised directly in equity	—	—	—	—
Exercise of share options	2	287	—	289
Share-based payments	—	—	93	93
Dividends	—	—	(1,390)	(1,390)
At 30 September 2014	**152**	**7,290**	**10,611**	**18,053**

Consolidated balance sheet

At 30 September 2014

	Notes	2014 £'000	2013 £'000
Assets			
Non-current assets			
Intangible assets	10	**1,413**	1,453
Property, plant and equipment	11	**7,443**	7,888
		8,856	9,341
Current assets			
Inventories	12	**3,126**	3,509
Trade and other receivables	13	**3,068**	2,430
Other current financial assets	16(a)	**48**	—
Cash and short term deposits	14	**7,806**	5,474
		14,048	11,413
Total assets		**22,904**	20,754
Equity and liabilities			
Current liabilities			
Trade and other payables	15	**1,057**	1,410
Financial liabilities	16(b)	**200**	200
Other current financial liabilities	16(b)	**224**	—
Accruals	15	**1,264**	688
Taxation liabilities		**30**	192
		2,775	2,490
Non-current liabilities			
Financial liabilities	16(b)	**1,341**	1,538
Provisions	17	**139**	—
Deferred tax liabilities (net)	19	**596**	625
		2,076	2,163
Total liabilities		**4,851**	4,653
Net assets		**18,053**	16,101
Capital and reserves			
Equity share capital	21	**152**	150
Share premium	21	**7,290**	7,003
Revenue reserve		**10,611**	8,948
Total equity		**18,053**	16,101

These financial statements have been approved by the Board of Directors on 8 December 2014 and signed on its behalf by:

Mark Cambridge BSc (Hons), FIoD
Chief Executive
8 December 2014

Claire Smith BA (Hons), ACMA, CGMA, CertICM
Group Finance Director

Consolidated cashflow statement

For the year ended 30 September 2014

	Notes	2014 £'000	2013 £'000
Operating activities			
Profit from continuing operations		**3,261**	1,939
Net finance costs/(revenue)		**2**	(5)
Depreciation and impairment of property, plant and equipment		**672**	695
Amortisation and impairment of intangible assets		**362**	380
Profit on sale of fixed assets		**—**	(37)
Amortisation of government grant		**—**	(97)
Share-based payments		**93**	80
Fair value movement on foreign exchange forward contracts		**176**	—
Working capital adjustments			
Decrease/(increase) in inventories		**383**	(68)
(Increase)/decrease in trade and other receivables		**(638)**	1,073
Increase/(decrease) in trade and other payables and provisions		**370**	(86)
Cash generated from operations		**4,681**	3,874
Taxation paid		**(497)**	(607)
Net cashflow from operating activities		**4,184**	3,267
Investing activities			
Interest received		**33**	44
Proceeds from disposal of property, plant and equipment		**36**	—
Proceeds from disposal of intangible assets		**—**	49
Payments to acquire property, plant and equipment		**(263)**	(492)
Payments to acquire intangible assets		**(322)**	(220)
Net cashflow from investing activities		**(516)**	(619)
Financing activities			
Interest paid		**(35)**	(39)
Dividends paid to equity shareholders of the parent		**(1,390)**	(1,294)
Proceeds from share issues re. options		**289**	142
Repayment of borrowings		**(200)**	(200)
Net cashflow from financing activities		**(1,336)**	(1,391)
Increase in cash and cash equivalents		**2,332**	1,257
Cash and cash equivalents at the beginning of the year	14	**5,474**	4,217
Cash and cash equivalents at the year end	14	**7,806**	5,474

Notes to the consolidated financial statements

For the year ended 30 September 2014

1. Accounting policies

(a) Authorisation of financial statements and statement of compliance

The financial statements of Zytronic plc and its subsidiaries (the "Group") for the year ended 30 September 2014 were authorised for issue by the Board of Directors on 8 December 2014 and the balance sheet was signed on behalf of the Board by Mark Cambridge and Claire Smith. Zytronic plc is a public limited company incorporated, domiciled and has its registered office in England and Wales. The Company's ordinary shares are traded on AIM. The address of its registered office and principal place of operation are disclosed in the Corporate information section of this report.

The consolidated financial statements have been prepared in accordance with IFRS as adopted for use in the European Union and as applied in accordance with the provisions of the Companies Act 2006. The Directors consider the following accounting policies to be relevant in relation to the Group's financial statements.

(b) New standards and interpretations not applied

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

		Effective date
IAS 27R	Separate Financial Statements	1 January 2014
IAS 32	Amendment of IAS 32 Offsetting of Financial Assets and Financial Liabilities	1 January 2014
IAS 36	Recoverable Amount Disclosures for Non-Financial Assets (amendment)	1 January 2014
IAS 39	Novation of Derivatives and Continuation of Hedge Accounting (amendment)	1 January 2014
IFRS 10	Consolidated Financial Statements	1 January 2014
	Annual Improvements to IFRSs 2010–2012 Cycle	1 July 2014
	Annual Improvements to IFRSs 2011–2013 Cycle	1 July 2014
IAS 16	Property, Plant and Equipment and IAS 38 Intangible Assets – Clarification of acceptable methods of depreciation and amortisation	1 January 2016
IFRS 15	Revenue from Contracts with Customers	1 January 2017
IFRS 9	Financial instruments	1 January 2018

We have not yet done sufficient work to identify the impact of these new standards on the financial statements in future years.

(c) New standards adopted

The following new standards or interpretations are mandatory for the first time for the financial year ended 30 September 2014:

IASB	Annual improvements to IFRSs 2009–2011 (issued May 2012)
IFRS 1	Amendment to IFRS 1 Government Loans
IFRS 7	Amendment to IFRS 7 Disclosures – Offsetting of Financial Assets and Financial Liabilities
IFRS 13	Fair Value Measurement

Adoption of these new standards had no material impact on the financial performance of the Group, other than the additional disclosure requirements of IFRS 13.

(d) 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 amount, events or actions, actual results may differ from those estimates.

In the process of applying the Group's accounting policies, the Directors have made the following judgements 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.

Share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 21.

Fair value measurement of financial instruments

The fair values of financial assets and financial liabilities are recorded in the statement of financial position and measured by the financial institutions using valuation techniques based on market practice. Judgements include considerations around foreign exchange spot and forward rates and interest rate curves.

1. Accounting policies *continued*

(d) Judgements and key sources of estimation uncertainty *continued*

Development costs

Development costs are capitalised in accordance with the accounting policy given below. Initial capitalisation of costs is based on management's judgement that technological and economical feasibility is confirmed, usually when a product development project has reached a defined milestone.

(e) Basis of consolidation and goodwill

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

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

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

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

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

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

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

(f) Exceptional items

The Group presents as exceptional items on the face of the income statement those material items of income and expense which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better trends in financial performance.

(g) Foreign currencies

The consolidated financial statements are presented in Sterling, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

(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	–	50 years
Plant and machinery	–	varying rates between 5% and 25% per annum

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

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

Notes to the consolidated financial statements *continued*

For the year ended 30 September 2014

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 income statement 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 (10 and 17 years)
Capitalised development expenditure	–	4 or 10 years
Software	–	4 years

Intangible assets with indefinite useful lives, such as goodwill, are tested for impairment annually and 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 cost 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 expected future sales.

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

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

(l) Trade and other receivables

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

(m) Cash and cash equivalents

Cash and short term deposits in the balance sheet comprise cash at bank and in hand and short term deposits with an initial maturity of three months or less 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 balance sheet 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.

(n) Interest-bearing loans and borrowings

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

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

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the costs of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

1. Accounting policies *continued*

(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, cancelled or expires.

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

(p) Financial instruments

Fair value measurement of financial instruments

The Group measures financial instruments, such as, derivatives, at fair value at each balance sheet date. 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 are 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.

(q) Pension scheme

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

(r) Share-based payment transactions

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any service performance conditions (vesting conditions), other than performance conditions linked to the price of the shares of the Company (market conditions). Any other conditions which are required to be met in order for an employee to become fully entitled to an award are considered to be non-vesting conditions. Like market performance conditions, non-vesting conditions are taken into account in determining the grant date fair value.

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

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

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

Where an equity-settled award is cancelled (including when a non-vesting condition within the control of the entity or employee is not met), it is treated as if it had vested on the date of cancellation and any cost not yet recognised in the income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement.

(s) Employee benefits

Certain employees of the Group participate in a long term incentive scheme, whereby they will achieve additional remuneration in the form of a cash bonus and share options, on achievement of predetermined performance measures. The bonus payable and options exercisable are considered in conjunction with assumptions over potential leavers and also the likelihood of performance targets being met. Bonuses expected to become payable are attributed to each of the years in which the award is earned.

(t) Revenue recognition

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

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

Notes to the consolidated financial statements *continued*

For the year ended 30 September 2014

1. Accounting policies *continued*

(u) 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. The fair value of grants is credited to a deferred income account and released to the income statement over the life of the projects to which they relate.

The interest rate subsidy received, as a discounted upfront cash sum, by the Group under the National Loan Guarantee Subsidy Scheme has been credited to a deferred interest subsidy account and will be released to the income statement over the life of the loan upon which it is based.

(v) Royalty payments

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

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

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

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

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

(w) Deferred tax

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

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

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

2. Group revenue and segmental analysis

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

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

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 2014		30 September 2013	
		£'000	%	£'000	%
Sale of goods	– UK	**1,240**	**6**	1,460	8
	– Americas	**4,299**	**23**	3,361	20
	– EMEA (excluding UK)	**9,244**	**49**	8,476	49
	– APAC	**4,103**	**22**	3,985	23
Revenue		**18,886**	**100**	17,282	100
Finance revenue		**33**		44	
Total revenue		**18,919**		17,326	

Individual revenues from three major customers exceed 10% of total revenue for the year. The total amount of revenue is £8.1m (2013: £8.1m).

The individual revenues from each of these three customers were £4.2m (2013: £3.9m); £2.1m (2013: £2.1m); and £1.8m (2013: £2.1m).

3. Exceptional costs

Exceptional costs of £413,000 in 2013 relate to the write-off of royalty payments on account made to a patent holder in respect of technology used in our touch products (as set out in note 1(v)). Reductions in forecast sales of this product meant that the prepayment held at the year end 2012 would not be recoverable and so was written off in financial year 2013.

4. Group operating profit

This is stated after charging/(crediting):

	30 September 2014 £'000	30 September 2013 £'000
R&D costs	**296**	355
Amortisation and impairment of development expenditure	**206**	178
	502	533
Auditors' remuneration – in respect of audit services*	**54**	52
– in respect of taxation compliance services	**9**	12
– in respect of taxation advisory services	**93**	—
– in respect of other assurance services	**2**	6
Depreciation of owned assets	**672**	695
Amortisation of software	**43**	45
Amortisation and impairment of licences	**113**	157
Cost of inventories recognised as an expense including:	**6,405**	6,590
– write-down of inventories to net realisable value	**6**	137
– the net movement in the stock provision	**(38)**	(99)
Hire of plant and machinery	**1**	—
Gain on disposal of plant and machinery	**—**	(49)
Operating lease rentals – minimum lease payments	**45**	51
Amortisation of capital grants	**—**	(94)
Net foreign currency differences	**20**	(123)

* £13,500 of this relates to the Company (2013: £12,700).

5. Staff costs and Directors' emoluments

	30 September 2014 £'000	30 September 2013 £'000
Wages and salaries	**4,601**	4,147
Social security costs	**383**	380
Other pension costs	**96**	63
	5,080	4,590

Included in wages and salaries is a total charge for share-based payments of £93,000 (2013: £80,000) all of which arises from transactions accounted for as equity-settled share-based payment transactions.

The total of Directors' emoluments is £438,000 (2013: £412,000). The aggregate value of contributions paid to money purchase pension schemes includes £7,000 (2013: £8,000) in respect of two Directors (2013: three).

Amounts paid to the highest paid Director are £209,000 (2013: £197,000) plus a contribution paid to the money purchase pension scheme of £4,000 (2013: £4,000).

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

	30 September 2014 Number	30 September 2013 Number
Production	**128**	140
Administration and sales	**41**	42
	169	182

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

Notes to the consolidated financial statements *continued*

For the year ended 30 September 2014

6. Finance costs payable and revenue receivable

(a) Finance costs

Interest payable	30 September 2014 £'000	30 September 2013 £'000
Bank loans and overdrafts	**35**	39

(b) Finance revenue

Interest receivable	30 September 2014 £'000	30 September 2013 £'000
Bank interest receivable	**33**	44

7. Taxation

	30 September 2014 £'000	30 September 2013 £'000
Current tax		
UK corporation tax	**549**	372
Corporation tax over provided in prior years	**(218)**	(47)
Total current tax charge	**331**	325
Deferred tax		
Effect of change in tax rates	**—**	(54)
Origination and reversal of temporary differences	**(30)**	6
Total deferred tax credit	**(30)**	(48)
Tax charge in the income statement	**301**	277

Tax relating to items credited to equity

	30 September 2014 £'000	30 September 2013 £'000
Deferred tax		
Tax on share-based payments	**—**	69
Total deferred tax debit	**—**	69
Tax charge in the statement of changes in equity	**—**	69

Reconciliation of the total tax charge

The effective tax rate of the tax expense in the income statement for the year is 9.2% (2013: 14.3%) compared with the average rate of corporation tax in the UK of 22.0% (2013: 23.5%). The differences are reconciled below:

	30 September 2014 £'000	30 September 2013 £'000
Accounting profit before tax	**3,261**	1,939
Accounting profit multiplied by the UK average rate of corporation tax of 22.0% (2013: 23.5%)	**717**	456
Effects of:		
(Income not chargeable) for tax purposes/expenses not deductible	**(14)**	29
"Gain" on exercise of share options allowable for taxation purposes but not reflected in the income statement	**(25)**	(29)
Depreciation in respect of non-qualifying items	**42**	46
Enhanced tax reliefs	**(199)**	(140)
Difference in tax rates	**(2)**	(4)
Tax over provided in prior years	**(218)**	(81)
Total tax expense reported in the income statement	**301**	277

7. Taxation *continued*

Factors that may affect future tax charges

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

Under HMRC's R&D tax credit scheme, the Group will receive an uplift of 125% on qualifying R&D expenditure for tax purposes incurred from 1 April 2012. Until the financial year 2006, where R&D expenditure has been capitalised, the benefit of the uplift is only recognised as the asset is amortised. The unrecognised element relating to the year ended 30 September 2005 and prior at 30 September 2014 was £11,000 (2013: £23,000). Following changes to HMRC's rules which took effect for financial year 2006, the uplift on expenditure which has been capitalised in any year is recognised in that year.

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

There are no tax losses to carry forward at 30 September 2014 (2013: £Nil).

The UK government has announced its intention to reduce the UK corporation tax rate to 20% by 1 April 2015. The main rate from 1 April 2013 to 31 March 2014 was 23% and this rate was substantively enacted on 3 July 2012. The main rate reduced to 21% from 1 April 2014 and will further reduce to 20% from 1 April 2015; this was substantively enacted on 17 July 2013. This rate of 20% has been applied to the deferred tax assets/liabilities arising at the balance sheet date.

8. Dividends

The Directors propose the payment of a final dividend of 7.16p per share (2013: 6.35p), payable on 13 March 2015 to shareholders on the Register of Members on 27 February 2015. This dividend has not been accrued in these financial statements. The dividend payment will amount to some £1.08m.

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	30 September 2014 £'000	30 September 2013 £'000
Ordinary dividends on equity shares		
Final dividend of 5.90p per ordinary share paid on 15 March 2013	**—**	880
Interim dividend of 2.75p per ordinary share paid on 26 July 2013	**—**	414
Final dividend of 6.35p per ordinary share paid on 14 March 2014	**958**	—
Interim dividend of 2.85p per ordinary share paid on 25 July 2014	**432**	—
	1,390	1,294

9. Earnings per share

Basic EPS is calculated by dividing the profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the year. All activities are continuing operations and therefore there is no difference between EPS arising from total operations and EPS arising from continuing operations. Adjusted EPS reflects the adding back of the exceptional costs.

	Earnings 30 September 2014 £'000	**Weighted average number of shares 30 September 2014 Thousands**	**EPS 30 September 2014 Pence**	Earnings 30 September 2013 £'000	Weighted average number of shares 30 September 2013 Thousands	EPS 30 September 2013 Pence
Profit on ordinary activities after taxation	**2,960**	**15,098**	**19.6**	1,662	14,943	11.1
Basic EPS	**2,960**	**15,098**	**19.6**	1,662	14,943	11.1
Adjusted EPS	**2,960**	**15,098**	**19.6**	2,075	14,943	13.9

Notes to the consolidated financial statements *continued*

For the year ended 30 September 2014

9. Earnings per share *continued*

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

	Earnings 30 September 2014 £'000	Weighted average number of shares 30 September 2014 Thousands	EPS 30 September 2014 Pence	Earnings 30 September 2013 £'000	Weighted average number of shares 30 September 2013 Thousands	EPS 30 September 2013 Pence
Profit on ordinary activities after taxation	**2,960**	**15,098**	**19.6**	1,662	14,943	11.1
Weighted average number of shares under option	**—**	**95**	**(0.1)**	—	120	(0.1)
Diluted EPS	**2,960**	**15,193**	**19.5**	1,662	15,063	11.0
Adjusted diluted EPS	**2,960**	**15,193**	**19.5**	2,075	15,063	13.8

10. Intangible assets

	Software £'000	Goodwill £'000	Patents and licences £'000	Development expenditure £'000	Total £'000
Cost					
At 30 September 2012	472	235	1,893	2,058	4,658
Additions	23	—	39	158	220
Disposals	—	—	(29)	(142)	(171)
At 30 September 2013	495	235	1,903	2,074	4,707
Additions	59	—	21	242	322
Disposals	—	—	—	(71)	(71)
At 30 September 2014	**554**	**235**	**1,924**	**2,245**	**4,958**
Amortisation and impairment					
At 30 September 2012	374	—	1,254	1,417	3,045
Provided during the year	45	—	107	178	330
Impaired during the year	—	—	50	—	50
Disposals	—	—	(29)	(142)	(171)
At 30 September 2013	419	—	1,382	1,453	3,254
Provided during the year	43	—	107	179	329
Impaired during the year	—	—	6	27	33
Disposals	—	—	—	(71)	(71)
At 30 September 2014	**462**	**—**	**1,495**	**1,588**	**3,545**
Net book value at 30 September 2014	**92**	**235**	**429**	**657**	**1,413**
Net book value at 30 September 2013	76	235	521	621	1,453
Net book value at 30 September 2012	98	235	639	641	1,613

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

Impairment of goodwill

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

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

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

The cashflows for the cash-generating unit have been discounted using a discount rate of 10%, derived from the Group's weighted average cost of capital.

10. Intangible assets *continued*

Impairment of goodwill *continued*

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

The Directors consider the assumptions used 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.

11. Property, plant and equipment

The amounts carried in the balance sheet comprise:

	Land £'000	Freehold property £'000	Long leasehold property £'000	Plant and machinery £'000	Total £'000
Cost					
At 30 September 2012	207	3,070	2,309	8,312	13,898
Additions	—	—	125	239	364
Disposals	—	—	(21)	(10)	(31)
At 30 September 2013	207	3,070	2,413	8,541	14,231
Additions	—	—	11	252	263
Disposals	—	—	—	(38)	(38)
At 30 September 2014	**207**	**3,070**	**2,424**	**8,755**	**14,456**
Depreciation and impairment					
At 30 September 2012	—	278	231	5,158	5,667
Provided during the year	—	61	70	564	695
Disposals	—	—	(9)	(10)	(19)
At 30 September 2013	—	339	292	5,712	6,343
Provided during the year	—	61	80	531	672
Disposals	—	—	—	(2)	(2)
At 30 September 2014	**—**	**400**	**372**	**6,241**	**7,013**
Net book value at 30 September 2014	**207**	**2,670**	**2,052**	**2,514**	**7,443**
Net book value at 30 September 2013	207	2,731	2,121	2,829	7,888
Net book value at 30 September 2012	207	2,792	2,078	3,154	8,231

12. Inventories

	30 September 2014 £'000	30 September 2013 £'000
Raw materials and consumables	**1,970**	2,092
Work in progress	**409**	357
Finished goods	**747**	1,060
	3,126	3,509

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

Notes to the consolidated financial statements *continued*

For the year ended 30 September 2014

13. Trade and other receivables

Current assets

	30 September 2014 £'000	30 September 2013 £'000
Trade receivables	**2,784**	2,038
VAT recoverable	**123**	260
Prepayments	**161**	132
	3,068	2,430

Trade receivables are denominated in the following currencies:

	30 September 2014 £'000	30 September 2013 £'000
Sterling	**735**	790
US Dollar	**861**	678
Euro	**1,188**	570
	2,784	2,038

Out of the carrying amount of trade receivables of £2.8m (2013: £2.0m), £1.5m (2013: £0.9m) is the amount of debts owed by three major customers. Regular reviews are undertaken on these major customers so as to ascertain that there are no going concern issues with them.

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

As at 30 September 2014, trade receivables at a nominal value of £23,000 (2013: £35,000) were impaired due to poor payment history. Movements in the provision for impairment of trade receivables were as follows:

	£'000
At 30 September 2012	15
Charge for the year	33
Utilised	(13)
At 30 September 2013	35
Charge for the year	—
Utilised	(12)
At 30 September 2014	**23**

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

		Past due but not impaired		
	Neither past due nor impaired	<3 months £'000	>3 months £'000	Total £'000
2014	**1,736**	**1,031**	**17**	**2,784**
2013	1,375	579	84	2,038

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 or impaired is assessed by reference to external credit ratings where available, otherwise historical information relating to counterparty default rates is used.

14. Cash and short term deposits

	30 September 2014 £'000	30 September 2013 £'000
Cash at bank and in hand	**6,950**	3,716
Short term deposits	**2,560**	2,534
Bank overdrafts	**(1,704)**	(776)
	7,806	5,474

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

At 30 September 2014, 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 January 2015.

The fair value of cash and cash equivalents is £7.8m (2013: £5.5m).

15. Trade and other payables

	30 September 2014 £'000	30 September 2013 £'000
Trade payables	**961**	1,312
Other taxes and social security costs	**96**	98
	1,057	1,410
Accruals	**1,264**	688
	2,321	2,098

Terms and conditions of the above financial liabilities:

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

16. Financial assets and financial liabilities

(a) Financial assets

Financial assets at fair value through the income statement

	30 September 2014 £'000	30 September 2013 £'000
Derivatives not designated as hedges		
Foreign exchange forward contracts	**48**	—

(b) Financial liabilities

Loans	30 September 2014 £'000	30 September 2013 £'000
Bank loan – current	**200**	200
Bank loan – non-current	**1,341**	1,538
Foreign exchange forward contracts	**224**	—
Total	**1,765**	1,738
Total current	**424**	200
Total non-current	**1,341**	1,538

Financial assets and liabilities through the income statement reflect the positive change in fair value of the Group's foreign exchange forward contracts. These contracts are not designated in hedge relationships, but are, nevertheless, intended to reduce the level of foreign currency risk for expected sales and purchases.

Notes to the consolidated financial statements *continued*

For the year ended 30 September 2014

16. Financial assets and financial liabilities *continued*

(b) Financial liabilities *continued*

Property mortgage

On 29 June 2012, Zytronic plc borrowed £2.0m under a ten-year mortgage (to be refinanced after five years) with Barclays Bank plc to re-mortgage the borrowings on its three properties. The funds are repayable in quarterly instalments of £50,000. Interest is payable at 2.35% above three-month LIBOR, offset by a National Loan Guarantee Scheme subsidy. The balance is shown net of issue costs which are being amortised over five years.

(c) Fair values

The fair value of the financial assets and 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 assert that the fair value of cash, trade debtors and trade creditors approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

At 30 September 2014, 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.

Loans

The fair value of the Group's interest-bearing loans are determined by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. The fair value of the loan outstanding at 30 September 2014 is not significantly different to its book value.

17. Provisions

	Holiday pay £'000	Long term incentive £'000	Total £'000
At 1 October 2013	—	—	—
Arising during the year	71	68	139
At 30 September 2014	**71**	**68**	**139**
Non-current	71	68	139

Holiday pay

The holiday pay provision relates to the estimated exposure to additional costs in relation to inclusion of overtime in holiday payments as a result of recent rulings on the interpretation of the Working Time Directive.

Long term incentive

The provision for the long term incentive scheme relating to the Chief Executive, Group Finance Director and other management personnel is calculated based on future expectations that the bonus will be payable. Management has assessed the criteria that determines the payout and taken a view that a proportion of the bonus should be provided for in the year ended 30 September 2014.

The provisions included in the table above are expected to be utilised after twelve months with the long term incentive provision being utilised after the announcement of the financial year 2016 results provided the performance targets have been achieved.

18. Obligations under leases

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

Group as lessee	30 September 2014 £'000	30 September 2013 £'000
Operating leases which expire:		
– not later than one year	**30**	37
– later than one year and not later than five years	**28**	40
	58	77

19. Deferred taxation liability/(asset)

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

	30 September 2014 £'000	30 September 2013 £'000
Deferred tax liability		
Accelerated capital allowances	**496**	498
R&D tax credit	**128**	117
Other	**14**	12
	638	627
Deferred tax asset		
Share-based payment	**(40)**	(1)
Pension asset	**(2)**	(1)
	(42)	(2)
Disclosed on the balance sheet	**596**	625

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

	30 September 2014 £'000	30 September 2013 £'000
Deferred tax in the income statement		
Accelerated capital allowances	**(3)**	(18)
R&D tax credits	**10**	—
Share-based payment	**(39)**	20
Other	**4**	4
	(28)	6
Effect of change in tax rates	**(2)**	(54)
Deferred income tax expense	**(30)**	(48)

20. Financial risk management policy and financial instruments

The Group's principal financial instruments comprise one secured bank loan, an overdraft facility and cash. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial instruments, such as trade receivables and trade payables that arise directly from its operations.

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 balance sheet date.

Notes to the consolidated financial statements *continued*

For the year ended 30 September 2014

20. Financial risk management policy and financial instruments *continued*

Liquidity risk

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

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

The Group has an unsecured net overdraft facility of £1.0m arranged with its principal banker, Barclays Bank plc. This facility extends until January 2015 and is to provide funding for working capital.

In January 2006, the Company acquired a freehold property and in May and June 2009 the Company acquired the freehold of, and a 999-year lease on, its existing two leased factories. To manage liquidity risk, the Company part-funded these acquisitions using two secured property loans, each repayable over ten years. In June 2012 these two loans were repaid and were replaced by a new secured property loan of £2.0m repayable in 20 quarterly instalments of £50,000, with the balance of £1.0m to be refinanced in 2017.

Maturity profile of financial liabilities

Year ended 30 September 2014

	On demand £'000	<3 months £'000	3–12 months £'000	1–5 years £'000	Total £'000
Interest-bearing loans and borrowings	**—**	**61**	**182**	**1,488**	**1,731**
Trade and other payables	**1,738**	**487**	**—**	**—**	**2,225**
Foreign exchange forward contracts – outflows	**—**	**1,323**	**3,970**	**—**	**5,293**
Total	**1,738**	**1,871**	**4,152**	**1,488**	**9,249**

Interest-bearing loans and borrowings comprise principal repayments due of £1.5m and contractual interest payments of £0.2m. Interest is calculated based on interest rates prevailing at the balance sheet date.

Year ended 30 September 2013

Non-derivative financial liabilities	On demand £'000	<3 months £'000	3–12 months £'000	1–5 years £'000	Total £'000
Interest-bearing loans and borrowings	—	63	190	1,752	2,005
Trade and other payables	1,485	515	—	—	2,000
Total	1,485	578	190	1,752	4,005

Foreign exchange risk

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 2014 for a period of up to twelve months ahead so that the budgeted US Dollar and Euro rates are known. Any additional surplus currency at the end of each month is dealt with at spot rates.

Foreign currency 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 entered into forward extra exchange contracts during the year in both US Dollars and Euros. A series of twelve one-monthly contracts may be triggered for the US Dollar depending on the movement of the US Dollar rate within each month. A protection rate of $1.70 offers the worst case scenario for exchange with the trigger being granted at $1.613. Movements between these two rates offer the best possible outcome. The same contracts apply to the Euro over a six month period with the protection rate being €1.22 and the trigger rate granted at €1.1665.

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
2014				
Sterling	**+5%**	**13**	**+5%**	**(14)**
	–5%	**(12)**	**–5%**	**13**
2013				
Sterling	+5%	(3)	+5%	4
	–5%	4	–5%	(5)

Post balance sheet events

Following 30 September 2014, the Group agreed on a policy whereby its foreign currency risk should be protected for a rolling period of twelve months ahead. It has since entered into further forward extra exchange contracts to protect both the US Dollars and Euros. The US Dollar is protected at a rate of $1.615 with a trigger rate of $1.5215 and the Euro is protected at a rate of €1.275 with a trigger rate of €1.205. Both of these contracts are in place until 31 December 2015.

20. Financial risk management policy and financial instruments *continued*

Interest rate risk

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

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

	Increase/ decrease in basis points	Effect on profit before tax £'000
2014		
Sterling	**+100**	**(18)**
	–100	**18**
2013		
Sterling	+100	(19)
	–100	19

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

Capital management

The Group's policies on capital management are included in the Directors' report on page 18.

21. Share capital and share-based payments

(a) Share capital

	2014 Number Thousands	2013 Number Thousands	**2014 £'000**	2013 £'000
Authorised				
Ordinary shares of 1p each	**25,000**	25,000	**250**	250
Allotted, called up and fully paid				
Ordinary shares 1p each	**15,193**	15,032	**152**	150

(b) Share premium

	£'000
At 1 October 2013	7,003
Increase for cash on exercise of share options	287
At 30 September 2014	**7,290**

(c) Share-based payments

Senior Executive Plans and EMI Scheme – pre-2014 awards

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

Senior Executive plans and EMI Scheme – 2014 awards

The remuneration committee agreed, in March 2014, an incentive award scheme for Mark Cambridge, Chief Executive and Claire Smith, Group Finance Director, to offer them each up to 125,000 shares each, and to other Executives, a combined volume of 275,000 shares, at a price of 200.0p per share to vest based on specified performance criteria:

- the consolidated PBT, after bonuses payable to certain individuals, of the Group for the accounting period ending 30 September 2016 being in excess of £4.5m; and
- the consolidated PBT, after bonuses payable to certain individuals, of the Group for the three accounting periods ending 30 September 2014, 2015 and 2016 being together at least £10m (where a loss in any such period shall be treated as a minus for those three years).

If the performance target set out above is satisfied, option shares will vest on the date on which the consolidated accounts for the Group for the accounting period ending 30 September 2016 are finalised.

The exercise of this option shall be conditional on the option holder entering into an agreement with the Company pursuant to which the option holder shall agree to retain one-third in aggregate of the shares acquired pursuant to the exercise of this option for a period of two years from the date of exercise of the option and to deposit the share certificate in respect of such shares with the Company Secretary for the retention period.

Notes to the consolidated financial statements *continued*

For the year ended 30 September 2014

21. Share capital and share-based payments *continued*

(c) Share-based payments *continued*

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

	30 September 2013 Number	Granted during year Number	Exercised during year Number	Lapsed during year Number	**30 September 2014 Number**	Exercise dates	Option price
Unapproved Executive Scheme	12,700	—	12,700	—	**—**	28 February 2011 to 27 February 2018	216.5p
	10,000	—	10,000	—	**—**	29 March 2014 to 28 March 2021	172.8p
	20,000	—	—	—	**20,000**	29 March 2016 to 28 March 2021	172.8p
	—	141,861	—	—	**141,861**	December 2016 to December 2018	200.0p
EMI Scheme	17,182	—	17,182	—	**—**	18 January 2008 to 17 January 2015	145.5p
	38,000	—	—	14,000	**24,000**	11 January 2009 to 10 January 2016	274.5p
	17,300	—	2,300	—	**15,000**	28 February 2011 to 27 February 2018	216.5p
	77,500	—	45,000	—	**32,500**	15 July 2013 to 15 July 2020	177.5p
	75,250*	—	51,250	—	**24,000**	6 October 2013 to 5 October 2016	176.0p
	44,850	—	13,100	—	**31,750**	29 March 2014 to 28 March 2021	172.8p
	42,000	—	10,000	—	**32,000**	29 March 2014 to 28 March 2021	216.0p
	82,823	—	—	—	**82,823**	25 January 2015 to 24 January 2022	243.5p
	20,000	—	—	—	**20,000**	25 January 2015 to 24 January 2022	195.0p
	20,000	—	—	—	**20,000**	29 March 2015 to 28 March 2021	172.8p
	20,000	—	—	—	**20,000**	25 January 2016 to 24 January 2022	195.0p
	7,500	—	—	—	**7,500**	25 January 2016 to 24 January 2022	243.5p
	20,000	—	—	—	**20,000**	25 January 2017 to 24 January 2022	195.0p
	—	383,139	—	—	**383,139**	December 2016 to December 2018	200.0p

* Of the 75,250 shares issued on 5 October 2010, 40,000 shares are "parallel" shares issued to recipients of similar sized grants in 2006 (exercisable between 11 January 2009 and 10 January 2016 at 274.5p). Each individual is allowed to exercise the appropriate number of shares under either the 2006 grant or the 2010 grant (hence the term "parallel") but not under both. The exercise of one grant automatically terminates the other grant.

There are no performance conditions attached to any share options awarded prior to the grant of options in this year.

Income statement expense for year ended 30 September 2014

The expense recognised for share-based payments in respect of employee services received during the year to 30 September 2014 is £93,000 (2013: £80,000).

21. Share capital and share-based payments *continued*

(c) Share-based payments *continued*

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

	2014 Number	2014 WAEP Pence	2013 Number	2013 WAEP Pence
Outstanding at 30 September	**525,105**	**201.0**	855,851*	163.9
Granted during the year	**525,000**	**200.0**	—	—
Lapsed during the year	**14,000**	**274.5**	(202,000)	27.5
Exercised during the year	**161,532**	**179.0**	(128,746)	110.1
Outstanding at 30 September	**874,573**	**203.3**	525,105	201.0
Exercisable at 30 September	**159,250**	**202.4**	162,682	204.0

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

For the share options outstanding as at 30 September 2014, the weighted average remaining contractual life is 3.8 years (2013: 7.0 years).

There was one grant of options during the year. The weighted average fair value of options granted during the year was 53.0p (2013: Nil). The range of exercise prices for options outstanding at the end of the year was 172.8p to 274.5p (2013: 145.5p to 274.5p).

The fair value of equity-settled share options granted is estimated as at the date of grant using a model designed by the Quoted Company Alliance (based on a Black-Scholes-Merton model), taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 30 September 2014:

	2014
Dividend yield	**3.7%**
Expected share price volatility	**46.0%**
Risk-free interest rate	**2.6%**
Expected life of option (years)	**3**

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

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

22. Capital commitments

Amounts contracted for at 30 September 2014 but not provided in the financial statements amounted to £419,000 (2013: £26,000) for the Group.

23. Pension scheme commitments

Contributions for the year ended 30 September 2014 amounted to £96,000 (2013: £63,000) and the outstanding contributions at the balance sheet date were £10,000 (2013: £5,000). The Group is a member of a group personal pension scheme which is a defined contribution scheme. Contributions are charged to the income statement as they become payable in accordance with the rules of the scheme. The increase in contributions for the year arises due to auto-enrolment being mandatory as of April 2014.

24. 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 income statement to the Directors:

	2014 £'000	2013 £'000
Salaries/fees	**388**	458
Bonuses	**112**	—
Pension contributions	**8**	8
Share-based payments	**14**	2
	522	468

25. Guarantees

Zytronic plc has given a guarantee to Barclays Bank plc in connection with the overdraft facility detailed in note 14.

Five-year summaries

Consolidated income statement

For the five years ended 30 September 2010 to 2014

	2014 £'000	2013 £'000	2012 £'000	2011 £'000	2010 £'000
Group revenue	**18,886**	17,282	20,424	20,488	18,483
Cost of sales	**11,979**	11,961	13,008	13,574	12,589
Exceptional costs	**—**	413	—	—	—
Gross profit	**6,907**	4,908	7,416	6,914	5,894
Distribution costs	**156**	210	243	239	231
Administration expenses	**3,488**	2,858	3,089	3,194	2,738
Group trading profit	**3,263**	1,840	4,084	3,481	2,925
Other operating income	**—**	94	187	187	112
Group operating profit	**3,263**	1,934	4,271	3,668	3,037
Finance costs	**35**	39	91	112	126
Finance revenue	**33**	44	15	1	13
Profit before tax	**3,261**	1,939	4,195	3,557	2,924
Tax expense	**301**	277	898	865	736
Profit for the period	**2,960**	1,662	3,297	2,692	2,188
Earnings per share					
Basic	**19.6p**	11.1p	22.2p	18.3p	14.9p
Diluted	**19.5p**	11.0p	21.9p	18.1p	14.8p
Adjusted basic	**19.6p**	13.9p	22.2p	18.3p	14.9p
Adjusted diluted	**19.5p**	13.8p	21.9p	18.1p	14.8p
Dividends per share	**9.1p**	8.7p	8.2p	7.1p	5.8p

All profits are from continuing operations.

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

Consolidated balance sheet

At 30 September 2010 to 2014

	2014 £'000	2013 £'000	2012 £'000	2011 £'000	2010 £'000
Assets					
Non-current assets					
Intangible assets	**1,413**	1,453	1,613	1,811	1,869
Property, plant and equipment	**7,443**	7,888	8,231	8,113	8,387
Trade and other receivables	**—**	—	413	296	198
	8,856	9,341	10,257	10,220	10,454
Current assets					
Inventories	**3,126**	3,509	3,441	2,754	2,588
Trade and other receivables	**3,068**	2,430	3,090	4,021	3,466
Other current financial assets	**48**	—	—	—	—
Cash and short term deposits	**7,806**	5,474	4,217	4,513	1,505
	14,048	11,413	10,748	11,288	7,559
Total assets	**22,904**	20,754	21,005	21,508	18,013
Equity and liabilities					
Current liabilities					
Trade and other payables	**1,057**	1,410	1,299	1,778	1,582
Financial liabilities	**200**	200	200	2,266	669
Other current financial liabilities	**224**	—	—	—	—
Accruals	**1,264**	688	1,016	1,118	600
Taxation liabilities	**30**	192	476	502	357
Government grants	**—**	—	97	192	192
	2,775	2,490	3,088	5,856	3,400
Non-current liabilities					
Financial liabilities	**1,341**	1,538	1,735	1,722	2,045
Provisions	**139**	—	—	—	—
Deferred tax liabilities (net)	**596**	625	602	726	827
Government grants	**—**	—	—	97	289
	2,076	2,163	2,337	2,545	3,161
Total liabilities	**1,937**	4,653	5,425	8,401	6,561
Net assets	**18,053**	16,101	15,580	13,107	11,452
Capital and reserves					
Equity share capital	**152**	150	149	147	147
Share premium	**7,290**	7,003	6,862	6,588	6,550
Revenue reserve	**10,611**	8,948	8,569	6,372	4,755
Total equity	**18,053**	16,101	15,580	13,107	11,452

Statement of Directors' responsibilities

In relation to the Parent Company financial statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the profit or loss of the Company for that period. In preparing those financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

Parent Company balance sheet

At 30 September 2014

	Notes	2014 £'000	2013 £'000
Fixed assets			
Tangible assets	3	**4,739**	4,853
Investments	4	**9,855**	9,766
		14,594	14,619
Current assets			
Debtors:			
– amounts falling due within one year	5	**6**	8
– amounts falling due after one year	5	**1,178**	2,000
Cash at bank and in hand		**5,671**	4,063
		6,855	6,071
Creditors: amounts falling due within one year	6	**438**	478
Net current assets		**6,417**	5,593
Total assets less current liabilities		**21,011**	20,212
Creditors: amounts falling due after more than one year	7	**1,341**	1,538
Provisions for liabilities and charges			
Deferred tax	9	**102**	108
		19,568	18,566
Capital and reserves			
Called up share capital	10	**152**	150
Share premium	11	**7,290**	7,003
Profit and loss account	11	**12,126**	11,413
Shareholders' funds		**19,568**	18,566

These financial statements have been approved by the Board of Directors on 8 December 2014 and signed on its behalf by:

Mark Cambridge BSc (Hons), FIoD
Chief Executive
8 December 2014

Claire Smith BA (Hons), ACMA, CGMA, CertICM
Group Finance Director

Notes to the Parent Company financial statements

For the year ended 30 September 2014

1. Accounting policies

(a) Basis of preparation

The financial statements of Zytronic plc were approved for issue by the Board of Directors on 8 December 2014. The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

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

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

(b) Share-based payments

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an appropriate pricing model. In valuing equity-settled transactions, account is not taken of any service performance conditions (vesting conditions), other than performance conditions linked to the price of the shares of the Company (market conditions). Any other conditions which are required to be met in order for an employee to become fully entitled to an award are considered to be non-vesting conditions. Like market performance conditions, non-vesting conditions are taken into account in determining the grant date fair value.

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

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

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

Where an equity-settled award is cancelled (including when a non-vesting condition within the control of the entity or employee is not met), it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the profit and loss account for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the profit and loss account.

The Company records an increase in its investment in subsidiaries with a credit to equity equivalent to the FRS 20 costs in the subsidiary undertakings.

(c) Tangible fixed assets

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

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

Freehold land	–	Nil
Freehold property	–	50 years
Long leasehold property	–	50 years

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

(d) Investments

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

1. Accounting policies *continued*

(e) Deferred taxation

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

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less, tax in the future have occurred at the balance sheet date, with the exception of deferred tax assets which are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

(f) Interest-bearing loans and borrowings

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

2. Auditors' remuneration

Auditors' remuneration for the year ended 30 September 2014 was £13,500 (2013: £12,700).

3. Tangible fixed assets

	Land £'000	Freehold property £'000	Long leasehold property £'000	Total £'000
Cost				
At 30 September 2013 and 2014	**207**	**3,070**	**2,097**	**5,374**
Depreciation				
At 30 September 2013	—	339	182	521
Provided during the year	—	62	52	114
At 30 September 2014	**—**	**401**	**234**	**635**
Net book value at 30 September 2014	**207**	**2,669**	**1,863**	**4,739**
Net book value at 30 September 2013	207	2,731	1,915	4,853

4. Investments

Investments in subsidiary companies

	2014 £'000	2013 £'000
Shares in subsidiary companies		
At beginning of year	**9,766**	9,690
Share options granted to subsidiary employees	**89**	76
At end of year	**9,855**	9,766

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

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

The trading subsidiary is incorporated in England.

Zytronic Inc. is a wholly owned subsidiary of Zytronic Displays Limited.

Notes to the Parent Company financial statements *continued*

For the year ended 30 September 2014

5. Debtors

	2014 £'000	2013 £'000
Trade debtors	—	3
Prepayments and accrued income	6	5
	6	8

Amounts falling due after more than one year are:

	2014 £'000	2013 £'000
Amounts owed by Group undertakings	1,178	2,000

6. Creditors: amounts falling due within one year

	2014 £'000	2013 £'000
Bank loan (note 8)	200	200
Trade creditors	1	9
Other creditors and accruals	126	179
Other amounts owed to subsidiary undertakings	81	81
Corporation tax	30	9
	438	478

7. Creditors: amounts falling due after more than one year

	2014 £'000	2013 £'000
Bank loan (note 8)	1,341	1,538

8. Bank loan

On 29 June 2012, Zytronic plc borrowed £2.0m under a ten-year mortgage (to be refinanced after five years) with Barclays Bank plc to re-mortgage the borrowings on its three properties. The funds are repayable in quarterly instalments of £50,000. Interest is payable at 2.35% above three-month LIBOR, offset by a National Loan Guarantee Scheme Subsidy. The balance is shown net of issue costs which are being amortised over five years.

9. Deferred taxation liability

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

	2014 £'000	2013 £'000
Accelerated capital allowances	102	108
At 1 October	108	114
Credit in the profit and loss account	(6)	(6)
At 30 September	102	108

10. Share capital and share-based payments

(a) Share capital

	2014 Number Thousands	2013 Number Thousands	2014 £'000	2013 £'000
Authorised				
Ordinary shares of 1p each	**25,000**	25,000	**250**	250
Allotted, called up and fully paid				
Ordinary shares of 1p each	**15,193**	15,032	**152**	150

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

(b) Share-based payments

Note 21(c) in the Group financial statements identifies the basis of the Senior Executive Plans and the EMI Scheme. It also contains a table that illustrates the number and weighted average exercise prices of, and movements in, share options during the year.

(c) Directors' share incentive scheme

Note 21(c) in the Group financial statements sets out the details of the Share Incentive Award Scheme for Mark Cambridge, Chief Executive, and Claire Smith, Group Finance Director, in shares of the Parent Company.

11. Reconciliation of movements in shareholders' funds

	Called up share capital £'000	Share premium £'000	Profit and loss account £'000	Total £'000
At 30 September 2012	149	6,862	11,786	18,797
Exercise of share options	1	141	—	142
Profit on ordinary activities after taxation	—	—	841	841
Share-based payments	—	—	80	80
Dividends	—	—	(1,294)	(1,294)
At 30 September 2013	150	7,003	11,413	18,566
Exercise of share options	2	287	—	289
Profit on ordinary activities after taxation	—	—	2,010	2,010
Share-based payments	—	—	93	93
Dividends	—	—	(1,390)	(1,390)
At 30 September 2014	**152**	**7,290**	**12,126**	**19,568**

A profit of £2,010,000 (2013: £841,000), before payments of dividends of £1,390,000 (2013: £1,294,000), has been dealt with in the financial statements of the Company which, under the exemption contained in Section 408 of the Companies Act 2006, has not presented its own profit and loss account.

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

12. Pension scheme commitments

Contributions for the year ended 30 September 2014 amounted to £Nil (2013: £4,400) and the outstanding contributions at the balance sheet date were £Nil (2013: £Nil).

13. 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 January 2015. This facility is to provide funding for working capital.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at Whiteley Road, Blaydon-on-Tyne, Tyne and Wear NE21 5NJ on Thursday 26 February 2015 at 2.00pm for the following purposes:

Ordinary business

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

1. To receive the financial statements for the year ended 30 September 2014 and the reports of the Directors and auditors thereon.
2. To pay a final dividend of 7.16p per ordinary share of 1.0p for the year ended 30 September 2014 on Friday 13 March 2015 to members on the Register at the close of business on Friday 27 February 2015.
3. To re-elect Tudor Davies as a Director.
4. To re-appoint Ernst & Young LLP as auditors and to authorise the Directors to fix their remuneration.

Special business

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

1. The Directors of the Company be and are hereby generally and unconditionally authorised (in substitution for any previous authority) for the purposes of Section 551 of the Companies Act 2006 (as amended) (the “Act”) to exercise all the powers of the Company to allot shares in the Company, or to grant rights to subscribe for or to convert any security into shares in the Company (such shares and such rights to subscribe for or to convert any security into shares in the Company being “relevant securities”) on such terms and in such manner as they shall think fit, up to a maximum aggregate nominal amount of £50,138.42 at any time (unless and to the extent previously revoked, varied or renewed by the Company in general meeting) during the period from the date hereof until the conclusion of the Company’s Annual General Meeting held in 2016 provided that the Directors of the Company may make an offer or enter into an agreement which would or might require relevant securities to be allotted, offered or otherwise dealt with or disposed of after the expiry of such authority and the Directors may allot any relevant securities after the expiry of such authority in pursuance of any such offer or agreement as if this authority had not expired.
2. Subject to and conditional upon the passing of special resolution 1 above, the Directors of the Company be given power pursuant to Sections 570 and 573 of the Act to allot equity securities (as defined in Section 560 of the Act) of the Company for cash pursuant to the authority conferred by special resolution 1 above, as if Section 561 of the Act did not apply to any such allotment, such power to expire at the conclusion of the Company’s Annual General Meeting held in 2016 provided that before such expiry the Directors of the Company may make an offer or enter into an agreement which would or might require equity securities to be allotted after the expiry of such power and the Directors may allot equity securities after such expiry under this power in pursuance of any such offer or agreement as if this power had not expired. This power is limited to:

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

    2.2. the allotment (other than pursuant to 2.1 of this special resolution) of equity securities up to a maximum aggregate nominal amount of £7,596.73.

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

Special business *continued*

3. That the Company be and is hereby generally and unconditionally authorised pursuant to Section 701 of the Act to make market purchases (within the meaning of Section 693(4) of the Act) of ordinary shares of 1.0p each in the capital of the Company (for the purposes of this special resolution 3, "Shares") provided that:

   3.1. the maximum number of Shares hereby authorised to be purchased shall be 1,519,346;

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

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

   3.4. unless previously renewed, revoked or varied, the authority hereby conferred shall expire at the conclusion of the Company's Annual General Meeting held in 2016 save that the Company may, prior to such expiry, enter into a contract to purchase Shares which will or may be executed wholly or partly after the expiry of such authority and may purchase Shares pursuant to such contract as if such authority has not expired,

   and that all Shares so purchased in pursuance of this authority shall be held as Treasury Shares (as defined by Section 724 of the Act) for future resale for cash, transfer for the purposes of an employees' share scheme or for cancellation.

By order of the Board

Claire Smith BA (Hons), ACMA, CGMA, CertICM
Company Secretary
Zytronic plc
Whiteley Road
Blaydon-on-Tyne
Tyne and Wear NE21 5NJ

8 December 2014

Notes

1. Every member entitled to attend and vote at the meeting may appoint a proxy or proxies to attend, speak and vote (whether on a show of hands or on a poll) at the meeting on their behalf. A proxy need not be a member of the Company. A prepaid form of proxy is enclosed.
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 4.00pm on Tuesday 24 February 2015 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 1.0p each of the Company registered in the Register of Members of the Company as at:

   3.1. 4.00pm on 24 February 2015; or

   3.2. if this meeting is adjourned, at 4.00pm two working days prior to the adjourned meeting,

   shall be entitled to attend and vote at the meeting in respect of the number of ordinary shares of 1.0p each in the capital of the Company registered in their name at that time. Changes to entries on the Register of Members after 4.00pm on Tuesday 24 February 2015 shall be disregarded in determining the rights of any person to attend or vote at the meeting.
4. Copies of contracts of service between Directors and the Company or any of its subsidiary undertakings will be available for inspection during normal business hours by members at the registered office of the Company on each business day from the date of this notice until the date of the Annual General Meeting, and at the place of the Annual General Meeting for at least 15 minutes prior to, and during, that meeting.

Corporate information

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www.zytronicplc.com

www.zytronic.co.uk

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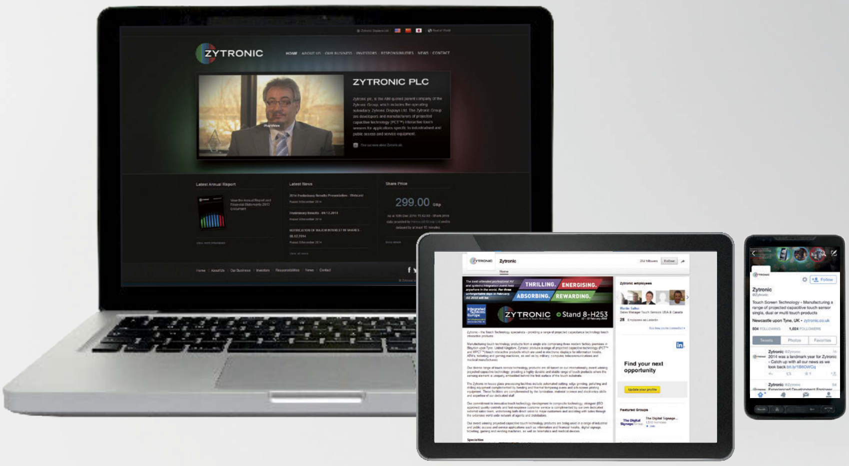

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