12 December 2017

Zytronic plc
("Zytronic" or the "Group")

Preliminary Results for the year ended 30 September 2017 (audited)

Zytronic plc, a leading specialist manufacturer of touch sensors, announces its preliminary results for the year ended 30 September 2017.

Overview

- Significant improvement in Group trading profits to £5.4m (2016: £4.3m)
- Strong cash generation from operating activities of £4.7m (2016: £5.6m)
- Final dividend increased by 39% to 15.2p (2016: 10.96p), bringing total dividends for the year to 19.0p (2016: 14.41p), up 32% year-on-year and the fourth successive year of double-digit dividend growth
- Touch sensor units sold increased to 138,000 units (2016: 130,000 units) with large sensors > 30" increasing to 18,000 units (2016: 14,000)
- Basic earnings per share increased to 29.0p (2016: 26.6p)

Commenting on the outlook, Chairman, Tudor Davies said:

"The current year has started with orders, revenues and trading along similar levels to that of the prior year which together with our strong balance sheet and cash generation provides a sound base for further growth in dividends and shareholder value."

It is intended that the AGM will take place at the Company's offices at Whiteley Road, Blaydon-on-Tyne, Tyne and Wear, NE21 5NJ on Thursday 22 February 2018 at 9.30am. Notice of the AGM will be sent to shareholders with the annual report and accounts in due course.

Enquiries:

Zytronic plc **Mark Cambridge, Chief Executive** **Claire Smith, Group Finance Director**	**(Today: 020 7496 3000;** **Thereafter 0191 414 5511)**
N+1 Singer **(Nominated Advisor & Broker)** **Aubrey Powell** **Liz Yong**	**(020 7496 3000)**

Notes to Editors

Zytronic is a world renowned developer and manufacturer of a unique range of internationally award winning optically transparent interactive touch sensor overlay products for use with electronic displays in industrial, self-service and public access equipment.

Zytronic's products employ a sensing solution that is readily configurable and is embedded in a laminate core which offers significant durability, environmental stability and optical enhancement benefits to system designers specific requirements.

Zytronic has continually developed process and technological know-how and IP since the late 1990's around two sensing methodologies; the first being single touch self-capacitive which Zytronic markets as PCT™ ("Projected Capacitive Technology") and the second being multi-touch, multi-user mutual-capacitive which Zytronic markets as MPCT™ ("Mutual Projected Capacitive Technology"), in which Zytronic holds five granted patents.

Operating from a single site near Newcastle-upon-Tyne in the United Kingdom, Zytronic is relatively unique in the touch eco-system as it offers a complete one-stop solution from processing internally the form and factor of the glass substrates, assembles their touch overlay products to customers specific requirements, in environmentally controlled cleanrooms and develops the bespoke firmware, software and electronic hardware to link the interactive overlays to customer's integrated systems and products.

Chairman's statement

We are pleased to announce the results for the year ended 30 September 2017, which show continuing growth in revenues, profits and cash generation and a 39% increase (2016: 24%) in the final dividend, resulting in an overall dividend increase of 32% (2016: 20%) for the year.

Results

Revenues for the year ended 30 September 2017 increased 9% to £22.9m (2016: £21.1m), profit before tax increased 27% to £5.4m (2016: £4.3m), with profit after tax increasing to £4.6m (2016: £4.1m) and basic earnings per share increasing to 29.0p (2016: 26.6p).

The growth in revenues during the year has primarily arisen from an increase in further projects for the gaming market, with the growth driven by large format touch sensors. A fuller explanation of the strategic sales and marketing initiatives and opportunities are covered in the CEO's Operational review later in this report.

Cash generation from operating activities for the year ended 30 September 2017 is £4.7m (2016: £5.6m), from which we invested £1.1m (2016: £0.8m) in research and development and capital expenditure. The Group also received £1.2m (2016: £0.2m) from the proceeds of share options and made a final payment of £1.1m (2016: £0.2m) on its property loan before the dividend payments of £2.4m (2016: £1.9m), resulting in a net increase in year-end cash balances of £1.3m to £14.1m (2016: £2.9m to £12.8m).

Dividend

The Directors are pleased to propose a final dividend of 15.2p (2016: 10.96p), payable on 9 March 2018 to shareholders on the register on 23 February 2018, which increases the total dividend for the year by 32% to 19.0p (2016: 14.41p) and brings the dividend increase over the last five years to 124%.

Outlook

The current year has started with orders, revenues and trading along similar levels to that of the prior year, which, together with our strong balance sheet and cash generation, provides a sound base for further growth in dividends and shareholder value. The focus on growth this year will be from expansion in local sales representation in the USA and the Far East, and we shall keep shareholders updated on the progress, and any material developments, over the course of the year.

Tudor Davies
Chairman
11 December 2017

Operational review

The following provides insights into the sales and marketing initiatives and the strategic programmes undertaken by Zytronic's research and development department during the year and the consequential sales output profile.

Strategic sales and marketing initiatives

We continued to sell our products to customers around the world in two ways: directly, sometimes with the assistance of commissioned manufacturers' representatives and agents; and indirectly, via franchised distributors and value-added resellers ("VARs"). Collectively, we refer to these agents, distributors and VARs as our sales channel partners.

In 2017, we made several changes to our global network of sales channel partners whilst increasing regionally our direct sales function. At the end of the fiscal period we had 13 regional agreements covering North, Central and South America ("AMERICAS"), twelve across Asia Pacific ("APAC") and 13 spanning various European, Middle Eastern and African countries ("EMEA"). Additionally, we had two global distribution agreements, with Future Electronics and the Quixant group respectively.

- In the AMERICAS, we terminated three underperforming agents and appointed a new representative in the Southeastern USA. In addition, to strengthen the direct sales presence of Zytronic Inc., we completed the recruitment of an industry and market experienced US national, based in Austin, TX, to the position of director of sales for the region.
- In the APAC region, we appointed two further distributors in Japan and increased our direct presence in the country, retaining a Tokyo-based full-time business development manager under contract. We also expanded the responsibility of our Taipei-based business development manager, to include countries in Southeast Asia.
- In the EMEA region, we appointed a new distributor for Switzerland and Austria.

Entering the new fiscal year, we have commenced a review on the recruitment of a sales support engineer for the APAC region, most likely to be based in Japan. We are also working to increase our sales channel partner network in Western Europe and the USA, with new agent and VAR appointments expected. Additionally, we are presently planning to increase our direct sales team in the USA in the second half of the year.

Our 2017 marketing strategy in support of sales activities focused on increasing our profile in European, American and Asian trade publications and key vertical markets. In addition, we have expanded our digital and social media presence, releasing online a new "factory tour" video to highlight our unique capabilities in the touch ecosystem and the competitive benefits we bring to customers. We also participated in several application specific global trade events, including Electronica (the large German electronics fair in November 2016), C-Touch in Shenzhen, China, in the same month, the Integrated Systems Europe ("ISE") expo in February 2017 in Amsterdam and the USA-focused Digital Signage Expo ("DSE") in March 2017. Indirectly, products were also well represented at a number of tradeshows by distributors and customers, such as the ICE Totally Gaming Expo in London during January 2017, the Society of Information Displays ("SID") Display Week and the Infocomm Expo during June 2017 in the USA.

Strategic research and development

The primary emphasis of the research and development team throughout 2017 was the continued development of our MPCT™ capabilities and the requirements of the developing Zytronic Application Specific Integrated Chip ("ASIC"). Initial approval samples of the designed ASIC were received in late January 2017, followed by several months of in-house approval and compliance testing. In May 2017, we provided approval and the order to build and supply an initial 24,000 ASICs. Supply of production chips is expected around December 2017. A new family of controllers incorporating the ASICs has been designed along with new bespoke firmware which will be released under the controller family designation series ZXY500 early in the new calendar year.

Other significant development work undertaken during the year has been around new material considerations as an alternative to the micro-fine sensing wires generally employed in Zytronic PCT™ and MPCT™ sensors including, but not limited to, the collaboration work undertaken on the Hi-Response European-funded H2020 project.

Further GB patent applications were initiated in the period on Zytronic's shape recognition technology and our ability to put physical holes in and through the active sensing area of our glass sensors without functional detriment to the sensing and interactivity around the physical hole, both being reliant on the unique capabilities of our patented MPCT™ sensing.

Sales

The business showed an improved trading performance over that of the previous year, with total revenues of £22.9m (2016: £21.1m). Total export revenues as measured by Zytronic, being the location of the companies where we invoice products, were £19.9m (2016: £20.0m), with the slight reduction a consequence of the as expected drop in legacy display product revenues.

The revenues of legacy display products, were £2.3m (2016: £2.9m). Although a number of factors contributed to the decrease, by far the two most significant were the £0.2m of non–recurring revenues from the completion in 2016 of the curved gaming display unit project in Korea and a further £0.2m reduction in global ATM display revenues to £1.4m (2016: £1.6m).

Revenues generated by sales of our touch products were £2.4m higher than the prior year at £20.6m (2016: £18.2m). The significant growth in revenues came from invoiced UK sales for the Gaming market, where product is almost immediately shipped by our customer to other international locations for integration with displays and gaming machines. Exported touch product revenues showed growth to £18.0m from £17.6m, with EMEA and the AMERICAS regions each growing by £0.3m to £7.0m and £0.2m to £3.8m respectively, whilst APAC reduced by £0.1m to £7.2m.

Touch revenues are inherently linked, not only to the number of touch sensors produced, but more substantially to the mix of the sensor sizes, as large format units carry an obvious higher price premium. The total number of sensor units supplied increased to 138,000 (2016: 130,000) and the table below illustrates the split of sensor sizes and their relative movement from the prior year.

	2017		2016		Variance	
Sensor size	**Units ('000)**	**% total**	Units ('000)	% total	Units ('000)	% change
Small – (≤ 14.9")	**33**	**24**	39	30	(6)	(16)
Medium – (≥ 15.0 ≤ 29.9")	**87**	**63**	77	59	10	13
Large – (≥ 30.0")	**18**	**13**	14	11	4	26
Total	**138**	**100**	130	100	8	6

In large format sensors, the contributory volume of curved units remained steady at 9,000 units year on year, with the growth coming from flat units for new gaming projects. With the release in the latter half of 2016 of the newer ZXY150 series of MPCT™ controllers in support of medium sizes, we saw growth in the total number of MPCT™ products supplied to 12,000 units (2016: 11,000 units).

Touch application markets

For the first time, Financial was not our top revenue-generating touch application market, with Gaming taking the top spot. Gaming continued to show considerable strength and growth in both units produced at 20,000 (2016: 13,000) and revenues generated, contributing £7.7m (2016: £5.9m), as new UK (predominantly) and Asian invoiced PCT™ and MPCT™ projects moved into production. Financial, with total unit volumes reducing by 4,000 to 50,000, as the continued effects of supplier consolidation and reported saturation of mature geographic markets were observed, moved into second place contributing £6.3m (2016: £6.4m).

Vending, although our second highest market in terms of unit volumes produced at 35,000 units (2016: 24,000 units), remained our third market in terms of revenue at £3.3m (2016: £2.6m), with benefits coming from drinks, fuel and parking management systems in the USA, Korea and Germany respectively. However with the expected redesign of the next generation Freestyle® drinks dispenser in 2018, resulting in a less durable and functional touch solution requirement, we expect the requirements of the existing design to reduce as the project moves towards end-of-life ("EOL").

The Industrial market, which saw a 3,000-unit reduction in small sensors sold (2016: 12,000 units), but a 1,000-unit increase in medium and larger sensors (2016: 7,000 units), showed an increase in the revenues generated to £1.8m (2016: £1.4m), predominantly through new opportunities generated by our Italian channel partner. This was countered by a decline in the Signage market to £0.8m (2016: £1.0m), in which we experienced a 1,000-unit reduction in large sensors sold (2016: 2,000 units) from our channel partners in Korea and Germany. However, this is still a market which although continues to be lower in project unit volumes offers the advantages of numerous bespoke and value-add opportunities.

The other markets, which predominantly are in the small and medium-size ranges and are therefore open to much greater alternative supplier competitive pressures, particularly from spare capacity from consumer solution providers, being Home Automation, Healthcare and Telematics, in total decreased to £0.7m (2016: £0.9m), as we saw 1,000-unit declines in units supplied to both Home (2016: 10,000 units) and Health (2016: 4,000 units). Similar to that mentioned in Vending, we believe that the volumes of our touch solution for the high-end Bosch cooktop models will continue to reduce as the models move to EOL over 2018 and beyond.

Opportunities analysis

Our customer relationship management ("CRM") software continues to be integral in managing and monitoring global sales opportunities. Incoming leads from all sources (websites, tradeshows, channel partners, sales management, etc.) are fed into the CRM system; once validated, those opportunities are then categorised according to vertical market (application), annual quantity, touch sensor type, project duration, estimated unit price and production start date. As the opportunity progresses, it is dynamically assigned with an estimated probability of success. Only those opportunities at the point in time when they are assigned with a high probability are classified as a "Project" and only those designated as a "Project" at the time of our quarterly sales review are added into our dynamic forecast model.

As the CRM information is constantly being updated by the sales team to account for changes to opportunities, which may be because they are re-classified as dead, lost to a competitor, moved into production or have changed success probability, the number of opportunities, and the value of active 'Projects', varies significantly day to day. At 30 September 2017, there were a total of 551 live opportunities in the system, with 60 opportunities classified on that day as "Projects", with those "Projects" having an unsensitised lifetime revenue contribution of £8.2m, over a projected five years.

Finally, on behalf of the Board of Directors, I would like to thank all Zytronic employees for their valued contribution to the performance of the business over the reporting period.

Mark Cambridge
Chief Executive Officer
11 December 2017

Financial review

Group revenue

Group revenue for the year increased by £1.8m to £22.9m (2016: £21.1m) as a result of increased orders of touch products totalling £20.6m (2016: £18.2m), particularly through the Gaming market from one of the UK-based customers. Touch product revenue now accounts for 90% of total revenue (2016: 86%).

Gross margin

Gross margin declined slightly in the year to 41.1% (2016: 42.8%), despite the increase in volume of larger format sensors sold, mainly as a result of the following factors:

- increased costs of raw materials due to supplier price rises and purchasing more pre-prepared glass;
- additional costs of wage rises and increased numbers of personnel in production (146 employees compared to 129 in 2016); and
- increases in commissions payable as more revenue arose from channel partners over the year.

Group trading profit

Group trading profit increased to £5.4m (2016: £4.3m). On a year-on-year basis, excluding the impact of FX movements of £1.0m, administration costs have increased only slightly in 2017 through higher costs of professional fees, marketing and travel.

Taxation

The Group's taxation charge for the year ended 30 September 2017 of £0.8m represents an effective tax rate of 15%. In the year, the Group continued to claim relief under the Patent Box regime and the utilisation of R&D tax credits (£0.2m). The differences in tax rates enacted and the fair value movement on the Group's FX contracts have also impacted the tax charge in the year.

Earnings per share

The issued share capital is 16,044,041 ordinary shares of 1.0p each and the resultant weighted EPS for the year is 29.0p, which represents growth of 9% from that reported last year (2016: 26.6p).

Dividend

During the year the Group paid a final dividend for 2016 of 10.96p per share and a 2017 interim dividend of 3.80p per share totalling £2.4m of cash (2016: £1.9m). The Directors recommend the payment of a final dividend of 15.20p per share for the year ended 30 September 2017 giving a total dividend for the year of 19.0p per share (2016: 14.41p) and an increase of 32% over last year. Subject to approval by shareholders, the dividend will be paid on Friday 9 March 2018 to shareholders on the register as at the close of business on Friday 23 February 2018. The dividend is covered 1.5 times by underlying earnings.

Capital expenditure

The Group additions to capital expenditure totalled £1.1m and were weighted more to intangible assets with £0.5m of spend occurring on the continuing development of the MPCT™ ASIC project. This project is on target for completion during early 2018. A further £0.1m was spent on the Fibre Laser Table and investment of £0.1m was made into a new CNC Edge Profiling machine. Additional sensor manufacturing equipment has also been added over the year to meet production requirements. Depreciation and amortisation for the year increased slightly to £1.2m (2016: £1.1m).

Cash and debt

The Group continues to be cash generative and has recorded an increase in cash and cash equivalents of £1.3m (2016: £2.9m) at the year end. Cash generated from operating activities was £4.7m offsetting the cash outflow from investing and financing activities. This growth in cash enables the Group to continue its policy to invest in internal R&D and capital refurbishments and maintain its progressive dividend policy.

The Group maintains an overdraft facility of £1.0m, which is available for use in any of its currencies and falls for review in November 2018. The Group also has an FX policy in place at the year end whereby it is hedged in both US Dollars and Euros for a period of four months ahead in line with its working capital policies to try to better manage its net GBP inflows from its surplus currency requirements.

The Group repaid its property mortgage with Barclays Bank plc during the year utilising £1.1m of its cash. Following this, the Group is now debt free and had cash balances of £14.1m at 30 September 2017.

Revenue reserve

On 22 March 2017, the Group carried out a capital reduction exercise whereby £8.9m of the Group's undistributable profits (within the retained earnings reserve) were capitalised by way of a bonus issue of newly created capital reduction shares. These shares were subsequently cancelled and the £8.9m credited to the retained earnings reserve as distributable profits.

Claire Smith
Group Finance Director
11 December 2017

Consolidated statement of comprehensive income

For the year ended 30 September 2017

	Notes	**2017 £'000**	2016 £'000
Group revenue		**22,892**	21,087
Cost of sales		**(13,481)**	(12,071)
Gross profit		**9,411**	9,016
Distribution costs		**(393)**	(378)
Administration expenses		**(3,591)**	(4,365)
Group trading profit		**5,427**	4,273
Finance costs		**(24)**	(23)
Finance revenue		**10**	20
Profit before tax		**5,413**	4,270
Tax expense	3	**(825)**	(183)
Profit for the year		**4,588**	4,087
Earnings per share			
Basic	5	**29.0p**	26.6p
Diluted	5	**28.8p**	26.1p

All profits are from continuing operations.

Consolidated statement of changes in equity

For the year ended 30 September 2017

	Called up share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
At 1 October 2015	153	7,552	12,986	20,691
Profit for the year	—	—	4,087	4,087
Tax recognised directly in equity	—	—	72	72
Exercise of share options	1	214	—	215
Share-based payments	—	—	71	71
Dividends	—	—	(1,900)	(1,900)
At 1 October 2016	154	7,766	15,316	23,236
Profit for the year	—	—	4,588	4,588
Tax recognised directly in equity	—	—	72	72
Exercise of share options	6	1,228	—	1,234
Issue of capital reduction shares*	8,919	—	(8,919)	—
Cancellation of capital reduction shares*	(8,919)	—	8,919	—
Share-based payments	—	—	—	—
Dividends	—	—	(2,354)	(2,354)
At 30 September 2017	**160**	**8,994**	**17,622**	**26,776**

*Refer to note 6

Consolidated balance sheet

At 30 September 2017

	Notes	2017 £'000	2016 £'000
Assets			
Non-current assets			
Intangible assets		**1,633**	1,457
Property, plant and equipment		**7,030**	7,389
		8,663	8,846
Current assets			
Inventories		**2,996**	2,760
Trade and other receivables		**3,506**	3,745
Derivative financial assets		**54**	-
Cash and short term deposits		**14,099**	12,763
		20,655	19,268
Total assets		**29,318**	28,114
Equity and liabilities			
Current liabilities			
Trade and other payables		**1,042**	1,302
Financial liabilities		—	1,148
Derivative financial liabilities		—	959
Provisions		—	205
Accruals		**862**	834
Tax liabilities		**3**	122
		1,907	4,570
Non-current liabilities			
Government grants		**25**	48
Deferred tax liabilities (net)		**610**	260
		635	308
Total liabilities		**2,542**	4,878
Net assets		**26,776**	23,236
Capital and reserves			
Equity share capital		**160**	154
Share premium		**8,994**	7,766
Revenue reserve		**17,622**	15,316
Total equity		**26,776**	23,236

Consolidated cashflow statement
For the year ended 30 September 2017

	2017 £'000	2016 £'000
Operating activities		
Profit before tax	**5,413**	4,270
Net finance costs	**14**	3
Depreciation and impairment of property, plant and equipment	**749**	766
Amortisation and impairment of intangible assets	**424**	355
Amortisation of government grant	**(42)**	(11)
Share-based payments	**-**	71
Fair value movement on foreign exchange forward contracts	**(1,013)**	870
Working capital adjustments		
(Increase)/decrease in inventories	**(236)**	454
Decrease/(increase) in trade and other receivables	**239**	(690)
(Decrease)/increase in trade and other payables and provisions	**(356)**	76
Cash generated from operations	**5,192**	6,164
Tax paid	**(521)**	(576)
Net cashflow from operating activities	**4,671**	5,588
Investing activities		
Interest received	**10**	20
Receipt of government grant	**19**	—
Payments to acquire property, plant and equipment	**(472)**	(387)
Payments to acquire intangible assets	**(600)**	(385)
Net cashflow from investing activities	**(1,043)**	(752)
Financing activities		
Interest paid	**(24)**	(21)
Dividends paid to equity shareholders of the Parent	**(2,354)**	(1,900)
Proceeds from share issues relating to options	**1,234**	215
Repayment of borrowings	**(1,148)**	(200)
Net cashflow used in financing activities	**(2,292)**	(1,906)
Increase in cash and cash equivalents	**1,336**	2,930
Cash and cash equivalents at the beginning of the year	**12,763**	9,833
Cash and cash equivalents at the year end	**14,099**	12,763

Notes to the consolidated financial statement

1. Basis of preparation

The preliminary results for the year ended 30 September 2017 have been prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards ("IFRS") as endorsed by the European Union regulations as they apply to the financial statements of the Group for the year ended 30 September 2017. Whilst the financial information included in this preliminary announcement has been computed in accordance with the recognition and measurement requirements of IFRS, this announcement does not itself contain sufficient information to comply with IFRS. The accounting policies adopted are consistent with those of the previous year.

The financial information set out in this announcement does not constitute the statutory accounts for the Group within the meaning of Section 435 of the Companies Act 2006. The statutory accounts for the year ended 30 September 2016 have been filed with the Registrar of Companies. The statutory accounts for the year ended 30 September 2017 will be filed in due course. The auditors' report on these accounts was not qualified or modified and did not contain any statement under sections 498(2) or (3) of the Companies Act 2006 or any preceding legislation.

Each of the Directors confirms that, to the best of their knowledge, the financial statements, prepared in accordance with IFRS as adopted by EU standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole; and the Group results, Operational review and Financial review includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face

2. Basis of consolidation and goodwill

The Group results 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.

3. Tax

	30 September 2017 £'000	30 September 2016 £'000
Current tax		
UK corporation tax	**576**	732
Corporation tax over-provided in prior years	**-**	(289)
Total current tax charge	**576**	443
Deferred tax		
Effect of change in tax rates	**-**	(103)
Origination and reversal of temporary differences	**249**	(157)
Total deferred tax charge/(credit)	**249**	(260)
Tax charge in the income statement	**825**	183

Tax relating to items debited to equity

	30 September 2017 £'000	30 September 2016 £'000
Deferred tax		
Tax on share-based payments	**(72)**	(72)
Total deferred tax debit	**(72)**	(72)
Tax charge in the statement of changes in equity	**(72)**	(72)

Notes to the consolidated financial statement

Reconciliation of the total tax charge
The effective tax rate of the tax expense in the income statement for the year is 15% (2016: 4%) compared with the average rate of corporation tax in the UK of 19.5% (2016: 20%). The differences are reconciled below:

	30 September 2017 £'000	30 September 2016 £'000
Accounting profit before tax	**5,413**	4,270
Accounting profit multiplied by the average UK rate of corporation tax of 19.5% (2016: 20%)	**1,056**	854
Effects of:		
Expenses not deductible for tax purposes	**32**	16
"Gain" on exercise of share options allowable for tax purposes but not reflected in the income statement	**-**	(42)
Depreciation in respect of non-qualifying items	**33**	38
Enhanced tax reliefs – R&D	**(229)**	(187)
Enhanced tax reliefs – Patent Box	**(31)**	(127)
Effect of deferred tax rate reduction and difference in tax rates	**(36)**	(80)
Tax over-provided in prior years	**-**	(289)
Total tax expense reported in the income statement	**825**	183

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.

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.

There are no tax losses to carry forward at 30 September 2017 (2016: £Nil).

The main rate of corporation tax in the UK reduced to 19% with effect from 1 April 2017. The rate will be reduced to 17% from 1 April 2020. Both of these lower rates have been substantively enacted by the balance sheet date. As the majority of the temporary differences will reverse when the rate is 17%, this rate has been applied to the deferred tax assets and liabilities arising at the balance sheet date.

The Patent Box regime allows companies to apply a rate of corporation tax of 10% to profits earned from patented inventions and similar intellectual property. Zytronic generates such profits from the sale of products incorporating patented components. The Group has determined that all relevant criteria has been satisfied for bringing income within the regime. Consequently, Patent Box claims have been made for 2014, 2015 and 2016 accounting periods, and the 2017 benefit has been estimated.

4. Dividends
The Directors propose the payment of a final dividend of 15.2p per share (2016: 10.96p), payable on 9 March 2018 to shareholders on the Register of Members on 23 February 2018. This dividend has not been accrued in these financial statements. The dividend payment will amount to some £2.4m.

	30 September 2017 £'000	30 September 2016 £'000
Ordinary dividends on equity shares		
Final dividend of 8.87p per ordinary share paid on 11 March 2016	**–**	1,368
Interim dividend of 3.45p per ordinary share paid on 22 July 2016	–	532
Final dividend of 10.96p per ordinary share paid on 3 March 2017	**1,744**	–
Interim dividend of 3.80p per ordinary share paid on 21 July 2017	**610**	–
	2,354	1,900

5. Earnings per share
Basic EPS is calculated by dividing the profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the year. All activities are continuing operations and therefore there is no difference between EPS arising from total operations and EPS arising from continuing operations.

	Earnings 30 September 2017 £'000	**Weighted average number of shares 30 September 2017 Thousands**	**EPS 30 September 2017 Pence**	Earnings 30 September 2016 £'000	Weighted average number of shares 30 September 2016 Thousands	EPS 30 September 2016 Pence
Profit on ordinary activities after tax	**4,588**	**15,819**	**29.0**	4,087	15,346	26.6
Basic EPS	**4,588**	**15,819**	**29.0**	4,087	15,346	26.6

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 2017 £'000	**Weighted average number of shares 30 September 2017 Thousands**	**EPS 30 September 2017 Pence**	Earnings 30 September 2016 £'000	Weighted average number of shares 30 September 2016 Thousands	EPS 30 September 2016 Pence
Profit on ordinary activities after tax	**4,588**	**15,819**	**29.0**	4,087	15,346	26.6
Weighted average number of shares under option	–	**131**	**(0.2)**	–	299	(0.5)
Diluted EPS	**4,588**	**15,950**	**28.8**	4,087	15,645	26.1

6. Revenue reserve

On 22 March 2017, the Group carried out a capital reduction exercise whereby £8.9m of the Group's undistributable profits (within the retained earnings reserve) were capitalised by way of a bonus issue of newly created capital reduction shares. These shares were subsequently cancelled and the £8.9m credited to the retained earnings reserve as distributable profits.