Regulatory Story

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Zytronic PLC - ZYT
Preliminary Results
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Zytronic PLC
09 December 2014

9 December 2014

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

Preliminary Results for the year ended 30 September 2014 (audited)

Zytronic plc, a leading specialist manufacturer of touch sensors, announces its preliminary results for the year ended 30 September 2014.

Overview

- 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)

Commenting on the outlook, Chairman, Tudor Davies said:

"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."

Enquiries:

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Notes to Editors

Zytronic is the developer and manufacturer of a unique range of internationally award-winning touch sensor products.

These products employ an embedded sensing element and are based around either projected capacitive technology ("PCT™") or mutual projected capacitive technology (MPCT™) sensing. Both technologies were developed and designed to offer significant durability, environmental stability and optical enhancement benefits to system designers of touch interactive, industrial, self-service and public access equipment.

Operating from three modern factories near Newcastle-upon-Tyne in the United Kingdom, Zytronic designs and assembles touch sensors using special glass and plastic materials, in environmentally controlled clean rooms.

Chairman's Statement

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

2014 Operational Review

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%).

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).

2014 Operational Review

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. 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).

2014 Operational Review

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.

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.

2014 Operational Review

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 FTE's 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

2014 Financial Review

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.

2014 Financial Review

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 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

Consolidated statement of comprehensive income

for the year ended 30 September 2014

	Notes	2014 £'000	2013 £'000
Group revenue		**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		**3,263**	**1,934**
Finance costs		**35**	**39**
Finance revenue		**33**	**44**
Profit before tax		**3,261**	**1,939**
Tax expense	4	**301**	**277**
Profit for the year		**2,960**	**1,662**
Earnings per share			
Basic	6	**19.6p**	**11.1p**
Diluted	6	**19.5p**	**11.0p**
Adjusted earnings per share excluding exceptional costs			
Basic	6	**19.6p**	**13.9p**
Diluted	6	**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

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

Consolidated cashflow statement

For the year ended 30 September 2014

	2014	2013
	£'000	£'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
Loss 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	5,474	4,217
Cash and cash equivalents at the year end	**7,806**	**5,474**

Notes to the consolidated financial statement

1. Statement of compliance
The Group results 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.

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. 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. 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. 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	30 September 2013
	£'000	£'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

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Notes to the consolidated financial statement

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.

5. 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.

	30 September 2014	30 September 2013
	£'000	£'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

6. 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.

Notes to the consolidated financial statement

	Earnings	**Weighted average number of shares**	**EPS**	Earnings	Weighted average number of shares	EPS
	30 September 2014	**30 September 2014**	**30 September 2014**	30 September 2013	30 September 2013	30 September 2013
	£'000	**Thousands**	**Pence**	£'000	Thousands	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

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

	Earnings	**Weighted average number of shares**	**EPS**	Earnings	Weighted average number of shares	EPS
	30 September 2014	**30 September 2014**	**30 September 2014**	30 September 2013	30 September 2013	30 September 2013
	£'000	**Thousands**	**Pence**	£'000	Thousands	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

7. Report and accounts

The Board approved the preliminary release and financial statements for the year ended 30 September 2014 on 8 December 2014. The above audited results do not represent statutory financial statements. The audit report has been signed. The audited accounts will be put onto the Group's website www.zytronicplc.com shortly and should be mailed to shareholders just after Christmas 2014, and will then be available from the registered office at Whiteley Road, Blaydon on Tyne, Tyne & Wear, NE21 5NJ.

The results for the year ended 30 September 2013 have been extracted from the 2013 accounts of Zytronic plc. The 2013 accounts, which have been filed with the Registrar of Companies, received an unqualified audit report and did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006.

8. AGM date

It is intended that the AGM will take place at the Company's offices at Whiteley Road, Blaydon on Tyne, Tyne & Wear, NE21 5NJ on Thursday 26 February 2015 at 2.00pm. Notice of the AGM will be sent to shareholders within the financial statements.

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