



**Zytronic PLC** - ZYT  
Preliminary Results  
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Zytronic PLC  
13 December 2016

**The following amendment has been made to the Preliminary Results announcement released on 13 December 2016 at 07:00 under RNS No 6348R.**

**The record date for the final dividend has been corrected to 17 February 2017.**

**All other details remain unchanged. The full amended text is shown below.**

**13 December 2016**

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

**Preliminary Results for the year ended 30 September 2016 (audited)**

Zytronic plc, a leading specialist manufacturer of touch sensors, announces its preliminary results for the year ended 30 September 2016.

**Overview**

- Significant improvement in Group trading profits (excluding the £0.9m fall in fair value of forward exchange contracts) to £5.2m (2015: £4.6m)
- Strong cash generation from operating activities of £5.6m (2015: £4.9m) provides the basis for a 20% increase in dividends, being the third successive year of double-digit dividend growth
- Group revenue of £21.1m (2015: £21.3m) reflects the continuing growth in touch sensor revenue of 5% (2015: 16%)
- Export revenue accounted for 95% (2015: 93%) of all revenue
- Basic earnings per share increased to 26.6p (2015: 24.7p)



Commenting on the outlook, Chairman, Tudor Davies said:

"The year has started well with orders, revenue and current trading ahead of the same period last year, which provides an encouraging start to continue to deliver value for our shareholders.

**Enquiries:**

**Zytronic plc**  
**Mark Cambridge, Chief**  
**Executive**  
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**Director**

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**Notes to Editors**

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

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

Zytronic has continually developed know-how and IP since 1999 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 three modern factories on a single site near Newcastle-upon-Tyne in the United Kingdom, Zytronic processes glass substrates and assembles their touch overlay products, 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 2016 which, as explained in the recent pre-close statement, Group trading profit excluding fair value movements on foreign exchange forward contracts of £0.9m, shows a significant improvement to £5.2m.



## Results

As Mark Cambridge, our CEO, describes in his Operational review, it is pleasing to report the success of the strategy of targeting the larger-format touch sensor markets where our proprietary multi-touch technology has generated significant demand, particularly in the gaming market.

The key measure of growth is our touch sensor business where, for the year ended 30 September 2016, revenues grew by 5% to £18.2m, although as expected there was a 26% reduction in revenues to £2.9m of the original non-touch glass display products which we have been diversifying away from for several years.

In total, revenues were slightly down at £21.1m (2015: £21.3m), but despite the fall in the fair value of the forward exchange contracts of £0.9m, reported profit before tax was £4.3m (2015: £4.5m) whilst profit after tax increased to £4.1m (2015: £3.8m) with basic earnings per share increasing to 26.6p (2015: 24.7p). The benefit in EPS has come from a reduced tax charge of 4% (2015: 17%) as a result of the Group's election to take part in the Patent Box tax scheme.

The conversion of profits into cash demonstrates the underlying improvement in performance, with cash generation from operating activities for the year ended 30 September 2016 increasing to £5.6m (2015: £4.9m).

## Dividend

The Directors propose a final dividend of 10.96p (2015: 8.87p) payable on 3 March 2017 to shareholders on the register on 17 February 2017, which increases the total dividend for the year by 20% to 14.41p (2015: 12.01p).

## Outlook

The year has started well with orders, revenue and current trading ahead of the same period last year, which provides an encouraging start to continue to deliver value for our shareholders.

Tudor Davies  
Chairman  
12 December 2016

## 2016 Operational review

I would like to start this Operational review by thanking on behalf of the Board of Directors, all Zytronic employees who contributed to the overall performance of the business, over the 2016 fiscal period.

## Strategic sales and marketing initiatives

In the 2015 annual report, we indicated a number of key strategic initiatives for 2016 particularly related to the growth in our direct presence in key global areas, being North America, the Greater China Region and Japan, as well as continuing to focus on our global routes to market through the development of the sales channel partnerships that we have around the world.



The work in establishing an increased direct presence for Zytronic in the aforementioned key geographies continued through 2016, with the appointment of a USA based national sales engineer in Zytronic Inc. This was complemented over the course of 2016, by the increase to 41 in our channel partner network (2015: 38); with 16 regional agreements across the Americas, up from 14 in 2015, eleven across APAC, 13 across EMEA and one new global value added reseller agreement with the display division of Future Electronics, an organisation which has numerous sales offices, product warehousing and assembly facilities around the world.

A key feature of the period has been the continued development of our multi-touch multi-user mutual projected capacitive technology ("MPCT™") for ultra-large format sensor designs. This has continued our strategic focus on key growth application areas such as casino cabinet gaming (flat and curved), casino surface table gaming and vertical and horizontal digital signage, where our technology, manufacturing competence and product functionalities provided an advantage.

The main focus of our marketing efforts during 2016 was the complete corporate rebranding of the Group, with the release of a new branding logo focused on the substantial touch-interactive nature of the business, along with new websites with the added benefits of mobile device compliance. We also continued to participate either directly or in combination with channel partners and suppliers, at key signage, gaming and technical tradeshow in the UK, Europe, the Middle East and the USA. The global promotion of the Group through our regional PR representatives, was assisted by the release of several product case studies, process and sales structure press releases and technical opinion pieces.

### **Strategic research and development**

The technical team continued the work outlined in the 2015 annual report to provide manufacturing process and product functional improvements to the ranges and IP associated with the touch sensing technologies developed and produced by Zytronic.

The team completed the design and production release of the ZXY150 series controller for MPCT™ functionality in the large volume area of sensor sizes less than 20". In conjunction with this development, the silicon phase of the developed Zytronic MPCT™ Application-Specific Integrated Chip ("ASIC") commenced, with delivery of first article approval samples of the ASIC expected in January 2017. The production release of MPCT™ controllers supporting the full range of sensor sizes incorporating the ASIC is scheduled for the final quarter of 2017.

At the year end, a fifth GB patent was granted for our MPCT™ solution, being GB2502594, related to the design specifics of our MPCT™ electrode sensor pattern.

Over the period, the team also continued further developments of Zytronic software and firmware IP, in both our single-touch, single-user self-projected capacitive technology "PCT™" and MPCT™ solutions with the release of Android and Mac operating system-specific hardware drivers as well as a single finger unique zoom functionality instead of the normal and cumbersome multi-finger gesture.



A significant amount of development time over 2016 was expended on the design and procurement of a state-of-the-art laser system for the bonding of our electrode pattern to our flexible PCB controller connector tails, with a production ready unit expected to be in service by January 2017. The team also continued over the year to work on alternative sensor electrode materials as well as providing significant technical support into our relationship with Cryptera A/S as we move towards an expectation of 2017 production projects of encrypted touch solutions.

## Sales

The 2016 first half non-touch products revenue reduction, reported at the interims, persisted through the second half, resulting in revenues of non-touch products of £2.9m (2015: £4.0m); this decline has been expected and had been flagged over a number of reporting periods. Although a number of factors contributed to this, by far the most significant, was a further reduction in the ATM display revenues of £0.7m, from £2.3m of 2015 to £1.6m this year.

Total sales revenues for the year of £21.1m were generally in line with those generated in 2015 (£21.3m), albeit with the nature of the business being increasingly geared towards touch product revenues. With high global exports, bespoke designs and varying project-based low volume batch production, the mix of product revenues was, as expected, considerably different when comparing the two years. Touch revenues increased by £0.9m (5%) to £18.2m (2015: £17.3m). More specific details of this mix improvement are covered below.

Export revenues accounted for 95% of the £21.1m total revenues (2015: 93% of £21.3m), whilst touch export revenues grew by £1.3m (8%) to £17.6m, representing 96% of the £18.2m of total touch revenues (2015: £16.3m, 94% of £17.3m). We experienced, for the second year, significant growth in our APAC touch sales to £7.3m (2015: £5.0m), coming from the strengthening of our bespoke curved MPCT™ solutions in the gaming market, relative stability in our EMEA touch sales at £6.7m (2015: £6.8m) and a reduction in Americas touch sales to £3.6m (2015: £4.5m), mainly associated with the vending market.

The total number of touch sensor units supplied across all size ranges was 130,000 (2015: 149,000 units). The single most significant reduction in volume was attributable to a decrease in medium-sized 15" sensors, associated with vending applications.

However, as the business has continued to focus on the increasing revenue benefits associated with the ultra-large format markets, with sensors greater than 30", the effects of the reduction in sensor volumes in the smaller size ranges was significantly countered. The following table compares the relative volumes of sensors sold over a range of sensor sizes:

Sensor Size	2016		2015		Variance	
	Units (thousands)	% total	Units (thousands)	% total	Units (thousands)	% Change
0 - 14.9"	39	30	42	28	(3)	(7)



15.0 - 29.9"	77	59	98	66	(21)	(21)
30.0" +	14	11	9	6	5	56
TOTALS	130	100	149	100	(19)	(13)

Additional benefits in both revenues and margins are realised as a consequence of the significant proportion of the 14,000 ultra-large format units supplied that are greater than 30" in size incorporating the value added growth areas targeted by the Group. These being 11,000 units incorporating our MPCT™ solutions (2015: 6,000 units) and, of the 11,000 units, 9,000 units were of bespoke large-radius curved designs (2015: 4,000 units).

### Touch application markets

The financial market remained our top touch revenue generating application contributing £6.4m (2015: £6.3m) of revenues. The market in the year was affected by Asian ATM manufacturers continuing to strengthen their local positions against our larger global ATM OEM customers as well as the merger of Diebold Inc. with Wincor Nixdorf, which was concluded in the year.

The gaming market continued to show considerable strength and growth and in 2016, became the second highest touch application revenue contributor at £5.9m (2015: £3.4m), as project deliverables, where we offered both PCT™ and MPCT™ solutions across a number of customers in ultra-large curved formats, increased.

The vending market, although our second highest touch application area in terms of unit volumes produced, became our third highest touch application area in terms of revenue generation at £2.6m (2015: £3.7m). As expected, the decline in both volume and revenue was mostly attributable to another year of significantly reduced supply for the medium-sized 15" Coca-Cola Freestyle units, after their substantial purchasing of sensors to align with the original LCD display unit end-of-life programme in 2015, as detailed in the 2015 annual report.

Our industrial and signage application markets declined from the prior year to £1.4m (2015: £2.0m) and £1.0m (£1.2m) respectively. By far the biggest contributor to the drop in industrial revenues was the 52% reduction across numerous individual projects from our French channel partner, coupled with the effects in general of the oil and gas sector. Signage was affected by the conclusion in 2015 of the car showroom information table system project for a new model launch with a UK customer, as described in the 2015 annual report.

In combination, our other application markets of healthcare, home automation and telematics in total increased £0.1m to £0.9m (2015: £0.8m), with the volume of the cooktop project, under home in particular, improving over the year.

### Opportunities analysis

Zytronic maintains an active log to monitor all valid sales enquiries generated from the various input sources, being the sales channel



partners, regional sales managers, business development managers and exhibition participation.

However, during the latter stages of 2016, to further improve our lead monitoring and global sales management processes, we ported and moved the static log into a new Microsoft Dynamics process-based CRM system from which they are now monitored. New leads were then added to the CRM system and all leads were segregated into the key market sectors, ranging in size and value depending upon their success probability, quantity, and, if applicable to touch, by sensor size and technology of the products required, with our high probability leads tagged as Projects.

As the system is dynamic, it ensures that the data is always up to date, ensuring that strict defined process stages must be met and complied with, as the leads progress through to Projects. As of 30 September 2016, there were 325 active leads in the system, of which 48 are currently accorded high probability Project status.

Mark Cambridge  
Chief Executive Officer  
12 December 2016

## **2016 Financial review**

### **Overview**

The Group's performance over the year can be characterised by the following key factors:

- Group revenue of £21.1m (2015: £21.3m);
- Continued growth in touch sensor revenue of 5% (2015: 16%);
- gross profit margin of 42.8%, compared to 41.9% in 2015;
- reported Group trading profit of £4.3m (2015: £4.6m) is impacted by the fall in fair value of forward foreign exchange contracts of £0.9m;
- profit after tax at £4.1m is ahead of last year by £0.3m (2015: £3.8m); and
- continued strong cash generation from operating activities of £5.6m (2015: £4.9m).

### **Gross margin**

Gross margin improved to 42.8% in the year (2015: 41.9%) through increased revenues from larger-format touch sensors and a bigger split of revenues from touch products compared to traditional products. The Group maintained production efficiencies from previous years' capital investment and continued to control other costs.

### **Group trading profit**





Group trading profit of £4.3m (2015: £4.6m) was impacted by the £0.9m fall in fair value of forward foreign exchange contracts following the severe weakening of Sterling when the EU referendum resulted in the UK voting to leave the EU. Group trading profit excluding fair value movement on forward foreign exchange contracts is therefore £5.2m. All other costs of administration have been well controlled throughout the year.

### **Tax**

The Group's total tax charge in the income statement for the year ended 30 September 2016 is £0.2m, which represents an effective tax rate of 4.3%. The effective tax rate has been impacted by the Group obtaining tax benefits from electing into the Patent Box regime, which allows companies to apply a rate of corporation tax of 10% to profits earned after 1 April 2013 from patented inventions and similar intellectual property. During the year ended 30 September 2016, work was completed by qualified specialists to confirm that the relevant criteria had been met and tax savings of £127k for 2016 plus £289k for the two previous years has been recognised, which has reduced the effective tax rate from the statutory rate of 20.0% by 9.7% in total. The tax rate has been further reduced by 4.4% as a result of the Group claiming R&D tax credits.

### **Earnings per share**

The issued share capital is 15,429,528 ordinary shares of 1.0p each and EPS for the year is 26.6p, which represents growth of 8% from that reported last year (2015: 24.7p).

### **Dividend**

During the year the Group paid a final dividend for 2015 of 8.87p per share and a 2016 interim dividend of 3.45p per share totalling £1.9m of cash (2015: £1.6m). The Directors recommend the payment of a final dividend of 10.96p per share for the year ended 30 September 2016 giving a total dividend for the year of 14.41p per share (2015: 12.01p) and an increase of 20% over last year. Subject to approval by shareholders, the dividend will be paid on Friday 3 March 2017 to shareholders on the register as at the close of business on Friday 17 February 2017. The dividend is covered 1.9 times by underlying earnings.

### **Capital expenditure**

The Group additions to capital expenditure totalled £0.8m split equally between property, plant and equipment and intangible assets. Following the major capacity planning expansion work undertaken last year, this year's spend in plant and equipment has been incurred in adding several new 2D direct-write electrode printing machines to increase the throughput and capacity of the production of ultra-large (up to 65") touch sensors. A large portion of the spend in intangible assets related to continuing work on the MPCT™ ASIC project and a new Fibre Laser PCB Bonding Table and Vision system. Depreciation and amortisation for the year was just over £1.1m (2015: £1.0m).

### **Cash and debt**

The Group continues to be cash generative and recorded an increase in cash and cash equivalents of £2.9m (2015: £2.0m) at the year end. This growth in cash enables the Group to continue its policy to invest in internal R&D and capital refurbishments and to maintain its progressive dividend policy.

Net cash (cash less debt) balances at 30 September 2016 were £11.6m (2015: £8.5m), 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 maintains an overdraft facility which is available for use in any of its currencies. The Group also had an FX policy in place at the year end whereby it is hedged in both US





Dollars and Euros for a period of twelve months ahead to try to better manage its net GBP inflows from its surplus currency requirements. Following the year end the Group considered its position on FX and agreed to continue to hedge against FX movement but only up to a period of a maximum four months ahead. The current contracts in place will therefore unwind over the coming year and will be replaced as necessary as per the new policy.

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 2016, the outstanding property mortgage is £1.1m.

### Proposed capital reduction

A special resolution to apply to the Courts for a capital reduction process will be placed before the shareholders at the forthcoming Annual General Meeting ("AGM"). This resolution, should it be approved by the Court, will enable the conversion of the £8.9m of historical non-distributable reserves to distributable reserves. The Directors' unanimous recommendation is that you vote in favour of this proposal.

Claire Smith  
Group Finance Director  
12 December 2016

## Consolidated statement of comprehensive income

For the year ended 30 September 2016

	Notes	2016 £'000	2015 £'000
<b>Group revenue</b>		<b>21,087</b>	21,267
Cost of sales		(12,071)	(12,366)
<b>Gross profit</b>		<b>9,016</b>	8,901
Distribution costs		(378)	(278)
Administration expenses		(4,365)	(4,073)
<b>Group trading profit</b>		<b>4,273</b>	4,550
Finance costs		(23)	(29)
Finance revenue		20	23
<b>Profit before tax</b>		<b>4,270</b>	4,544
Tax expense	3	(183)	(775)
<b>Profit for the year</b>		<b>4,087</b>	3,769
<b>Earnings per share</b>			
Basic	5	<b>26.6p</b>	24.7p
Diluted	5	<b>26.1p</b>	24.3p

All profits are from continuing operations.

## Consolidated statement of changes in equity

For the year ended 30 September 2016

	Called up share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
At 1 October 2014	152	7,290	10,611	18,053
Profit for the year	-	-	3,769	3,769
Exercise of share options	1	262	-	263
Share-based payments	-	-	180	180
Dividends	-	-	(1,574)	(1,574)
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)
<b>At 30 September 2016</b>	<b>154</b>	<b>7,766</b>	<b>15,316</b>	<b>23,236</b>

## Consolidated balance sheet

At 30 September 2016

	Notes	2016 £'000	2015 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets		1,457	1,427
Property, plant and equipment		7,389	7,807
		<b>8,846</b>	<b>9,234</b>
<b>Current assets</b>			
Inventories		2,760	3,214
Trade and other receivables		3,745	3,055
Cash and short term deposits		12,763	9,833
		<b>19,268</b>	<b>16,102</b>
<b>Total assets</b>		<b>28,114</b>	<b>25,336</b>
<b>Equity and liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables		1,302	971
Financial liabilities		1,148	200
Derivative financial liabilities		959	89
Provisions		205	-
Accruals		834	1,201
Tax liabilities		122	255
		<b>4,570</b>	<b>2,716</b>
<b>Non-current liabilities</b>			
Financial liabilities		-	1,144
Provisions		-	136
Government grants		48	59

Deferred tax liabilities (net)	260	590
	<b>308</b>	1,929
<b>Total liabilities</b>	<b>4,878</b>	4,645
<b>Net assets</b>	<b>23,236</b>	20,691
<b>Capital and reserves</b>		
Equity share capital	154	153
Share premium	7,766	7,552
Revenue reserve	15,316	12,986
<b>Total equity</b>	<b>23,236</b>	20,691

## Consolidated cashflow statement

For the year ended 30 September 2016

	2016 £'000	2015 £'000
<b>Operating activities</b>		
Profit before tax	4,270	4,544
Net finance costs	3	6
Depreciation and impairment of property, plant and equipment	766	708
Amortisation and impairment of intangible assets	355	336
Loss on sale of fixed assets	-	54
Amortisation of government grant	(11)	(4)
Share-based payments	71	180
Fair value movement on foreign exchange forward contracts	870	(87)
<b>Working capital adjustments</b>		
Decrease/(increase) in inventories	454	(88)
(Increase)/decrease in trade and other receivables	(690)	13
Increase/(decrease) in trade and other payables and provisions	76	(249)
Cash generated from operations	6,164	5,413
Tax paid	(576)	(556)
<b>Net cashflow from operating activities</b>	<b>5,588</b>	4,857
<b>Investing activities</b>		
Interest received	20	23
Proceeds from disposal of property, plant and equipment	-	3
Receipt of government grant	---	63
Payments to acquire property, plant and equipment	(387)	(994)
Payments to acquire intangible assets	(385)	(388)
<b>Net cashflow from investing activities</b>	<b>(752)</b>	(1,293)
<b>Financing activities</b>		
Interest paid	(21)	(26)
Dividends paid to equity shareholders of the Parent	(1,900)	(1,574)
Proceeds from share issues relating to options	215	263
Repayment of borrowings	(200)	(200)
<b>Net cashflow from financing activities</b>	<b>(1,906)</b>	(1,537)



<b>Increase in cash and cash equivalents</b>	<b>2,930</b>	<b>2,027</b>
Cash and cash equivalents at the beginning of the year	9,833	7,806
<b>Cash and cash equivalents at the year end</b>	<b>12,763</b>	<b>9,833</b>

## Notes to the consolidated financial statement

### 1. Basis of preparation

The preliminary results for the year ended 30 September 2016 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 2016. 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 2015 have been filed with the Registrar of Companies. The statutory accounts for the year ended 30 September 2016 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

	<b>30 September 2016 £'000</b>	<b>30 September 2015 £'000</b>
<b>Current tax</b>		
UK corporation tax	<b>732</b>	750
Corporation tax over-provided in prior years	<b>(289)</b>	31

Total current tax charge	443	781
<b>Deferred tax</b>		
Effect of change in tax rates	(103)	-
Origination and reversal of temporary differences	(157)	(6)
Total deferred tax credit	(260)	(6)
Tax charge in the income statement	183	775

***Tax relating to items debited to equity***

	30 September 2016 £'000	30 September 2015 £'000
<b>Deferred tax</b>		
Tax on share-based payments	(72)	-
Total deferred tax debit	(72)	-
Tax charge in the statement of changes in equity	(72)	-

***Reconciliation of the total tax charge***

The effective tax rate of the tax expense in the income statement for the year is 4% (2015: 17%) compared with the rate of corporation tax in the UK of 20% (2015: 20.5%). The differences are reconciled below:

	30 September 2016 £'000	30 September 2015 £'000
Accounting profit before tax	4,270	4,544
Accounting profit multiplied by the UK rate of corporation tax of 20% (2015: 20.5%)	854	932
<b>Effects of:</b>		
Expenses not deductible/(income not chargeable) for tax purposes	16	(19)
"Gain" on exercise of share options allowable for tax purposes but not reflected in the income statement	(42)	(25)
Depreciation in respect of non-qualifying items	38	38
Enhanced tax reliefs - R&D	(187)	(179)
Enhanced tax reliefs - Patent Box	(127)	-
Effect of deferred tax rate reduction and difference in tax rates	(80)	(3)
Tax (over-provided)/under-provided in prior years	(289)	31
Total tax expense reported in the income statement	183	775

***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 Group has obtained benefits from electing into the Patent Box regime. This has resulted in a reduction in the corporation tax liabilities for both the 2014 and 2015 accounting periods, which is reflected within tax over-provided in prior years of £289k.



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 2016 (2015: £Nil).

The main rate of corporation tax in the UK reduced to 20% with effect from 1 April 2015. The rate will be reduced to 19% from 1 April 2017 and 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 now been made in relation to the 2014 and 2015 accounting periods, and the 2016 benefit estimated.

#### 4. Dividends

The Directors propose the payment of a final dividend of 10.96p per share (2015: 8.87p), payable on 3 March 2017 to shareholders on the Register of Members on 17 February 2017. This dividend has not been accrued in these financial statements. The dividend payment will amount to some £1.7m.

	<b>30 September 2016 £'000</b>	<b>30 September 2015 £'000</b>
<b>Ordinary dividends on equity shares</b>		
Final dividend of 7.16p per ordinary share paid on 13 March 2015	-	1,093
Interim dividend of 3.14p per ordinary share paid on 24 July 2015	-	481
Final dividend of 8.87p per ordinary share paid on 11 March 2016	<b>1,368</b>	-
Interim dividend of 3.45p per ordinary share paid on 22 July 2016	<b>532</b>	-
	<b>1,900</b>	<b>1,574</b>

#### 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.

<b>Earnings</b>	<b>Weighted average number of shares</b>	<b>EPS</b>	<b>Earnings</b>	<b>Weighted average number of shares</b>	<b>EPS</b>
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	30 September r 2016 £'000	30 September r 2016 Thousands	30 September r 2016 Pence	30 September r 2015 £'000	30 September r 2015 Thousands	30 September r 2015 Pence
Profit on ordinary activities after tax	4,087	15,346	26.6	3,769	15,259	24.7
Basic EPS	4,087	15,346	26.6	3,769	15,259	24.7

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 r 2016 £'000	Weighted average number of shares 30 September r 2016 Thousands	EPS 30 September r 2016 Pence	Earnings 30 September r 2015 £'000	Weighted average number of shares 30 September r 2015 Thousands	EPS 30 September r 2015 Pence
Profit on ordinary activities after tax	4,087	15,346	26.6	3,769	15,259	24.7
Weighted average number of shares under option	-	299	(0.5)	-	239	(0.4)
Diluted EPS	4,087	15,645	26.1	3,769	15,498	24.3

## 6. AGM date

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 16 February 2017 at 2.00pm. Notice of the AGM will be sent to shareholders with the annual report and accounts in due course.



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