Zytronic plc
Annual Report and Financial Statements 2013

The touch solution for all environments

Overview

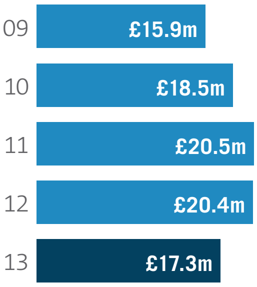
- Touch revenue accounts for 73% (2012: 71%) of Group revenue of £17.3m (2012: £20.4m)
- Touch sensor units sold increased to 126,000 units (2012: 123,00 units)
- Gross profit margin decreased to 28.4% (underlying*: 30.8%) from 36.3% in 2012
- Improvement in second half underlying pre-tax profit of £1.6m versus £0.8m in the first half, totalling £2.4m underlying pre-tax profit for the year*
- Profit before tax decreased by 55% to £1.9m (2012: £4.2m)
- Basic earnings per share of 11.1p with adjusted basic earnings per share of 13.9p (2012: 22.2p)
- Net cash generated from operating activities of £3.3m (2012: £3.6m)
- Net cash balances increased by £1.3m to £5.5m
- Total dividend for year increased by 7.1% to 9.1p (2012: 8.5p)

* Underlying measures exclude exceptional costs of £413,000 as described in note 3 to the accounts.

Sales revenue

£17.3m

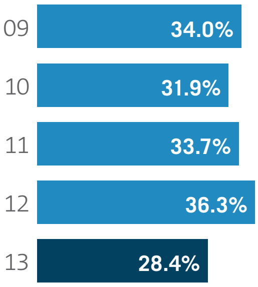
↓15%



Gross profit margin

28.4%

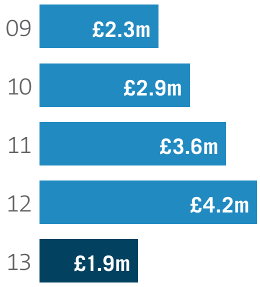
↓22%



Profit from continuing operations (“PBT”)

£1.9m

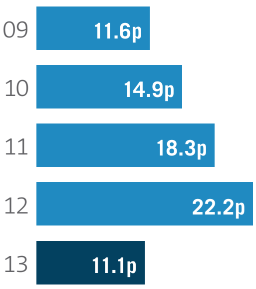
↓55%



Earnings per share

11.1p

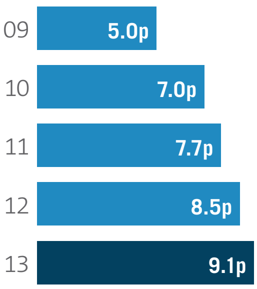
↓50%



Dividends

9.1p

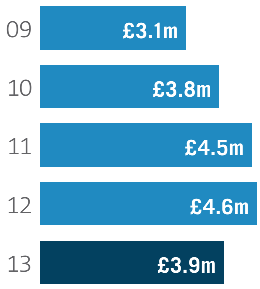
↑7.1%



Cash generated from operations

£3.9m

↓15%



Chairman’s statement
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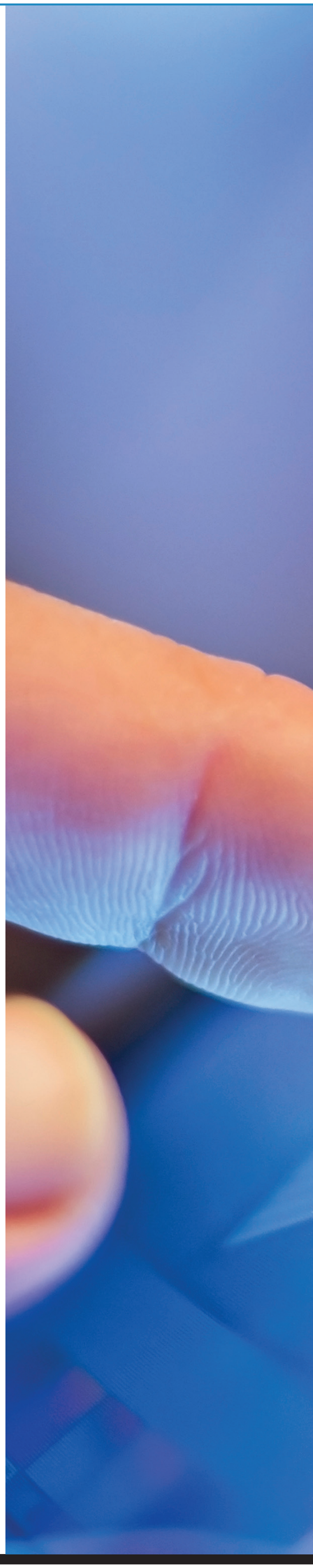

Zytronic is a leading global manufacturer of touch-based products for public access and industrial applications

Business review
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Our patented Projected Capacitive Technologies (“PCT™”) and Mutual Projected Capacitive (“MPCT™”) are unique to Zytronic and offer significant benefits to traditional users of resistive, capacitive and surface acoustic wave (“SAW”) technologies.

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

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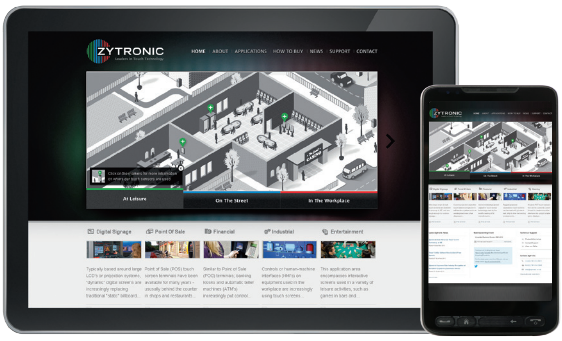


www.zytronic.co.uk
In-depth view of our technology and applications

About us

Over 13 years we have developed our patented PCT™ and MPCT™ sensing technologies into a family of product offerings. Operating through a network of channel partners across the globe, our integrated technologies are being used at leisure, on the street and in the workplace.

Our award-winning PCT™ and MPCT™ products are being used in a range of industrial and public access and service applications such as information and financial kiosks, digital signage, ticketing, gaming telematics and medical devices.

Key

At leisure

On the street

USA

Customer MRI

Industry
Food and beverage

Application
Quick service restaurants

The ZYTOUCH® solution offers front and rear anti-reflective coating and ensures all-weather durability. "Self-service kiosks are known to increase productivity and customer satisfaction in many types of enterprises", comments Peter Kaszychi of MRI.

Germany

Customer Bosch und Siemens Hausgeräte ("BSH")

Industry Home automation

Application Induction cooktop

BSH's full surface induction cooktop utilises Zytronic's PCT™ to create a practical and stylish kitchen appliance. Following the success of the launch of this Gaggenau product, BSH have introduced the touch sensor into their USA sister brand, Thermador.

Read more online at **www.zytronic.co.uk**

Sales channel partnerships

38 countries

Total accounts

61

We operate in five key areas

Digital signage | Point of sale | Financial | Industrial | Gaming

Japan

Customer JR East Group

Industry Food and beverage

Application Vending

Zytronic develops customised, large format, heavy duty touch sensing solutions for advanced vending machines being deployed throughout transportation hubs in Japan. "The robustness of the selected touch solution was mandatory, Zytronic was chosen because of the strong durability its offering demonstrates, as well as water and dust resistant operation" states Hitoshi Aida of JR East Water Business.

Australia

Customer Transcity

Industry Leisure

Application Sports table

Zytronic touch sensors take up the challenges of a sporting life. The large format touch tables offer users access to digital TV, as well as internet browsing. Geoff McDowell, MD of Transcity comments "Zytronic's PCT was the only multi-touch technology capable of giving us the bezel-free aesthetic we required, while still being strong enough to cope with a sports bar environment."

Chairman’s statement

“The Group remains in a strong financial position with cash and short term deposits of £5.5m.”

Summary

- Profit after tax decreased by 50% to £1.7m (2012: £3.3m)
- EPS decreased by 50% to 11.1p (2012: 22.2p)
- Total dividends for year increased by 7% to 9.1p (2012: 8.5p)
- Touch revenue accounts for 73% of Group revenue (2012: 71%)
- Gross profit margin decreased to 28.4% from 36.3%
- Net cash generated from operations of £3.3m (2012: £3.6m)
- Net cash balances less borrowings increased by £1.3m to £5.5m

Following a particularly difficult first half, the performance for the year ended 30 September 2013, after five years of continuing growth, was disappointing. However, the second half has shown a considerable improvement with an underlying operating profit of £1.6m (2012: £2.1m) compared with the first half of £0.8m (2012: £2.2m). Net cash generation from operating activities for the year remained very strong at £3.3m (2012: £3.6m).

Results

Revenue for the year ended 30 September 2013 was £17.3m (2012: £20.4m); profit before taxation was £1.9m (2012: £4.2m); profit after taxation was £1.7m (2012: £3.3m) and basic earnings per share was 11.1p (2012: 22.2p). The profit this year was adversely affected by a one-off non-cash impairment of a royalty prepayment of £0.4m, and the underlying profit before taxation therefore was £2.4m, with a first half profit of £0.8m improving to £1.6m in the second half.

Cash generation was strong with £3.3m (2012: £3.6m) from operating activities including a £1.0m reduction in working capital. After investment of £0.6m in capital expenditure and debt service costs of £0.2m, a net positive cash flow of £2.6m (2012: £2.8m) was generated before dividend payments of £1.3m (2012: £1.2m).

The Group remains in a strong financial position with cash and short term deposits of £5.5m (2012: £4.2m) and a net financial position of £3.7m (2012: £2.3m) after financial liabilities of £1.7m (2012: £1.9m) in relation to a property mortgage.

As explained in announcements during the year, the main reason for the significant decline in the first half, compared with the equivalent period last year, was the absence of some large one-off orders and projects of approximately £2.0m of revenues.

The second half benefited from a combination of management actions to improve levels of production efficiencies, and a higher proportion of touch sensor products sold, enabling an improvement in gross margin from 26.0% in the first half to an underlying 35.4% for the second half and a consequent improvement in profits.

The comprehensive Business Review provides additional information on aspects of the sales, profitability, research and development and operational activities of the business during the fiscal year.

Dividend

The Directors propose a final dividend of 6.35p (2012: 5.9p) payable on 14 March 2014 to shareholders on the Register on 28 February 2014, which increases the total dividend for the year by 7.1% to 9.1p (2012: 8.5p).

Outlook

The first two months of the current financial year have seen a continuation of the improved margins and order intake experienced in the second half last year, and as long as the benefits from the trend towards touch sensor products continue, performance should improve this year. We shall update shareholders on material developments and progress as appropriate during the year.

Tudor Davies B.Sc.
Chairman
20 December 2013

Ultra large form factor ("ULFF") multi-touch, multi-user MPCT™ touch

Over the last few years, the Group's R&D team has been working on the development of multi-touch, multi-user mutual projected capacitance technology ("MPCT™") touch.

In May 2012, seven patent applications were submitted to the UK Patent Office for this new technology, with further patents being filed in 2013 under the patent co-operation treaty process. Sales of this product commenced in the year with the majority of demand being for large format screens.

We are seeing numerous developments for ultra large format interactive communal table systems.

Strategic report

Our markets

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

Our diverse range of touch sensor products are all based on our internationally award-winning embedded micro-fibre electrode projected and mutual projected capacitive technologies, providing highly durable and stable touch product ranges.

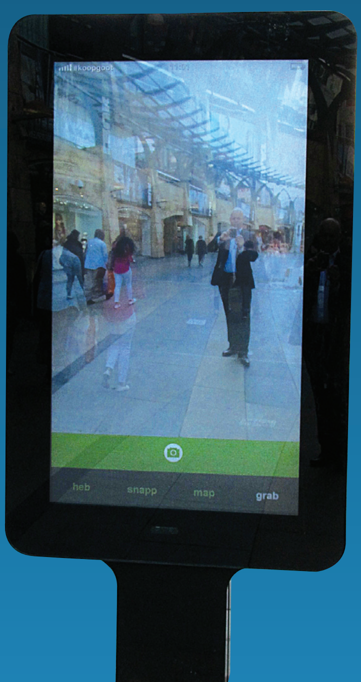
Our unique offerings

Large panel size screens

Zytronic supplies 72 inch touch sensors for street-based public information display units

Useful for:

The overall robustness and high degree of scalability are underlined in Zytronic's latest outdoor project with Surtronic. ZYBRID® touch sensors have been integrated into a public information/digital signage unit.



Large panel digital signage

The 72 inch sensor operates through an 8mm thick tempered glass protective overlay, making it resistant to vandalism. The ability to detect touches through such thick glass makes the sensors highly suitable for outdoor use.

Fully customisable solution

A stunning 31 inch multi-functional touch area has been designed into ILS's e-podium offering

Useful for:

One of Zytronic's latest projects has been with Netherlands based Intelligent Lectern Systems ("ILS"), a leading developer of audio-visual presentation tools, where a highly customised PCT-based sensor has been developed for incorporation into the next generation of ILS products.

ILS e-podium

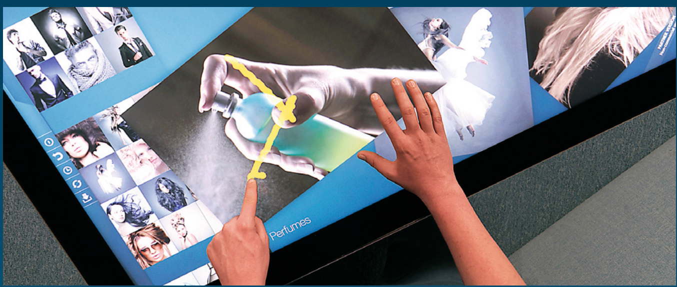
The ILS e-podium has a 22 inch touch enabled display with a surrounding extended touch zone incorporating a number of source controls, short-cut keys, a full QWERTY keyboard and an annotation pad.

Multi-touch product offering

Large format Zytronic multi-touch screens incorporated into DisplayLite Touch Table

Useful for:

Touch screen integrator DisplayLite has chosen Zytronic's highly durable, large form factor, multi-touch sensing solution for its recently launched 'Zero Bezel' range of touch tables and wall-mounted displays.



Zytronic's MPCT™ sensor

Supplying 40, 46 and 55 inch versions of Zytronic's MPCT™ sensor made from 4mm thermally toughened glass, users can simultaneously activate the surface using swipes, drag/drops, page flicks, pinch zooms and a variety of other defined gestures.

Curved screen capability

Curved multi-touch screen capability opens the door to next generation of casino game hardware

Useful for:

Showcased at the G2E exhibition in Las Vegas, our customised curved 32 inch multi-touch screen hints at the possibilities game hardware designers have with the technology. In a marketplace where novelty and product differentiation are crucial, this product offers limitless levels of customisation.

Electronic slot machine with curved display

Zytronic's concept unit combining a 32 inch convex curved, muti-touch screen, with additional customisations in the form of printed soft keys or touch buttons outside of the display area.

Competitive advantages

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

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

The growth of the Group and its future prospects comes from the exploitation of this relatively new touch sensor technology. Our focus on the development of this patented technology has resulted in both the continual improvement to the operation and functionality of the touch sensors and the expansion of the range of different glass-based products available. These range from ultra-rugged, thicker versions to much thinner, but still very robust, types. These touch sensors are designed to work in front of LCDs or other electronic devices where optical clarity is paramount. Conversely, the technology has also been adapted to produce touch sensitive keypads and touch-switch sensors, which are not required to be transparent, and to produce plastic film versions.

The Group's intellectual property rights include confidential operations and processes, technology covered by patents and licensed technology, trademarks and copyrights. Over recent years the Group has taken significant steps to register its trademarks.

www.zytronic.co.uk

Read more about our product offerings and applications on our website.

Strategic report continued

Our strategy

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

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

Strategic goals	What we did in 2012/13
Innovate We identify development projects which will enhance our technology, increase its ease of use and functionality for customers and end users, and listen to existing and potential customers and our markets on future requirements.	→ We filed patent applications for international registration of our innovative MPCT™ touch. → Our R&D team has continued to develop our MPCT™ touch to enhance the size and functionality of the products offered. → We launched our first curved multi-touch screen at the G2E exhibition in Las Vegas. → We developed new interface software for new Windows, Linux and Android platforms.
Grow We continue to seek opportunities to expand our sales channels across the world. We have new additions in the USA and China and aim to establish representation in new countries, for example Indonesia and the Middle East.	→ We sold more units in 2013 than that of 2012. → We appointed new and increased our number of channel partners in countries covered to seek further opportunities across the world. → We appointed a new channel partner in North America, specifically to sell our all plastic substrate 'foil' touch sensors.
Invest We review our manufacturing methods regularly to bring through efficiencies in production. We add new plant and equipment each year, as necessary, to add capacity and replace old equipment.	→ Our staff are key to the success of the business, particularly in R&D and sales. We have invested in both areas in the year through recruitment and training to allow us to react quicker to the challenges from our global customer base. → We invested in a new R&D lab in the year to allow increased product testing and development. → We invested in a new glass printing facility and equipment to enhance the size and scope of product customisations.

Our priorities for 2013/14

- Focus on further enhancing our curved touch sensor display products.
- We will look to further develop the scope for encrypted touch sensor solutions.

- We will continue to pursue applications for our MPCT™ touch to build on the successful introduction of this product to market.
- Our sales team has been tasked to engage with potential customers in a variety of applications to demonstrate the versatility of our products.

- Customer service is a key priority for us and in order to respond quicker to our customers' queries we are looking at the processes to provide better support to our global customers.
- We will expand our marketing activities by participating at the Infocomm 2014 exhibition.

Measuring our performance

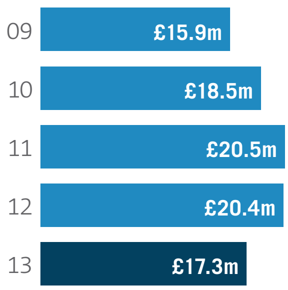
Our key performance indicators reflect the business' financial success throughout the year.

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

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

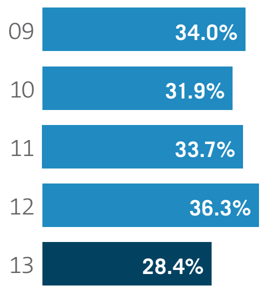
Sales revenue

£17.3m



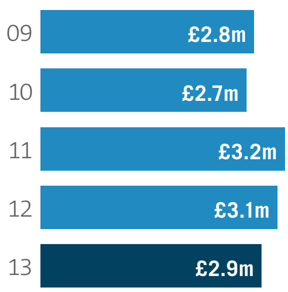
Gross profit margin (%)

28.4%



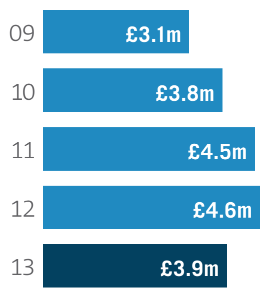
Administration expenses

£2.9m



Cash generated from operations

£3.9m



Strategic report continued

Risk management

Risk description	Mitigation
Advances in competing technologies The main risk to the Group's business is that of advances in competing technology, whereby a new, better touch sensor technology is created.	Management is very conscious of this and monitors competitors' developments and changes within the whole industry. By continually developing and evolving its own technologies, the Group expects to build upon its competitive strengths and thereby keep its technology ahead of its competitors.
Downward price pressures from competing technologies This is most prevalent in the lower valued touch sensor sector dominated by resistive, capacitive and surface acoustic wave touchscreens. However, price pressure in those markets does have a knock-on effect on prices throughout the industry: new, better touch sensor technology is created.	Management has successfully met these challenges to date by redesigning and re-engineering the ZYTOUCH touch sensor in developing the ZYPOS touch sensor. This enabled the Group to reduce the cost of manufacture and therefore the sales price for subsequent touch sensor designs and has allowed the Group to enter markets that were previously closed to it on price grounds. The Group has subsequently taken the touch sensor manufacturing process changes and applied them to the redesign and manufacture of the optical display filters which it also produces.
Increasing costs of raw material supplies There are continuous upward pressures on the cost of raw material supplies, many arising from increases in oil prices and energy costs.	Management continually reviews the sources and costs of raw material supplies, the design of the Group's products and the operational processes that are used in the manufacture of all of the Group's products. Where possible, it has used increases in volume purchases to obtain price reductions, discounts and improved specifications.
Managing increases in the overhead base With the significant time that may occur between meeting potential customers and receiving first orders, management must ensure that the capacity of its factories is adequate for future growth in sales and the development of the business, while managing the profitability of the Group.	This is not straightforward when the business is developing new products and manufacturing processes and when the visibility and timing of orders from customers is unclear. Management uses a comprehensive sales pipeline model to monitor potential future sales levels and has built in a degree of flexibility to its two main factories.
Risks associated with currency movements A growing proportion of the Group's sales are denominated in US Dollars and Euros, so the Group is subject to risks associated with currency movements. It is the Group's policy to manage these risks and provide a degree of certainty for cashflows into the UK without taking the risks of speculative positions.	Natural hedging is adopted where possible to manage currency risk, whereby goods and services are sourced from Europe and the USA and the liability arises in the respective currencies. This is especially relevant with specialised glass, some electronic components and certain other raw materials.
Risks associated with timing of customer projects One of the main risks to the business is that of the timing of customer projects, where as a component supplier we are wholly reactive to our customer demands.	The demands of our customers is not something we can control so in order to mitigate this risk we constantly strive to have a diversified customer base with multiple projects over different time periods occurring at any one time.

Business review

	2013 H1 £'000	2013 H2 £'000	Total 2013 £'000
Group revenue	8,504	8,778	17,282
Cost of sales	6,295	5,666	11,961
Exceptional costs	—	413	413
Gross profit	2,209	2,699	4,908
Distribution costs	90	120	210
Administration expenses	1,437	1,421	2,858
Group trading profit	682	1,158	1,840
Other operating income	93	1	94
Group operating profit from continuing operations	775	1,159	1,934
Finance costs	28	11	39
Finance revenue	8	36	44
Profit from continuing operations	755	1,184	1,939
Tax expense	151	126	277
Profit for the year from continuing operations	604	1,058	1,662

The following business review provides information on the sales, profitability, operational, research and development and marketing activities of the business during fiscal year 2013 and, except where otherwise indicated, draws comparisons with the previous year.

Overview

As reported at the interims, first half revenues were significantly below the 2012 comparatives. This was due to the benefits seen in the comparable period from some one-off orders for ATM display products, the negative impact of the Coca Cola Company® Freestyle™ de-stocking from June 2012 onwards and the planned cessation of our ballistic visor production in the first quarter of 2013.

While second half revenues were only slightly stronger than the first (H1: £8.5m, H2: £8.8m), the higher proportion and better mix of touch product sales in the second half have, along with management actions to control costs, realised greater production benefits, driving a significantly higher reported gross margin (H1: 26.0%, H2: 30.7%, 2013: 28.4%) and subsequently an improved reported profit before tax (H1: £0.8m, H2: £1.1m, 2013: £1.9m). As discussed below, these figures are higher on an underlying basis in both the second half and for the full year.

The second half performance was impacted by a £0.4m one-off non-cash charge, relating to the impairment of royalty pre-payments under the terms of the licence agreement used in our bespoke range of patent protected projected capacitive touch products. Subsequent royalties will be fully expensed on a monthly basis, until the end of life of the relevant patents and therefore the agreement in 2015.

Sales

Total sales in the year were £17.3m (2012: 20.4m). Sales in the first half of the fiscal year were £2.1m lower than the same period in 2012 at £8.5m (2012: £10.6m) and remained broadly at that level in the second half of the year at £8.8m. This is in line with the revised guidance issued at the time of our interim results.

Non-touch product revenues in 2013 reduced by £1.2m to £4.7m (2012: £5.9m), with our ATM display filter products reduced by £0.5m and contributing £3.5m of the total revenues (2012: £4.0m). The strategic exit from the manufacture and supply of our range of ballistic visors, at the end of the first quarter, also contributed £0.4m to the reduction from the comparable period revenues (2013: £0.1m, 2012: £0.5m).

Although touch sensor sales for the year were £1.9m below 2012 at £12.6m (2012: £14.5m), this wholly reflects a product mix impact as the number of sensor units sold increased to 126,000 units (2012: 123,000 units).

Self-service and vending

Our touch sensors continue to be adopted in self-service and vending applications due to the ruggedness, reliability and availability of larger sizes.

Current applications include:

Coca-Cola Company's use of a 15.1 inch ZYBRID touch sensor in the Freestyle™ beverage dispenser.

The use of a 47 inch ZYBRID sensor by the beverage dispensing division of JR East Group, in its next generation digital vending machine, called "acure", being deployed through its expansive network of Japan Rail railway stations.

Dong Hwa Prime, Korea's most experienced provider of advanced self-service fuel dispensing systems, with around 80% of its domestic market, uses a 15.1 inch ZYBRID sensor in its MERIT dispenser, for its resilience, custom versatility and bright, modern appearance.

The Canadian company, Public Bike System Company, has used a 12.8 inch ZYBRID customised touch sensor with a protective overlay of 6mm thick toughened glass to provide the user interface for its bike rental system. The BIXI is in use also in Australia, the USA and Canada.

JC Decaux gets French cities moving

JC Decaux has used a 10.4 inch ZYTOUCH touch sensor in some of its Cyclocity urban bike hire schemes. JC Decaux has rolled out services across France and in several other European countries, as well as Japan and Australia.

Scheidt & Bachmann's new Tyneside Metro ticketing system

Scheidt & Bachmann has used a 15 inch ZYTOUCH touch sensor in its latest automated ticketing solution for the modernisation of 60 Metro stations in Tyneside.

These new machines boast advanced functionality through the use of the touchscreen user interface and make the ticket purchasing process faster and more intuitive.

Some of our milestones

2012
Development and introduction of new mutual capacitance PCT multi-touch, multi-user technology.

2011
Announcement of ZYPOS® design win for Bosch Siemen's Gaggenau induction cooktop.

2010
ZXY100 Series controllers and chipset solution to market.

2009
Announcement of The Coca-Cola Company®'s use of ZYPOS® sensor in its new Freestyle beverage dispenser.

2008
New ZYPOS manufacturing facility becomes operational.

2006
New design of ZYPOS touch sensor launched, opening the way to new application markets.

2005
ZYTOUCH design wins in petrol pump applications; North America sales rep network introduced, followed by agreements in EMEA and APAC over next four years.

2002
ZYTOUCH wins in ATMs (two of global top three) and BT Webphone.

2001
First commercial PCT-based product to market – trade named ZYTOUCH sensor.

Sales continued

Although the more specific unit movements in the application areas are discussed in detail below, in terms of unit size range distribution, we sold approximately 1,900 units less in 2013 than 2012 of the highest valued sensors larger than 30 inches, 3,200 units less of sensors in the size range 15–29.9 inches and 6,100 units more in the lower valued sensors in the size range 10–14.9 inches and 2,000 units more in the lowest valued sensors in sizes up to 9.9 inches.

The Financial application group was the strongest area due to the unique features and suitability of our PCT™ touch products. Total volumes in that application area increased overall by 6% to 45,000 units (2012: 42,000 units), as a consequence of the increased deployment of bill payment and financial kiosks by end customers. Whereas sensor sales for ATM use remained level at approximately 31,000 units in 2013 compared with 2012, a combination of the mix of product options sold and the complete redesign for one customer resulted in a reduction in comparative revenue by nearly a quarter.

Unit sales in our second largest application area of Vending were severely impacted in 2013, decreasing to 26,000 units (2012: 31,000 units) as a direct result of the de-stocking of the Coca Cola Company® Freestyle™ tier 1 suppliers of our 15 inch sensor, leading to a reduction of 10,000 units supplied in 2013 compared with 2012. The volume of sales to other customers in this area was up in the period.

Home Automation, mostly represented by sales of a 6.5 inch sensor to the Bosch Siemens group for one of its induction cooktop designs, saw the brand expanded beyond Gaggenau to include the USA sister brand Thermador. Unit sales in 2013 were significantly ahead of 2012 at 14,000 units (2012: 8,000 units).

Other significant unit growth has come through the Industrial in-vehicle telematics system markets, particularly in the agricultural sector. One of our leading Australian customers expanded its product offering, which deploys a bespoke design 13.1 inch sensor onto the global stage, and as a consequence we experienced an increase in sales to 10,000 units (2012: 3,000 units).

Our new MPCT™ touch solution became commercially available in February. MPCT™ products have been well received by the market with the majority of demand being for large format screens (30 inches and above). The majority of the early adoption of this solution is in the area of digital signage, where we are seeing numerous developments for ultra large format interactive communal table systems.

Gross profit margin

The reported gross margin for the year was 28.4% or 30.8% on an underlying basis (2012: 36.3%). As described above, the gross profit margin significantly improved in the second half of the year from a better mix of touch product sales and improved levels of production efficiencies to 30.7%. Excluding the one-off non-cash adjustment described earlier the underlying second half margin was 35.4%.

Profit before tax

Profit before tax was £1.9m, £2.4m underlying (2012: £4.2m) and operating profit for the year was £1.9m, £2.3m underlying (2012: £4.3m). However, group operating profit in the second half of the year improved by 55% to £1.1m compared with the first half profit of £0.8m, which included the release of the concluding £0.1m of the 2010 SFI grant award (H1 2012: £0.1m).

Tax

The Group's tax charge for the year ended 30 September 2013 was £0.3m, reflecting an effective net tax rate of 14% following changes to the UK corporation tax rate, as well as the benefits of R&D tax credits, an overprovision in the year ended 30 September 2012 and allowances for the exercising of share options.

Business review continued

Digital signage

A unique feature of Zytronic's PCT sensor technology is its ready scalability from sensor sizes of 6 inches to 82 inches. These larger sized touch sensors are enabling designers to look at new applications in providing interactive information and entertainment to users. In particular, large sizes over 40 inches are increasingly being used in retail situations, in shops and shopping malls and outdoors, to provide 24/7 information to users.

Surtronic of Holland

Surtronic specified that the 72 inch touch sensor used in its display was capable of operating through an 8mm thick tempered glass protective overlay, making it resistant to vandalism. It is shown in the image on the right.

Advantech of Taiwan

Taiwan's applied computing giant, Advantech, incorporates a 42 inch ZYBRID touch sensor in its Digital Signage Interactive Station. It was chosen to enable interactive functionality to a heavy duty application and because it could be customised with a screen printed border and be flush mounted.

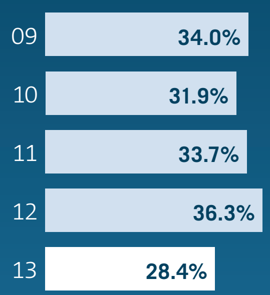
Infinitus of Slovenia

Infinitus chose a 65 inch ZYTOUCH touch sensor to support the interactive capabilities of iMotion®, its advanced, high-definition outdoor display. Crucially important in this application, PCT touch sensors can be sealed to IP67/NEMA4 levels to prevent ingress of moisture or particles.

Gross profit margin

28.4%

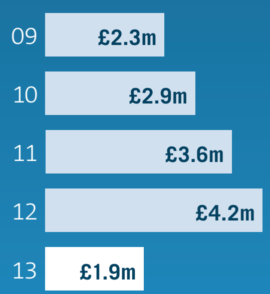
↓22%



Profit before tax

£1.9m

↓55%



Earnings per share ("EPS")

EPS is reported this year as both adjusted and basic due to the impact of the impairment of the carrying value of the accrued royalty pre-payments. The basic EPS for the year is 11.1p with the diluted EPS being 11.0p and adjusted basic being 13.9p (2012: basic 22.0p, diluted 21.9p).

Cash and debt

The Group is in a robust financial position and continues to be cash generative, recording an increase in cash and cash equivalents in the year of £1.3m (2012: £1.6m). Net cash balances at 30 September 2013 were £5.5m (2012: £4.2m), of which £2.5m was held in instant access interest-bearing deposit accounts with the remainder being managed through a set-off arrangement.

The Group has 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. 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. We continually monitor the currency outlook and respond when appropriate to currency fluctuations.

At 30 September 2013, the Group had cash balances net of the property-backed mortgage of £3.7m and was therefore not geared.

Operations

Once it became clear that sales were unlikely to meet our initial forecasts, management took decisive action to control costs whilst maintaining operational capability. This was achieved mainly through controlling utilisation of direct labour, not renewing temporary contracts, reducing working hours, and implementing a small number of redundancies.

Operational efficiencies arose in the second half from the introduction of the ultra large form factor MPCT™ products, reduced labour and material intensive ZYTOUCH manufacture as a consequence of an ATM customer switching to ZYBRID designs, together with an increase in the general proportion of ZYBRID designs with additional customised value additions, such as printing, shaping and edge work.

To drive improvements in both the quality and size of the customised printing solutions, capital investment of £0.1m was made in production equipment including a new semi-automatic printing system, with size capabilities to 65 inches and the commensurate expansion of the printing facilities.

R&D

The research and development facilities have benefited from £0.1m of capital investments during the 2013 fiscal period, helping to deliver significantly expanded capacity and capability.

Improvements to the R&D facilities comprised:

- a class 5 (formerly 100) clean room suite of 31m^2, providing an autonomous area for product assembly developments and sampling of up to 65 inches in touch sensor size;
- a significantly expanded environmental and materials testing room;
- an electro-mechanical compatibility ("EMC") test room; and
- a final assembly and display integrated test and development room.

The development projects during the year have concentrated on further refinements in sensor designs and controlling electronics for our MPCT™ products in sizes 50 to 90 inches, Windows, Linux and Android operating system compatibility, significant improvements to facilitate easier and speedier product and system integration and material enhancements to improve yields and optics. The introduction of two new engineers to the team has helped improve customer technical service support and further develop the product range.

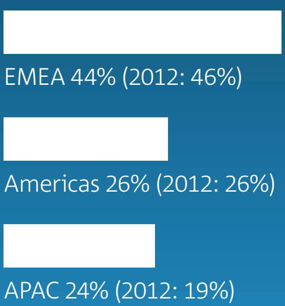
Strategic report continued

Business review continued

Touch product export sales

94%

2012: 91%



R&D continued

Further patent applications were filed in the year under the Patent Co-operation Treaty process, which is the second stage of the protection process for our MPCT™ solution and will enable us to begin the process for relevant overseas registration. We continue to await the outcome of the initial UK patent applications.

The R&D expenditure during 2013 was £0.5m, £0.3m of which was expensed through the P&L account and £0.2m being capitalised.

Marketing

During 2013, we have looked to expand our sales channel partnerships with new representation in Mexico, Malaysia and Turkey. In the USA, we have appointed a channel partner specifically for our flexible plastic substrate 'foil' based sensor products, and are actively looking at appointing additional representatives having replaced underperforming representatives in California and Canada. In total we presently have 38 channel partner agreements in place providing coverage across 61 countries.

MPCT™ provided the focal point of the Group's marketing activities during the year, where we diverted focus from technical based expositions towards end applications.

For the first time, the Group actively participated at the Integrated Systems Europe ("ISE") exhibition in Amsterdam and the Global Gaming Expo ("G2E") in Las Vegas. We also actively supported the efforts of our global channel partners in local exhibitions that they undertook, such as Computex in Taiwan.

At G2E, along with MPCT™, we unveiled our technologies with true curved LCD display systems for the first time. A video illustrating the scope of the performance of both curved and MPCT™ sensors is readily viewable on Zytronic's YouTube channel at http://www.youtube.com/user/ZytronicTouchSensor.

Capital expenditure

The capital investments described above in R&D, MPCT™ patents and operations have significantly contributed to the total additions to capital expenditure in the year of £0.4m in property, plant and equipment and £0.2m in intangible assets. Depreciation and amortisation for the year was £0.7m and £0.4m respectively.

Employees

The Board would like to thank Denis Mullan for his input into the development of the Group over the last ten years, who stepped down from the Board as Company Secretary and Finance Director with effect from 16 September 2013. Claire Smith, previously Group Financial Controller, has been appointed Company Secretary and Interim Group Finance Director.

We would finally like to take this opportunity on behalf of the Board to thank all of the Zytronic employees who have contributed to the performance of the business during a particularly challenging 2013.

Mark Cambridge B.Sc. (Hons), FIoD
Chief Executive Officer

Claire Smith, B.A. (Hons), ACMA, CGMA, CertICM
Interim Group Finance Director
20 December 2013

Board of Directors

Tudor Griffith Davies B.Sc. (62) •

Non-executive Chairman

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

Mark Cambridge B.Sc. (Hons), FIoD (49)

Chief Executive

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

Claire Smith BA (Hons), ACMA, CGMA, CertICM (35)

Interim Group Finance Director

Claire graduated in 2000 in Business and Finance, attained CIMA accreditation in 2006 and a certificate in International Cash Management in 2011. She held various positions within Procter & Gamble and the NAAFI before joining Zytronic Displays Limited in April 2007 as Group Financial Controller. In 2012, Claire was appointed Finance Director of the operating subsidiary Zytronic Displays Limited and interim Finance Director of Zytronic plc in September 2013.

David John Buffham (54) • ◆

Independent Non-executive Director

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

Sir David Robert Macgowan Chapman Bt., DL, B Comm (72) • ◆

Senior Independent Non-executive Director

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

• Member of audit committee.

◆ Member of remuneration committee.

All of the Directors served throughout the financial year, with the exception of Claire Smith who was appointed on 16 September 2013.

Corporate governance

"Communication with shareholders is given high priority. There is regular dialogue with major and/or institutional shareholders including presentations after the Company's announcements of the half year and full year results in May and December respectively."

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

The workings of the Board and its committees

The Board

Throughout the year, Tudor Davies, the Non-executive Chairman, Mark Cambridge, the Chief Executive, Sir David Chapman, Bt. and David Buffham, the two Independent Non-executive Directors, were members of the Board. Denis Mullan, the Group Finance Director, was a member of the Board until his retirement on 16 September 2013, on which date Claire Smith was appointed Interim Group Finance Director.

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

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

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

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

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

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

Remuneration committee

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

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

Audit committee

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

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

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

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

Relations with shareholders

Communication with shareholders is given high priority. There is regular dialogue with major and/or institutional shareholders including presentations after the Company's announcements of the half year and full year results in May and December respectively. Presentations are also made to analysts and journalists at those times to present the Group's results and report on developments. This assists with the promotion of knowledge of the Group in the investment marketplace and with shareholders. The financial statements include a review of the business and future developments. These financial statements, the presentations and other financial information relating to the Group are also available on the Group's website, www.zytronicplc.com.

Following the half year and year-end presentations of results, the Executive Directors report to the Board on the feedback received from journalists, analysts and shareholders. In addition, the Company's financial PR advisers and the Company's Nomad also each produce a feedback report from those meetings which is made available to all Directors. The Executive Directors also report to the Board on any meetings

Number of meetings and the attendance of Directors

The Board
2013 total: 5 meetings

Tudor Davies (5)

Mark Cambridge (5)

Denis Mullan (4)

David Buffham (5)

Sir David Chapman, Bt. (5)

Remuneration committee
2013 total: 2 meetings

Sir David Chapman, Bt. (2)

David Buffham (2)

Audit committee
2013 total: 2 meetings

Tudor Davies (2)

Sir David Chapman, Bt. (2)

David Buffham (2)

with shareholders or institutional investors that may take place at other times of the year.

The Board uses both the annual report and financial statements and the Annual General Meeting to communicate directly with private and institutional investors and welcomes their participation. The Chairman aims to ensure that the Chairmen of the audit and remuneration committees are available at the Annual General Meeting to answer questions. Details of resolutions to be proposed at the Annual General Meeting on 27 February 2014 can be found in the Notice of Annual General Meeting on pages 58 and 59.

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

Internal control

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

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

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

Authority to operate the trading subsidiary, Zytronic Displays Limited, is delegated to its Board of Directors and through them it is run by its management within limits set by the Board. The appointment of Executives to the most senior positions within the Group requires the approval of the Board.

Each year the Board approves the annual budget. Key risk areas are identified, reviewed and monitored. Performance is monitored against budget, relevant action is taken throughout the year and updated forecasts are prepared as appropriate. The reports reviewed by the Board include reports on operational as well as financial issues.

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

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

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

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

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business review on pages 11 to 16. The financial position of the Group, its cashflows, liquidity position and borrowing facilities are described within the Business review also. In addition, note 22 to the financial statements includes the Group's objectives, policies, its financial risk management objectives, details of its financial instruments and hedging activities and its exposure to credit risk and liquidity risk.

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

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

Directors' report

"The Group draws strength from the diverse spread of its worldwide selling operations, particularly given the current uncertain economic conditions affecting different countries."

The Directors present their annual report and financial statements for the year ended 30 September 2013.

Principal activities

Zytronic is the developer and manufacturer of a unique range of internationally award-winning touch sensor products. Zytronic's products incorporate an embedded array of metallic micro-sensing electrodes which offer significant durability, environmental stability and optical enhancement benefits to designers of system-integrated interactive displays for public access and industrial type applications.

Likely future development

Our priorities for 2013/14 are disclosed in the Strategic report on page 9.

The Group will continue to identify further opportunities for the development of new product groups and expends a considerable amount on R&D. By continually developing and adapting its technologies the Group has been able to expand the applications of the touch sensors into a widening range of applications and new sectors of business and to promote the Group's products on a global basis. At present 92% of all products are directly exported from the UK, with a large proportion of UK sales eventually being exported as well.

The Group draws strength from the diverse spread of its worldwide selling operations, particularly given the current uncertain economic conditions affecting different countries. Management is continuing to look for suitable appointees to expand the Group's presence of value added resellers ("VARs") worldwide.

Capital management

Capital management is intended to ensure and maintain strong credit ratings and healthy capital ratios in order to support the Group's business and maximise shareholder value. It includes the monitoring of cash balances, available bank facilities, cashflows, dividend policy and retained reserves and gearing levels (borrowings net of cash balances divided by shareholders' equity).

Management ensures that the Group has sufficient facilities to provide the Directors with comfort on the Group's foreseeable needs and its liquidity position. The Business review includes a paragraph referring to the continuing strength of cashflows which occurred in the year ended September 2013 and the absence of net gearing.

No changes were made to these objectives, policies or processes during the years ended 30 September 2012 and 2013.

Research and development

The Group has continued with the development of its electronic controllers, software and firmware used in the touch sensors. Further patent applications were filed under the patent co-operation treaty process relating to Zytronic's MPCT™ technology.

The R&D team is continuing to investigate the use of other sensor configurations and processing media in the manufacture of its touch sensors.

Further details on the Group's R&D activities are included in the Business review.

Results and dividends

The consolidated statement of comprehensive income is set out on page 26. The Group profit after taxation amounted to £1.7m (2012: £3.3m). The Directors propose the payment of a final dividend of 6.35p per share (2012: 5.9p). Following the dividend of 2.75p per share paid in July 2013, this will bring the total dividend for the year to 9.1p per share (2012: 8.5p), an increase of 7.1%.

Directors

The Directors of the Company are shown on page 17. All of the Directors were Directors for the whole of the year, with the exception of Claire Smith, who was appointed Company Secretary and Interim Group Finance Director on 16 September 2013. In addition, Denis Mullan was a Director of the Company until he retired from the Board on 16 September 2013. The emoluments and interests of the Directors in the shares of the Company are set out in the Remuneration report.

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

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

Under company law the Directors must not approve the Group financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit and loss of the Group for that period. In preparing those financial statements the Directors are required to:

- present fairly the financial position, financial performance and cashflows of the Group;
- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements that are reasonable;
- provide additional disclosures when compliance with the specific requirements in IFRS, as adopted in the European Union, is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and

Significant interests in shares

On 9 December 2013, the following had significant interests in the ordinary shares of the Company:

AXA Investment Managers Ltd	1,912,800 shares	12.7%
Cavendish Opportunities and Cavendish AIM Funds	1,235,000 shares	8.2%
Investec Wealth and Investment Ltd	1,203,972 shares	8.0%
Vidacos Nominees Ltd	1,087,588 shares	7.2%
Hargreave Hale	1,056,000 shares	7.0%

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

- state whether the Group financial statements have been prepared in accordance with IFRS, as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements.

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

Disclosure of information to auditors

The Directors who were members of the Board at the time of approving the Directors' report are listed on page 17. Having made enquiries of fellow Directors and of the Company's auditors, each of these Directors confirms that:

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

Special business

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

A resolution will be proposed at the forthcoming Annual General Meeting to renew the existing authority of the Directors, last conferred by a resolution passed at the Annual General Meeting held in 2013, to allot unissued ordinary shares of the Company. The authority (special resolution 1 in the Notice of Annual General Meeting) will extend until the Annual General Meeting held in 2015 and is in respect of one-third of the Company's issued share capital.

The Directors consider it advisable that they continue to have power to make allotments of ordinary shares of the Company for cash without reference to the statutory pre-emption rights, up to a maximum of 751,597 ordinary shares, being 5% of the issued ordinary share capital of the Company at 30 September 2013. The authority (special resolution 2 in the Notice of Annual General Meeting) will extend until the Annual General Meeting held in 2015 and also would enable the Directors to implement a rights issue.

In addition, the Directors consider it advisable that the Company has the authority to make market purchases of its own shares up to a maximum of 1,503,194 ordinary shares of the Company, being 10% of the issued ordinary share capital. The authority (special resolution 3 in the Notice of Annual General Meeting) will extend until the Annual General Meeting held in 2015. The power conferred by this authority would only be used after careful consideration by the Directors, having taken into account market conditions prevailing at the time, the investment needs of the Company, its opportunities for expansion and its overall financial position. The authority would only be exercised by the Directors if they considered it to be in the best interests of shareholders generally and if the purchase(s) could be expected to result in an increase in EPS.

Auditors

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

By order of the Board

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

Company Secretary
20 December 2013

Registration number
3881244

Remuneration report

As the Company is AIM listed, the Directors are not required, under Section 420(1) of the Companies Act 2006, to prepare a Directors' Remuneration report for each financial year of the Company and so Zytronic plc makes the following disclosures voluntarily, which are not intended to, and indeed do not, comply with the requirements of the Companies Act 2006.

The remuneration committee is responsible for determining the remuneration and other terms of employment for the Executive Directors of Zytronic plc and some of the Directors in its trading subsidiary, Zytronic Displays Limited. The committee is composed of the Senior Independent Non-executive Director, as its Chairman, and the Independent Non-executive Director and Non-executive Chairman. In determining remuneration for the year, the committee has given full consideration to the requirements of the Combined Code.

Remuneration policy

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

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

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

The remuneration packages of Executive Directors comprise the following elements:

Basic salary and benefits

Basic salaries for Executive Directors are reviewed annually having regard to individual performance and market practice. In most cases benefits provided to Executive Directors comprise the provision of a company car, or appropriate allowance, health insurance and contributions to a Group personal pension scheme. Details of emoluments for the Directors of Zytronic plc are set out on page 23.

Annual bonus

A bonus may be awarded at the end of each financial year, at the discretion of the Remuneration Committee, currently up to a maximum of 25% of basic salary to reward for executives' contribution to the growth in profits, earnings per share and cash generation.

Share options and incentive schemes

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

The Company has executive share option and incentive schemes, which are designed to promote long term improvement in the performance of the Group, sustained increase in shareholder value and clear linkage between executive reward and the Group's performance. The share options and incentive schemes of the Directors of Zytronic plc are set out on pages 23 and 24.

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

Service contracts

Mark Cambridge and Claire Smith each have a service contract with a notice entitlement of six months.

The committee considers the Directors' notice entitlements to be appropriate as they are in line with the market and take account of the Directors' knowledge and experience. There are no special provisions for predetermined compensation in the event of loss of office.

Non-executive Directors

The fees of the Non-executive Directors are determined by the full Board within the limits set out in the Memorandum and Articles of Association. The Non-executive Directors are not eligible for bonuses, pension benefits or share options.

Directors' emoluments

Emoluments of the Directors for the year ended 30 September 2013 are shown in the table on the right.

Pension contributions

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

Details of contributions payable by the Company are:

Director	2013 £'000	2012 £'000
Mark Cambridge	4	4
Denis Mullan	4	3
Claire Smith	—	—
Total	8	7

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

Directors' shareholdings

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

	30 September 2013		30 September 2012	
	Number	**%**	Number	%
Denis Mullan*	**220,109**	**1.46**	127,109	0.85
Tudor Davies	**90,909**	**0.60**	90,909	0.61
Mark Cambridge	**42,958**	**0.29**	42,958	0.29
Sir David Chapman, Bt.	**40,000**	**0.27**	40,000	0.27
David Buffham	**18,500**	**0.12**	12,500	0.08
Claire Smith	**—**	**—**	—	—

* Denis Mullan retired from the Board on 16 September 2013.

There has been no change in Directors' shareholdings since 30 September 2013.

Directors' emoluments for the year ended 30 September 2013

	Salary £'000	Fees £'000	Benefits £'000	Bonus £'000	**Total emoluments* 2013 £'000**	Total emoluments* 2012 £'000
Non-executive Chairman						
Tudor Davies	—	65	—	—	**65**	65
Executive						
Mark Cambridge	114	—	15	—	**129**	148
Denis Mullan**	146	—	15	—	**161**	119
Claire Smith***	3	—	—	—	**3**	—
Non-executive						
Sir David Chapman, Bt.	—	28	—	—	**28**	28
David Buffham	—	26	—	—	**26**	26
	263	119	30	—	**412**	386

* Excluding pension contributions.

** Included within total emoluments above is £54,000 in respect of contractually committed payments payable between the date of cessation of office as Director and retirement from the Company.

*** Claire Smith joined the Board on 16 September 2013.

Director's share incentive scheme

Share incentive scheme for Mark Cambridge, Chief Executive

The remuneration committee agreed, in February 2008, an incentive award scheme for Mark Cambridge, Chief Executive, to offer him up to 200,000 shares at a price of 25.0p per share to vest based on specified performance criteria.

These are measured by an EPS, calculated on the audited pre-tax profit and a standard 28% tax charge. The EPS criteria are shown below:

	Performance criteria			
	Lower limit		Upper limit	
	EPS Pence	Shares to vest	EPS Pence	Shares to vest
Year to 30 September 2009 (year 1)	13.5	80,000	15.0	100,000
Year to 30 September 2010 (year 2)	18.3	60,000	22.0	80,000
Year to 30 September 2011 (year 3)	24.5	60,000	24.5	20,000

Director's share incentive scheme continued

Share incentive scheme for Mark Cambridge, Chief Executive continued

Vesting is:

- the entitlement to buy, which doesn't disappear once earned;
- pro rata between the upper and lower limits;
- timed on signature of audited accounts with a clean audit report; and
- cumulative, e.g. 200,000 shares can vest in year 3 if the upper limit is reached, even if the lower limits have not been achieved in the previous years.

If the 24.5p EPS criteria is not achieved in year 3, there will still be an opportunity for shares to vest in year 4 (to 30 September 2012) or year 5 (to 30 September 2013) on the achievement of 24.5p EPS on the basis that, on achievement, the maximum total entitlement reduces to 125,000 shares or 50,000 shares respectively, or the number of shares already vested if that is greater.

As at 30 September 2013, no shares had vested under this incentive scheme.

Share price during the year

During the year to 30 September 2013, the highest share price was 362.5p and the lowest share price was 144.0p. The market price of the shares at 30 September 2013 was 169.0p.

Directors' interests in material contracts

No Director was materially interested either at the year end or during the year in any contract of significance to the Group other than their employment or service contract.

Directors' share options

Enterprise Management Incentive Scheme	30 September 2012 Number	Granted during year Number	Lapsed during year Number	Exercised during year Number	30 September 2013 Number	Exercise dates	Option price
Denis Mullan	93,000	—	—	93,000*	—	16 March 2006 to 15 March 2014	70.0p
Denis Mullan	17,182	—	—	—	17,182	18 January 2008 to 17 January 2015	145.5p
Denis Mullan	2,300	—	—	—	2,300	28 February 2011 to 27 February 2018	216.5p
Denis Mullan	7,500	—	—	—	7,500	15 July 2013 to 15 July 2020	177.5p
Denis Mullan	3,100	—	—	—	3,100	29 March 2014 to 28 March 2021	172.8p
Mark Cambridge	27,250	—	—	—	27,250	6 October 2013 to 5 October 2016	176.0p
Mark Cambridge	21,750	—	—	—	21,750	29 March 2014 to 28 March 2021	172.8p
Claire Smith	5,000	—	—	—	5,000	28 February 2011 to 27 February 2018	216.5p
Claire Smith	5,000	—	—	—	5,000	15 July 2013 to 15 July 2020	177.5p
Claire Smith	5,000	—	—	—	5,000	29 March 2014 to 28 March 2021	216.0p
Claire Smith	10,000	—	—	—	10,000	25 January 2015 to 24 January 2022	194.8p
Claire Smith	10,000	—	—	—	10,000	25 January 2016 to 24 January 2022	194.8p
Claire Smith	10,000	—	—	—	10,000	25 January 2017 to 24 January 2022	194.8p

Unapproved Scheme	30 September 2012 Number	Granted during year Number	Lapsed during year Number	Exercised during year Number	30 September 2013 Number	Exercise dates	Option price
Denis Mullan	12,700	—	—	—	12,700	28 February 2011 to 27 February 2018	216.5p
Denis Mullan	10,000	—	—	—	10,000	29 March 2014 to 28 March 2021	172.8p

Denis Mullan retired from the Board on 16 September 2013.

* 5,000 shares were exercised at 302.0p and 88,000 at 159.5p realising a gain of £11,600 and £78,760 respectively.

Independent auditors' report

To the members of Zytronic plc

We have audited the Group financial statements of Zytronic plc for the year ended 30 September 2013 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet, the Consolidated Cashflow Statement and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

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

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on pages 20 and 21, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 30 September 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Parent Company financial statements of Zytronic plc for the year ended 30 September 2013.

Annie Graham (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
Newcastle-upon-Tyne
20 December 2013

Notes

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

Consolidated statement of comprehensive income

For the year ended 30 September 2013

	Notes	2013 £'000	2012 £'000
Group revenue	2	**17,282**	20,424
Cost of sales		**11,961**	13,008
Exceptional costs	3	**413**	—
Gross profit		**4,908**	7,416
Distribution costs		**210**	243
Administration expenses		**2,858**	3,089
Group trading profit		**1,840**	4,084
Other operating income		**94**	187
Group operating profit from continuing operations	4	**1,934**	4,271
Finance costs	6(a)	**39**	91
Finance revenue	6(b)	**44**	15
Profit from continuing operations		**1,939**	4,195
Tax expense	7	**277**	898
Profit for the year from continuing operations		**1,662**	3,297
Earnings per share			
Basic	9	**11.1p**	22.2p
Diluted	9	**11.0p**	21.9p
Adjusted earnings per share excluding exceptional costs			
Basic	9	**13.9p**	22.2p
Diluted	9	**13.8p**	21.9p

Consolidated statement of changes in equity

For the year ended 30 September 2013

	Called up share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
At 30 September 2011	147	6,588	6,372	13,107
Profit for the year	—	—	3,297	3,297
Tax recognised directly in equity	—	—	43	43
Exercise of share options	2	274	—	276
Share-based payments	—	—	74	74
Dividends	—	—	(1,217)	(1,217)
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**

Consolidated balance sheet

At 30 September 2013

	Notes	2013 £'000	2012 £'000
Assets			
Non-current assets			
Intangible assets	10	**1,453**	1,613
Property, plant and equipment	11	**7,888**	8,231
Trade and other receivables	13(b)	**—**	413
		9,341	10,257
Current assets			
Inventories	12	**3,509**	3,441
Trade and other receivables	13(a)	**2,430**	3,090
Cash and short term deposits	14	**5,474**	4,217
		11,413	10,748
Total assets		**20,754**	21,005
Equity and liabilities			
Current liabilities			
Trade and other payables	15	**1,410**	1,299
Financial liabilities	16	**200**	200
Accruals	15	**688**	1,016
Taxation liabilities		**192**	476
Government grants	17	**—**	97
		2,490	3,088
Non-current liabilities			
Financial liabilities	18	**1,538**	1,735
Deferred tax liabilities (net)	21	**625**	602
		2,163	2,337
Total liabilities		**4,653**	5,425
Net assets		**16,101**	15,580
Capital and reserves			
Equity share capital	23	**150**	149
Share premium	23	**7,003**	6,862
Revenue reserve		**8,948**	8,569
Total equity		**16,101**	15,580

These financial statements have been approved by the Board of Directors on 20 December 2013 and signed on its behalf by:

Mark Cambridge, B.Sc. (Hons), FIoD
Chief Executive
20 December 2013

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

Consolidated cashflow statement

For the year ended 30 September 2013

	Notes	2013 £'000	2012 £'000
Operating activities			
Profit from continuing operations		**1,939**	4,195
Net finance (revenue)/costs		**(5)**	76
Depreciation and impairment of property, plant and equipment		**695**	689
Amortisation and impairment of intangible assets		**380**	350
Profit on sale of fixed assets		**(37)**	(13)
Amortisation of government grant		**(97)**	(192)
Share-based payments		**80**	74
Working capital adjustments			
Increase in inventories		**(68)**	(687)
Decrease in trade and other receivables		**1,073**	808
Decrease in trade and other payables		**(86)**	(658)
Cash generated from operations		**3,874**	4,642
Taxation paid		**(607)**	(998)
Net cashflow from operating activities		**3,267**	3,644
Investing activities			
Interest received		**44**	15
Proceeds from disposal of property, plant and equipment		**—**	24
Proceeds from disposal of intangible assets		**49**	84
Payments to acquire property, plant and equipment		**(492)**	(732)
Payments to acquire intangible assets		**(220)**	(236)
Net cashflow from investing activities		**(619)**	(845)
Financing activities			
Interest paid		**(39)**	(90)
Dividends paid to equity shareholders of the parent		**(1,294)**	(1,217)
Proceeds from share issues re. options		**142**	276
New borrowings		**—**	2,000
Repayment of borrowings		**(200)**	(2,129)
Net cashflow from financing activities		**(1,391)**	(1,160)
Increase in cash and cash equivalents		**1,257**	1,639
Cash and cash equivalents at the beginning of the year	14	**4,217**	2,578
Cash and cash equivalents at the year end	14	**5,474**	4,217

Notes to the consolidated financial statements
For the year ended 30 September 2013

1. Accounting policies

(a) Authorisation of financial statements and statement of compliance

The financial statements of Zytronic plc and it subsidiaries (the "Group") for the year ended 30 September 2013 were authorised for issue by the Board of Directors on 20 December 2013 and the balance sheet was signed on behalf of the Board by Mark Cambridge and Claire Smith. Zytronic plc is a public limited company incorporated, domiciled and has its registered office in England and Wales. The Company's ordinary shares are traded on AIM. The address of its registered office and principal place of operation are disclosed in the Corporate information section of this report.

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

(b) New standards and interpretations not applied

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

		Effective date
IASB	Annual improvements to IFRSs 2009–2011 (issued May 2012)	1 January 2013
IAS 19	Amendments to IAS 19 Employee Benefits	1 January 2013
IFRS 1	Amendment to IFRS 1 Government Loans	1 January 2013
IFRS 7	Amendment to IFRS 7 Disclosures – Offsetting of Financial Assets and Financial Liabilities	1 January 2013
IFRS 13	Fair Value Measurement	1 January 2013
IAS 27R	Separate Financial Statements	1 January 2014
IAS 28R	Investments in Associates and Joint Ventures	1 January 2014
IAS 32	Amendment of IAS 32 Offsetting of Financial Assets and Financial Liabilities	1 January 2014
IFRS 10	Consolidated Financial Statements	1 January 2014
IFRS 11	Joint Arrangements	1 January 2014
IFRS 12	Disclosures of Interests in Other Entities	1 January 2014
IFRS 9	Financial Instruments: Classification and Measurement	1 January 2015

The Directors do not anticipate adoption of these standards and interpretations will have a material impact on the Group financial statements.

(c) New standards adopted

The following new standards or interpretations are mandatory for the first time for the financial year ended 30 September 2013:

IASB	
IAS 1	Amendments to IAS 1 Presentation of Items of Other Comprehensive Income
IAS 24	Amendment to IAS 24 Related Party Disclosures
IFRS 7	Amendment to IFRS 7 Disclosures – Transfers of Financial Assets

Adoption of these new standards had no material impact on the financial performance of the Group.

(d) Judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires the Directors to make judgements and assumptions that affect the reported amounts of assets, liabilities and disclosures at the date of the financial statements and the reported income and expense during the year. Although these judgements and assumptions are based on the Directors' best knowledge of the amount, events or actions, actual results may differ from those estimates.

In the process of applying the Group's accounting policies, the Directors have made the following judgements concerning the future and other key sources of estimation uncertainty at the statement of financial position date which have the most significant effect on the amounts recognised in the financial statements.

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill is tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

When value-in-use calculations are undertaken, management must estimate the expected future cashflows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cashflows.

1. Accounting policies continued

(d) Judgements and key sources of estimation uncertainty continued

Development costs

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

Royalty payments

The Group pays a royalty to the licence holder in advance of being earned which can give rise to a net prepayment. In accounting for the impairment of any prepayment that arises on the payment of royalties, management prepares forecasts of its future sales of touch products to assess royalty prepayment recoverability. Any prepayment which is not considered to be recoverable over the period of the licence is provided against.

(e) Basis of consolidation and goodwill

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

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

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

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

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

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

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

(f) Exceptional items

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

(g) Foreign currencies

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

(h) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment charges. Such costs include those directly attributable to making the asset capable of operating as intended and the cost of replacing significant parts of such plant and equipment when that cost is incurred, if the recognition criteria are met. Depreciation is provided on all property, plant and equipment, other than freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Freehold land	–	Nil
Freehold property	–	50 years
Long leasehold property	–	50 years
Plant and machinery	–	varying rates between 5% and 25% per annum

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

1. Accounting policies continued

(h) Property, plant and equipment continued

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

(i) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is deemed to be their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Other than capitalised development costs, internally generated intangible assets are not capitalised.

Intangible assets are amortised on a straight line basis over their useful economic lives and reviewed for impairment at each financial year end. The amortisation expense on intangible assets is recognised in the income statement in the expense category consistent with the function of the intangible asset. The estimated useful lives are as follows:

Patents	–	20 years
Licences	–	period of licensing agreements (10 and 17 years)
Capitalised development expenditure	–	4 or 10 years
Software	–	4 years

Intangible assets with indefinite useful lives, such as goodwill, are tested for impairment annually and not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable.

Patent applications

The cost associated with the drafting and filing of patent applications are capitalised as incurred.

Those costs are not amortised until the patent has been granted, after which they will be amortised over its useful economic life of 20 years. If the application fails, the capitalised costs will then be impaired and written off.

(j) Research and development costs

Research expenditure is written off as incurred. An intangible asset arising from development expenditure on an individual project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during the development.

During the period of development, the asset is tested annually for impairment. Following the initial recognition of the development expenditure, the cost model (as defined in IFRS) is applied, requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future sales.

(k) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

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

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

(l) Trade and other receivables

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

(m) Cash and cash equivalents

Cash and short term deposits in the balance sheet comprise cash at bank and in hand and short term deposits with an initial maturity of three months or less or for a longer period but with the ability to break the deposit with a similar notice period. Bank overdrafts are shown within financial liabilities, in current liabilities, on the balance sheet. For the purpose of the cashflow statement, cash and cash equivalents comprise these balances, net of outstanding bank overdrafts.

1. Accounting policies continued

(n) Interest-bearing loans and borrowings

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

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

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

(o) Derecognition of financial assets and liabilities

A financial asset or financial liability is derecognised when the contract that gives rise to it is discharged, sold, cancelled or expires.

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

(p) Financial instruments

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

The Group does not apply any hedge accounting.

(q) Pension scheme

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

(r) Share-based payment transactions

Equity-settled transactions

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

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

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

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

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

(s) Revenue recognition

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

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

1. Accounting policies continued

(t) Government grants and subsidies

Government grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with, normally when a grant claim has been approved by the government authority and the grant monies have been received. The fair value of grants is credited to a deferred income account and released to the income statement over the life of the projects to which they relate.

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

(u) Royalty payments

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

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

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

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

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

(v) Deferred tax

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

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

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

2. Group revenue and segmental analysis

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

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

Management monitors the operating results of its entire business for the purposes of making decisions about resource allocation and performance assessment. Business performance is evaluated based on operating profits.

All manufacturing takes place in the UK and accordingly all segment assets are located in the UK. The analysis of segment revenue by geographical area based on the location of customers is given below:

		30 September 2013		30 September 2012	
		£'000	%	£'000	%
Sale of goods	– UK	**1,460**	**8**	1,812	9
	– Americas	**3,361**	**20**	5,281	26
	– EMEA (excluding UK)	**8,476**	**49**	9,408	46
	– APAC	**3,985**	**23**	3,923	19
Revenue		**17,282**	**100**	20,424	100
Finance revenue		**44**		15	
Total revenue		**17,326**		20,439	

Individual revenues from three major customers exceed 10% of total revenue for the year. The total amount of revenue is £8.1m (2012: £9.7m).

The individual revenues from each of these three customers were: £3.9m (2012: £4.0m); £2.1m (2012: £3.2m); and £2.1m (2012: £2.5m).

3. Exceptional costs

Exceptional costs of £413,000 relate to the write-off of royalty payments on account made to a patent holder in respect of technology used in our touch products (as set out in note 1(u)). Reductions in forecast sales of this product mean that the prepayment held at the prior year end will not be recoverable and so has been written off in the period.

4. Group operating profit

This is stated after charging/(crediting):

	30 September 2013 £'000	30 September 2012 £'000
R&D costs	**355**	391
Amortisation of development expenditure	**178**	179
	533	570
Auditors' remuneration – in respect of audit services*	**52**	50
– in respect of taxation services	**12**	13
– in respect of other assurance services	**6**	13
Depreciation of owned assets	**695**	662
Impairment of owned assets	**—**	27
Amortisation of software	**45**	46
Amortisation and impairment of licences	**157**	125
Cost of inventories recognised as an expense including:	**6,590**	7,163
– write-down of inventories to net realisable value	**137**	48
– reversals of impairments in inventories**	**(99)**	(72)
Hire of plant and machinery	**—**	2
Gain on disposal of plant and machinery	**(49)**	(13)
Operating lease rentals – minimum lease payments	**51**	34
Amortisation of capital grants	**(94)**	(192)
Net foreign currency differences	**(123)**	(127)

* £12,700 of this relates to the Company (2012: £13,500).

** The reversal of impairments in inventories has arisen as a result of previously impaired stock being utilised.

5. Staff costs and Directors' emoluments

	30 September 2013 £'000	30 September 2012 £'000
Wages and salaries	**4,147**	4,806
Social security costs	**380**	431
Other pension costs	**63**	62
	4,590	5,299

Included in wages and salaries is a total charge for share-based payments of £80,000 (2012: £74,000) all of which arises from transactions accounted for as equity-settled share-based payment transactions.

The total of Directors' emoluments is £412,000 (2012: £386,000). The aggregate value of contributions paid to money purchase pension schemes includes £8,000 (2012: £7,000) in respect of three Directors (2012: two).

Amounts paid to the highest paid Director are £197,000 (2012: £148,000) plus a contribution paid to the money purchase pension scheme of £4,000 (2012: £4,000).

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

	30 September 2013 Number	30 September 2012 Number
Production	**140**	166
Administration and sales	**42**	41
	182	207

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

6. Finance costs payable and revenue receivable

(a) Finance costs

Interest payable	30 September 2013 £'000	30 September 2012 £'000
Write-off of unamortised arrangement fees on loans repaid	—	10
Bank loans and overdrafts	39	81
	39	91

(b) Finance revenue

Interest receivable	30 September 2013 £'000	30 September 2012 £'000
Bank interest receivable	44	15

7. Taxation

	30 September 2013 £'000	30 September 2012 £'000
Current tax		
UK corporation tax	372	985
Corporation tax over provided in prior years	(47)	(6)
Total current tax charge	325	979
Deferred tax		
Effect of change in tax rates	(54)	(38)
Origination and reversal of temporary differences	6	(43)
Total deferred tax credit	(48)	(81)
Tax charge in the income statement	277	898

Tax relating to items credited to equity

	30 September 2013 £'000	30 September 2012 £'000
Deferred tax		
Tax on share-based payments	69	(43)
Total deferred tax debit/(credit)	69	(43)
Tax charge/(credit) in the statement of changes in equity	69	(43)

Reconciliation of the total tax charge

The effective tax rate of the tax expense in the income statement for the year is 14.3% (2012: 21.0%) compared with the average rate of corporation tax in the UK of 23.5% (2012: 25.0%). The differences are reconciled below:

	30 September 2013 £'000	30 September 2012 £'000
Accounting profit before tax	1,939	4,195
Accounting profit multiplied by the UK average rate of corporation tax of 23.5% (2012: 25.0%)	456	1,049
Effects of:		
Expenses not deductible/(income not chargeable) for tax purposes	29	(5)
"Gain" on exercise of share options allowable for taxation purposes but not reflected in the income statement	(29)	(45)
Depreciation in respect of non-qualifying items	46	48
Enhanced tax reliefs	(140)	(135)
Difference in tax rates	(4)	(8)
Tax over provided in prior years	(81)	(6)
Total tax expense reported in the income statement	277	898

7. Taxation continued

Factors that may affect future tax charges

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

Under HMRC's R&D tax credit scheme, the Group will receive an uplift of 125% on qualifying R&D expenditure for tax purposes incurred from 1 April 2012. Until the financial year 2006, where R&D expenditure has been capitalised, the benefit of the uplift is only recognised as the asset is amortised. The unrecognised element relating to the year ended 30 September 2005 and prior, at 30 September 2013 was £23,000 (2012: £40,000). 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 2013 (2012: £Nil).

The UK government has announced its intention to reduce the UK corporation tax rate to 22% by 1 April 2014. The reduction from 28% to 26% was substantively enacted on 29 March 2011 and came into effect on 1 April 2011. A reduction from 26% to 25% from 1 April 2012 was substantively enacted on 5 July 2011 and was intended to come into effect on 1 April 2012. However, in the Budget Speech on 21 March 2012 the Chancellor announced that the rate from 1 April 2012 would instead be reduced to 24% rather than the enacted rate of 25%. This 24% rate was substantively enacted on 26 March 2012. The main rate from 1 April 2013 to 31 March 2014 will be 23% and this rate was substantively enacted on 3 July 2012 and the main rate will reduce to 21% from 1 April 2014 and further reduce to 20% from 1 April 2015, and 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.

The future tax charge will also be affected by the reduction in the main rates of capital allowances from 20% to 18% and from 10% to 8% with effect from 1 April 2012, and the increase of the Annual Investment Allowance from 1 April 2012 to £200,000 per annum from £100,000 for a temporary period of two years.

8. Dividends

The Directors propose the payment of a final dividend of 6.35p per share (2012: 5.9p), payable on 14 March 2014 to shareholders on the Register of Members on 28 February 2014. This dividend has not been accrued in these financial statements. The dividend payment will amount to some £955,000.

	30 September 2013 £'000	30 September 2012 £'000
Ordinary dividends on equity shares		
Final dividend of 5.6p per ordinary share paid on 24 February 2012	—	830
Interim dividend of 2.6p per ordinary share paid on 27 July 2012	—	387
Final dividend of 5.9p per ordinary share paid on 15 March 2013	880	—
Interim dividend of 2.75p per ordinary share paid on 26 July 2013	414	—
	1,294	1,217

9. Earnings per share

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

	Earnings 30 September 2013 £'000	Weighted average number of shares 30 September 2013 Thousands	EPS 30 September 2013 Pence	Earnings 30 September 2012 £'000	Weighted average number of shares 30 September 2012 Thousands	EPS 30 September 2012 Pence
Profit on ordinary activities after taxation	1,662	14,943	11.1	3,297	14,833	22.2
Basic EPS	1,662	14,943	11.1	3,297	14,833	22.2
Adjusted EPS	2,075	14,943	13.9	3,297	14,833	22.2

9. Earnings per share continued

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

	Earnings 30 September 2013 £'000	Weighted average number of shares 30 September 2013 Thousands	EPS 30 September 2013 Pence	Earnings 30 September 2012 £'000	Weighted average number of shares 30 September 2012 Thousands	EPS 30 September 2012 Pence
Profit on ordinary activities after taxation	**1,662**	**14,943**	**11.1**	3,297	14,833	22.2
Weighted average number of shares under option	**—**	**120**	**(0.1)**	—	209	(0.3)
Diluted EPS	**1,662**	**15,063**	**11.0**	3,297	15,042	21.9
Adjusted diluted EPS	**2,075**	**15,063**	**13.8**	3,297	15,042	21.9

10. Intangible assets

	Software £'000	Goodwill £'000	Patents and licences £'000	Development expenditure £'000	Total £'000
Cost					
At 30 September 2011	442	235	2,133	2,048	4,858
Additions	30	—	60	146	236
Disposals	—	—	(300)	(136)	(436)
At 30 September 2012	472	235	1,893	2,058	4,658
Additions	23	—	39	158	220
Disposals	—	—	(29)	(142)	(171)
At 30 September 2013	**495**	**235**	**1,903**	**2,074**	**4,707**
Amortisation and impairment					
At 30 September 2011	328	—	1,345	1,374	3,047
Provided during the year	46	—	125	179	350
Disposals	—	—	(216)	(136)	(352)
At 30 September 2012	374	—	1,254	1,417	3,045
Provided during the year	45	—	107	178	330
Impaired during the year	—	—	50	—	50
Disposals	—	—	(29)	(142)	(171)
At 30 September 2013	**419**	**—**	**1,382**	**1,453**	**3,254**
Net book value at 30 September 2013	**76**	**235**	**521**	**621**	**1,453**
Net book value at 30 September 2012	98	235	639	641	1,613
Net book value at 30 September 2011	114	235	788	674	1,811

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

Impairment of goodwill

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

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

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

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

10. Intangible assets continued

Impairment of goodwill continued

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

The Directors consider the assumptions used around revenue and costs to be consistent with the historical performance and to be realistically achievable in light of economic and industry measures and forecasts. It is believed that any reasonably possible movement on assumptions will not lead to an impairment and we have therefore not presented any sensitivity analysis.

11. Property, plant and equipment

The amounts carried in the balance sheet comprise:

	Land £'000	Freehold property £'000	Long leasehold property £'000	Plant and machinery £'000	Total £'000
Cost					
At 30 September 2011	207	3,070	2,158	8,244	13,679
Additions	—	—	151	667	818
Disposals	—	—	—	(599)	(599)
At 30 September 2012	207	3,070	2,309	8,312	13,898
Additions	—	—	125	239	364
Disposals	—	—	(21)	(10)	(31)
At 30 September 2013	**207**	**3,070**	**2,413**	**8,541**	**14,231**
Depreciation and impairment					
At 30 September 2011	—	216	176	5,174	5,566
Impairment	—	—	—	27	27
Provided during the year	—	62	55	545	662
Disposals	—	—	—	(588)	(588)
At 30 September 2012	—	278	231	5,158	5,667
Provided during the year	—	61	70	564	695
Disposals	—	—	(9)	(10)	(19)
At 30 September 2013	**—**	**339**	**292**	**5,712**	**6,343**
Net book value at 30 September 2013	**207**	**2,731**	**2,121**	**2,829**	**7,888**
Net book value at 30 September 2012	207	2,792	2,078	3,154	8,231
Net book value at 30 September 2011	207	2,854	1,982	3,070	8,113

12. Inventories

	30 September 2013 £'000	30 September 2012 £'000
Raw materials and consumables	**2,092**	1,716
Work in progress	**357**	533
Finished goods	**1,060**	1,192
	3,509	3,441

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

The amount of write-down of inventories recognised as an expense is £137,000 (2012: £48,000), which is recognised in cost of sales.

Notes to the consolidated financial statements continued

For the year ended 30 September 2013

13. Trade and other receivables

(a) Current assets

	30 September 2013 £'000	30 September 2012 £'000
Trade receivables	**2,038**	2,831
VAT recoverable	**260**	94
Prepayments	**132**	165
	2,430	3,090

Trade receivables are denominated in the following currencies:

	30 September 2013 £'000	30 September 2012 £'000
Sterling	**790**	665
US Dollar	**678**	1,154
Euro	**570**	1,012
	2,038	2,831

Out of the carrying amount of trade receivables of £2.0m (2012: £2.8m), £0.9m (2012: £1.7m) is the amount of debts owed by three major customers. Regular reviews are undertaken on these major customers so as to ascertain that there are no going concern issues with them.

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

As at 30 September 2013, trade receivables at a nominal value of £35,000 (2012: £15,000) were impaired due to poor payment history. Movements in the provision for impairment of trade receivables were as follows:

	£'000
At 30 September 2011	37
Charge for the year	2
Utilised	(24)
At 30 September 2012	15
Charge for the year	33
Utilised	(13)
At 30 September 2013	**35**

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

		Past due but not impaired		
	Neither past due nor impaired	<3 months £'000	>3 months £'000	Total £'000
2013	**1,375**	**579**	**84**	**2,038**
2012	1,821	963	47	2,831

Credit limits are set for each customer, using Dun & Bradstreet credit reports as appropriate, or pro-forma invoices are raised, or cash up front is received for a new customer where a credit limit is not easily established. Slow payers are chased vigorously, including making use of solicitors in the collection process. The credit quality of trade receivables that are neither past due or impaired is assessed by reference to external credit ratings where available, otherwise historical information relating to counterparty default rates is used.

(b) Non-current assets

	30 September 2013 £'000	30 September 2012 £'000
Royalty prepayments	**—**	413

14. Cash and short term deposits

	30 September 2013 £'000	30 September 2012 £'000
Cash at bank and in hand	**3,716**	3,156
Short term deposits	**2,534**	2,252
Bank overdrafts	**(776)**	(1,191)
	5,474	4,217

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

At 30 September 2013, the Group had available a net £1.0m overdraft facility from Barclays Bank plc which will fall for review in January 2014.

The fair value of cash and cash equivalents is £5.5m (2012: £4.2m).

15. Trade and other payables

	30 September 2013 £'000	30 September 2012 £'000
Trade payables	**1,312**	1,182
Other taxes and social security costs	**98**	117
	1,410	1,299
Accruals	**688**	1,016
	2,098	2,315

Terms and conditions of the above financial liabilities:

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

16. Financial liabilities – current

	30 September 2013 £'000	30 September 2012 £'000
Bank loan (note 18)	**200**	200
	200	200

17. Government grants

	30 September 2013 £'000	30 September 2012 £'000
At 1 October	**97**	289
Released to the income statement	**(97)**	(192)
At 30 September	**—**	97
Current	**—**	97
	—	97

Government grants have been received following the purchase of certain items of property, plant and equipment and the protection of jobs in the Company.

There are no unfulfilled conditions or contingencies attached to these grants.

18. Financial liabilities – non-current

	30 September 2013 £'000	30 September 2012 £'000
Bank loan (note 18)	**1,538**	1,735
	1,538	1,735

19. Bank loan

Property mortgage

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

20. Obligations under leases

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

Group as lessee	30 September 2013 £'000	30 September 2012 £'000
Operating leases which expire:		
– not later than one year	**37**	33
– later than one year and not later than five years	**40**	46
– later than five years	**—**	1
	77	80

21. Deferred taxation liability/(asset)

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

	30 September 2013 £'000	30 September 2012 £'000
Deferred tax liability		
Accelerated capital allowances	**498**	554
R&D tax credit	**117**	135
Other	**12**	9
	627	698
Deferred tax asset		
Share-based payment	**(1)**	(95)
Pension asset	**(1)**	(1)
	(2)	(96)
Disclosed on the balance sheet	**625**	602

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

	30 September 2013 £'000	30 September 2012 £'000
Deferred tax in the income statement		
Accelerated capital allowances	**(18)**	(31)
R&D tax credits	**—**	(5)
Share-based payment	**20**	(6)
Other	**4**	(1)
	6	(43)
Effect of change in tax rates	**(54)**	(38)
Deferred income tax expense	**(48)**	(81)

22. Financial risk management policy and financial instruments

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

The main risks associated with the Group's financial assets and liabilities are set out below:

Credit risk

The risk of financial loss due to a counterparty's failure to honour its obligations arises principally in relation to transactions where the Group provides goods on deferred terms.

Group policies are aimed at minimising such losses and require that deferred terms are granted only to customers who demonstrate an appropriate payment history and/or satisfy creditworthiness procedures. Individual exposures are monitored with customers subject to credit limits to ensure that the Group's exposure to bad debts is not significant. Goods may be sold on a cash-with-order basis to mitigate credit risk.

Management's assessment of the maximum credit risk exposure relating to financial assets is represented by the carrying value as at the balance sheet date.

Liquidity risk

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

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

The Group has an unsecured net overdraft facility of £1.0m arranged with its principal banker, Barclays Bank plc. This facility extends until 30 April 2014 and is to provide funding for working capital.

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

22. Financial risk management policy and financial instruments continued

Foreign exchange risk

The Group's policy is that no trading in financial instruments should be undertaken. Spot contracts and forward currency contracts are used to sell surplus US Dollars and Euros, generated from sales less purchases in those currencies. The Group looks to use natural hedging as the main basis of minimising its exposure to these currencies, and this is particularly the case with Euros.

Foreign currency risk is the risk that the fair value of future cashflows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense are denominated in a different currency from the Group's functional currency).

The following table demonstrates the sensitivity to a reasonably possible change in the US Dollar and Euro exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities and fair value movements on forward currency contracts).

	Change in US Dollar rate	Effect on profit before tax £'000	Change in Euro rate	Effect on profit before tax £'000
2013				
Sterling	**+5%**	**(3)**	**+5%**	**4**
	–5%	**4**	**–5%**	**(5)**
2012				
Sterling	+5%	(9)	+5%	(15)
	–5%	9	–5%	16

Interest rate risk

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

The main risks arising from the Group's financial instruments are as follows:

- foreign currency risk – the magnitude of this risk that has arisen over the period is detailed overleaf; and
- interest rate risk on floating rate financial liabilities to the extent not covered by interest rate benefit on floating rate financial assets – details of floating rate financial liabilities and assets are overleaf.

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

	Increase/ decrease in basis points	Effect on profit before tax £'000
2013		
Sterling	**+100**	**(19)**
	–100	**19**
2012		
Sterling	+100	(21)
	–100	21

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

22. Financial risk management policy and financial instruments continued

Fair values of financial assets and financial liabilities

The fair value of all financial assets and liabilities is not significantly different to their carrying amount.

Capital management

The Group's policies on capital management are included in the Directors' report on page 20.

23. Share capital and share-based payments

(a) Share capital

	2013 Number Thousands	2012 Number Thousands	2013 £'000	2012 £'000
Authorised				
Ordinary shares of 1p each	**25,000**	25,000	**250**	250
Allotted, called up and fully paid				
Ordinary shares 1p each	**15,032**	14,903	**150**	149

(b) Share premium

	£'000
At 1 October 2012	6,862
Increase for cash on exercise of share options	141
At 30 September 2013	**7,003**

(c) Share-based payments

Senior Executive Plans and EMI Scheme

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

All Employee Share-option Plan, the Sharesave Scheme

Periodically the Board of Directors will agree to the setting up of a new Sharesave Scheme for all employees under the SAYE regulations. All employees are entitled to apply for a grant of options once they have been in service for three months. The options will vest if the employee remains in service for a period of three or five years from the date of grant. The exercise price of the options is equal to the market price of the shares less a discount decided by the Board of Directors on the date of grant. The contractual life of the options is three or five years with a six-month exercise period.

Notes to the consolidated financial statements continued

For the year ended 30 September 2013

23. Share capital and share-based payments continued

(c) Share-based payments continued

All Employee Share-option Plan, the Sharesave Scheme continued

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

	30 September 2012 Number	Granted during year Number	Exercised during year Number	Lapsed during year Number	30 September 2013 Number	Exercise dates	Option price
Unapproved Executive Scheme	12,700	—	—	—	**12,700**	28 February 2011 to 27 February 2018	216.5p
	10,000	—	—	—	**10,000**	29 March 2014 to 28 March 2021	172.8p
	20,000	—	—	—	**20,000**	29 March 2016 28 March 2021	172.8p
Sharesave Scheme (2009) – five-year term	19,546	—	19,546	—	**—**	1 April 2013 to 30 September 2013	220.0p
EMI Scheme	93,000	—	93,000	—	**—**	16 March 2006 to 15 March 2014	70.0p
	17,182	—	—	—	**17,182**	18 January 2008 to 17 January 2015	145.5p
	40,000	—	—	2,000	**38,000**	11 January 2009 to 10 January 2016	274.5p
	17,300	—	—	—	**17,300**	28 February 2011 to 27 February 2018	216.5p
	82,500	—	5,000*	—	**77,500**	15 July 2013 to 15 July 2020	177.5p
	77,250[1]	—	2,000	—	**75,250**	6 October 2013 to 5 October 2016	176.0p
	44,850	—	—	—	**44,850**	29 March 2014 to 28 March 2021	172.8p
	46,000	—	4,000*	—	**42,000**	29 March 2014 to 28 March 2021	216.0p
	88,023	—	5,200*	—	**82,823**	25 January 2015 to 24 January 2022	243.5p
	20,000	—	—	—	**20,000**	25 January 2015 to 24 January 2022	195.0p
	20,000	—	—	—	**20,000**	29 March 2015 28 March 2021	172.8p
	20,000	—	—	—	**20,000**	25 January 2016 to 24 January 2022	195.0p
	7,500	—	—	—	**7,500**	25 January 2016 24 January 2022	243.5p
	20,000	—	—	—	**20,000**	25 January 2017 to 24 January 2022	195.0p

1 Of the 77,250 shares issued on 5 October 2010, 40,000 shares are "parallel" shares issued to recipients of similar sized grants in 2006 (exercisable between 11 January 2009 and 10 January 2016 at 274.5p). Each individual is allowed to exercise the appropriate number of shares under either the 2006 grant or the 2010 grant (hence the term "parallel") but not under both. The exercise of one grant automatically terminates the other grant.

* Shares exercised early under good leaver principles.

Performance conditions have not been attached to the share options awarded under the EMI Scheme.

23. Share capital and share-based payments continued

(c) Share-based payments continued

Income statement expense for year ended 30 September 2013

The expense recognised for share-based payments in respect of employee services received during the year to 30 September 2013 is £80,000 (2012: £74,000).

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

	2013 Number	2013 WAEP Pence	2012 Number	2012 WAEP Pence
Outstanding at 30 September*	**855,851****	**163.9**	869,996**	167.6
Granted during the year	**—**	**—**	155,523	224.7
Lapsed during the year	**(202,000)**	**27.5**	—	—
Exercised during the year	**(128,746)**	**110.1**	(169,668)	162.3
Outstanding at 30 September	**525,105**	**201.0**	855,851**	163.9
Exercisable at 30 September	**162,682**	**204.0**	180,182	110.6

* Included within this balance are options over 93,000 (2012: 93,000) shares that have not been recognised in accordance with IFRS 2 as the options had vested before 1 October 2006. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

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

For the share options outstanding as at 30 September 2013, the weighted average remaining contractual life is seven years (2012: six years).

There were no grants of options during the year. The weighted average fair value of options granted during the year was Nil (2012: 67.6p). The range of exercise prices for options outstanding at the end of the year was 145.5p to 274.5p (2012: 70.0p to 274.5p).

The fair value of equity-settled share options granted is estimated as at the date of grant using a model designed by the Quoted Company Alliance (based on a Black-Scholes-Merton model), taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 30 September 2012:

	2012
Dividend yield	3.4%
Expected share price volatility	35.0%
Risk-free interest rate	5.8%
Expected life of option (years)	3.0 to 7.0

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

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

(d) Director's share incentive scheme

Share incentive scheme for Mark Cambridge, Chief Executive

The remuneration committee agreed an incentive award scheme for Mark Cambridge, Chief Executive, to offer him up to 200,000 shares at a price of 25.0p per share to vest based on specified performance criteria.

23. Share capital and share-based payments continued

(d) Director's share incentive scheme continued

Share incentive scheme for Mark Cambridge, Chief Executive continued

These are measured by an EPS calculated on the audited pre-tax profit and a standard 28% tax charge. The EPS criteria are shown below:

	Performance criteria			
	Lower limit		Upper limit	
	EPS Pence	Shares to vest	EPS Pence	Shares to vest
Year to 30 September 2009 (year 1)	13.5	80,000	15.0	100,000
Year to 30 September 2010 (year 2)	18.3	60,000	22.0	80,000
Year to 30 September 2011 (year 3)	24.5	60,000	24.5	20,000

Vesting is:

- the entitlement to buy, which doesn't disappear once earned;
- pro rata between the upper and lower limits;
- timed on signature of audited accounts with a clean audit report; and
- cumulative, e.g. 200,000 shares can vest in year 3 if the upper limit is reached, even if the lower limits have not been achieved in the previous years.

If the 24.5p EPS criteria is not achieved in year 3, there will still be an opportunity for shares to vest in year 4 (to 30 September 2012) or year 5 (to 30 September 2013) on the achievement of 24.5p EPS on the basis that, on achievement, the maximum total entitlement reduces to 125,000 shares or 50,000 shares respectively, or the number of shares already vested if that is greater.

As at 30 September 2013, no shares had vested under this incentive scheme.

24. Capital commitments

Amounts contracted for at 30 September 2013 but not provided in the financial statements amounted to £26,000 (2012: £94,000) for the Group.

25. Pension scheme commitments

Contributions for the year ended 30 September 2013 amounted to £63,000 (2012: £62,000) and the outstanding contributions at the balance sheet date were £5,000 (2012: £5,000). The Group is a member of a group personal pension scheme which is a defined contribution scheme. Contributions are charged to the income statement as they become payable in accordance with the rules of the scheme.

26. Related party transactions

There are no related party transactions required to be disclosed in the financial statements.

The key management personnel are considered to be the Directors of the Group. The following table highlights the remuneration which is recorded in the income statement to the Directors:

	2013 £'000	2012 £'000
Salaries/fees	**458**	352
Bonuses	**—**	34
Pension contributions	**8**	6
Share-based payments	**2**	2
	468	394

27. Guarantees

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

Five-year summaries

Consolidated income statement

For the five years ended 30 September 2009 to 2013

	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Group revenue	**17,282**	20,424	20,488	18,483	15,921
Cost of sales	**11,961**	13,008	13,574	12,589	10,514
Exceptional costs	**413**	—	—	—	—
Gross profit	**4,908**	7,416	6,914	5,894	5,407
Distribution costs	**210**	243	239	231	183
Administration expenses	**2,858**	3,089	3,194	2,738	2,850
Group trading profit	**1,840**	4,084	3,481	2,925	2,374
Other operating income	**94**	187	187	112	20
Group operating profit from continuing activities	**1,934**	4,271	3,668	3,037	2,394
Finance costs	**39**	91	112	126	98
Finance revenue	**44**	15	1	13	4
Profit from continuing operations	**1,939**	4,195	3,557	2,924	2,300
Tax expense	**277**	898	865	736	593
Profit for the period from continuing operations	**1,662**	3,297	2,692	2,188	1,707
Earnings per share					
Basic	**11.1p**	22.2p	18.3p	14.9p	11.6p
Diluted	**11.0p**	21.9p	18.1p	14.8p	11.5p
Adjusted basic	**13.9p**	22.2p	18.3p	14.9p	11.6p
Adjusted diluted	**13.8p**	21.9p	18.1p	14.8p	11.5p
Dividends per share	**8.7p**	8.2p	7.1p	5.8p	4.2p

The results for all the above years derive from continuing operations.

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

Five-year summaries continued

Consolidated balance sheet

At 30 September 2009 to 2013

	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Assets					
Non-current assets					
Intangible assets	**1,453**	1,613	1,811	1,869	1,974
Property, plant and equipment	**7,888**	8,231	8,113	8,387	8,375
Trade and other receivables	**—**	413	296	198	210
	9,341	10,257	10,220	10,454	10,559
Current assets					
Inventories	**3,509**	3,441	2,754	2,588	2,503
Trade and other receivables	**2,430**	3,090	4,021	3,466	3,110
Cash and short term deposits	**5,474**	4,217	4,513	1,505	739
	11,413	10,748	11,288	7,559	6,352
Total assets	**20,754**	21,005	21,508	18,013	16,911
Equity and liabilities					
Current liabilities					
Trade and other payables	**1,410**	1,299	1,778	1,582	1,306
Financial liabilities	**200**	200	2,266	669	1,442
Accruals	**688**	1,016	1,118	600	574
Taxation liabilities	**192**	476	502	357	300
Government grants	**—**	97	192	192	—
	2,490	3,088	5,856	3,400	3,622
Non-current liabilities					
Financial liabilities	**1,538**	1,735	1,722	2,045	2,428
Deferred tax liabilities (net)	**625**	602	726	827	820
Government grants	**—**	—	97	289	43
	2,163	2,337	2,545	3,161	3,291
Total liabilities	**4,653**	5,425	8,401	6,561	6,913
Net assets	**16,101**	15,580	13,107	11,452	9,998
Capital and reserves					
Equity share capital	**150**	149	147	147	147
Share premium	**7,003**	6,862	6,588	6,550	6,479
Revenue reserve	**8,948**	8,569	6,372	4,755	3,372
Total equity	**16,101**	15,580	13,107	11,452	9,998

Statement of Directors' responsibilities

In relation to the Parent Company financial statements

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

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

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

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

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

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

Parent Company auditors' report

To the members of Zytronic plc

Independent auditors' report to the members of Zytronic plc

We have audited the Parent Company financial statements of Zytronic plc for the year ended 30 September 2013 which comprise the balance sheet and the related notes 1 to 13. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' responsibilities statement set out on page 51, the Directors are responsible for the preparation of the Parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the Parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2013;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the strategic report and Directors' report for the financial year for which the financial statements are prepared is consistent with the Parent Company financial statements.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of Zytronic plc for the year ended 30 September 2013.

Annie Graham (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
Newcastle-upon-Tyne
20 December 2013

Notes

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

Parent Company balance sheet

At 30 September 2013

	Notes	2013 £'000	2012 £'000
Fixed assets			
Tangible assets	3	**4,853**	4,965
Investments	4	**9,766**	9,690
		14,619	14,655
Current assets			
Debtors:			
– amounts falling due within one year	5	**8**	403
– amounts falling due after one year	5	**2,000**	2,000
Cash at bank and in hand		**4,063**	4,033
		6,071	6,436
Creditors: amounts falling due within one year	6	**478**	445
Net current assets		**5,593**	5,991
Total assets less current liabilities		**20,212**	20,646
Creditors: amounts falling due after more than one year	7	**1,538**	1,735
Provisions for liabilities and charges			
Deferred tax	9	**108**	114
		18,566	18,797
Capital and reserves			
Called up share capital	10	**150**	149
Share premium	11	**7,003**	6,862
Profit and loss account	11	**11,413**	11,786
Shareholders' funds		**18,566**	18,797

These financial statements have been approved by the Board of Directors on 20 December 2013 and signed on its behalf by:

Mark Cambridge, B.Sc. (Hons), FIoD
Chief Executive
20 December 2013

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

Notes to the Parent Company financial statements

For the year ended 30 September 2013

1. Accounting policies

(a) Basis of preparation

The financial statements of Zytronic plc were approved for issue by the Board of Directors on 20 December 2013. The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

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

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

(b) Share-based payments

Equity-settled transactions

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

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

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

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

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

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

(c) Tangible fixed assets

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

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

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

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

(d) Investments

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

1. Accounting policies continued

(e) Deferred taxation

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

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

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

(f) Interest-bearing loans and borrowings

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

2. Auditors' remuneration

Auditors' remuneration for the year ended 30 September 2013 was £12,700 (2012: £13,500).

3. Tangible fixed assets

	Land £'000	Freehold property £'000	Long leasehold property £'000	Total £'000
Cost				
At 30 September 2012 and 2013	**207**	**3,070**	**2,097**	**5,374**
Depreciation				
At 30 September 2012	—	278	131	409
Provided during the year	—	61	51	112
At 30 September 2013	**—**	**339**	**182**	**521**
Net book value at 30 September 2013	**207**	**2,731**	**1,915**	**4,853**
Net book value at 30 September 2012	207	2,792	1,966	4,965

4. Investments

Investments in subsidiary companies

	2013 £'000	2012 £'000
Shares in subsidiary companies		
At beginning of year	**9,690**	9,625
Share options granted to subsidiary employees	**76**	65
At end of year	**9,766**	9,690

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

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

The trading subsidiary is incorporated in England.

Notes to the Parent Company financial statements continued

For the year ended 30 September 2013

5. Debtors

	2013 £'000	2012 £'000
Trade debtors	**3**	2
Amounts owed by Group undertakings	**—**	394
Prepayments and accrued income	**5**	7
	8	403

Amounts falling due after more than one year are:

	2013 £'000	2012 £'000
Amounts owed by Group undertakings	**2,000**	2,000

6. Creditors: amounts falling due within one year

	2013 £'000	2012 £'000
Bank loan (note 8)	**200**	200
Trade creditors	**9**	16
Other creditors and accruals	**179**	135
Other amounts owed to subsidiary undertakings	**81**	81
Corporation tax	**9**	13
	478	445

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

	2013 £'000	2012 £'000
Bank loan (note 8)	**1,538**	1,735

8. Bank loan

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

9. Deferred taxation liability

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

	2013 £'000	2012 £'000
Accelerated capital allowances	**108**	114
At 1 October	**114**	119
Credit in the profit and loss account	**(6)**	(6)
Other	**—**	1
At 30 September	**108**	114

10. Share capital and share-based payments

(a) Share capital

	2013 Number Thousands	2012 Number Thousands	2013 £'000	2012 £'000
Authorised				
Ordinary shares of 1p each	**25,000**	25,000	**250**	250
Allotted, called up and fully paid				
Ordinary shares 1p each	**15,032**	14,903	**150**	149

Note 23(c) in the Group financial statements sets out the details of the share option schemes of the Group and the numbers of shares in the Parent Company which are contingently exercisable under them.

(b) Share-based payments

Note 23(c) in the Group financial statements identifies the basis of the Senior Executive Plans and the Sharesave Scheme. It also contains a table that illustrates the number and weighted average exercise prices of, and movements in, share options during the year.

(c) Director's share incentive scheme

Note 23(d) in the Group financial statements sets out the details of the Share Incentive Award Scheme for Mark Cambridge, Chief Executive, in shares of the Parent Company.

11. Reconciliation of movements in shareholders' funds

	Called up share capital £'000	Share premium £'000	Profit and loss account £'000	Total £'000
At 30 September 2011	147	6,588	9,983	16,718
Exercise of share options	2	274	—	276
Profit on ordinary activities after taxation	—	—	2,946	2,946
Share-based payments	—	—	74	74
Dividends	—	—	(1,217)	(1,217)
At 30 September 2012	149	6,862	11,786	18,797
Exercise of share options	1	141	—	142
Profit on ordinary activities after taxation	—	—	841	841
Share-based payments	—	—	80	80
Dividends	—	—	(1,294)	(1,294)
At 30 September 2013	**150**	**7,003**	**11,413**	**18,566**

A profit of £841,000 (2012: £2,946,000), before payments of dividends of £1,294,000 (2012: £1,217,000), has been dealt with in the financial statements of the Company which, under the exemption contained in Section 408 of the Companies Act 2006, has not presented its own profit and loss account.

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

12. Pension scheme commitments

Contributions for the year ended 30 September 2013 amounted to £4,400 (2012: £2,900) and the outstanding contributions at the balance sheet date were £Nil (2012: £Nil).

13. Guarantees

Zytronic plc has given guarantees regarding funding advanced to Zytronic Displays Limited by Barclays Bank plc in connection with an overdraft facility detailed in note (a) below.

(a) Borrowing facilities

The Group has an unsecured overdraft facility of £1.0m arranged with its principal banker, Barclays Bank plc. This facility extends until 30 April 2014. This facility is to provide funding for working capital.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at Whiteley Road, Blaydon-on-Tyne, Tyne and Wear NE21 5NJ on Thursday 27 February 2014 at 2.00pm for the following purposes:

Ordinary business

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

1. To receive the financial statements for the year ended 30 September 2013 and the reports of the Directors and auditors thereon.
2. To pay a final dividend of 6.35p per ordinary share of 1.0p for the year ended 30 September 2013 on Friday 14 March 2014 to members on the Register at the close of business on Friday 28 February 2014.
3. To re-elect David Buffham as a Director.
4. Following her appointment to the Board during the year, to elect Claire Smith as a Director.
5. To re-appoint Ernst & Young LLP as auditors and to authorise the Directors to fix their remuneration.

Special business

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

1. The Directors of the Company be and are hereby generally and unconditionally authorised (in substitution for any previous authority) for the purposes of Section 551 of the Companies Act 2006 (as amended) (the "Act") to exercise all the powers of the Company to allot shares in the Company, or to grant rights to subscribe for or to convert any security into shares in the Company (such shares and such rights to subscribe for or to convert any security into shares in the Company being "relevant securities") on such terms and in such manner as they shall think fit, up to a maximum aggregate nominal amount of £50,056.36 at any time (unless and to the extent previously revoked, varied or renewed by the Company in general meeting) during the period from the date hereof until the conclusion of the Company's Annual General Meeting held in 2015 provided that the Directors of the Company may make an offer or enter into an agreement which would or might require relevant securities to be allotted, offered or otherwise dealt with or disposed of after the expiry of such authority and the Directors may allot any relevant securities after the expiry of such authority in pursuance of any such offer or agreement as if this authority had not expired.
2. Subject to and conditional upon the passing of special resolution 1 above, the Directors of the Company be given power pursuant to Sections 570 and 573 of the Act to allot equity securities (as defined in Section 560 of the Act) of the Company for cash pursuant to the authority conferred by special resolution 1 above, as if Section 561 of the Act did not apply to any such allotment, such power to expire at the conclusion of the Company's Annual General Meeting held in 2015 provided that before such expiry the Directors of the Company may make an offer or enter into an agreement which would or might require equity securities to be allotted after the expiry of such power and the Directors may allot equity securities after such expiry under this power in pursuance of any such offer or agreement as if this power had not expired. This power is limited to:

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

   2.2. the allotment (other than pursuant to 2.1 of this special resolution) of equity securities up to a maximum aggregate nominal amount of £7,515.97.

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

Special business continued

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

    3.1. the maximum number of Shares hereby authorised to be purchased shall be 1,503,194;

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

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

    3.4. unless previously renewed, revoked or varied, the authority hereby conferred shall expire at the conclusion of the Company's Annual General Meeting held in 2015 save that the Company may, prior to such expiry, enter into a contract to purchase Shares which will or may be executed wholly or partly after the expiry of such authority and may purchase Shares pursuant to such contract as if such authority has not expired,

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

By order of the Board

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

Company Secretary
Zytronic plc
Whiteley Road
Blaydon-on-Tyne
Tyne and Wear NE21 5NJ

20 December 2013

Notes

1. Every member entitled to attend and vote at the meeting may appoint a proxy or proxies to attend, speak and vote (whether on a show of hands or on a poll) at the meeting on their behalf. A proxy need not be a member of the Company. A prepaid form of proxy is enclosed.

2. Completed forms of proxy must be returned to the Company's Registrars at the address shown on the form of proxy not later than 4.00pm on Tuesday 25 February 2014 or two working days prior to any adjourned meeting or, in the case of a poll taken more than 48 hours after it is demanded, one working day before the time appointed for the taking of the poll. The sending of a completed form of proxy to the Company's Registrars will not preclude members from attending and voting at the meeting, or any adjournment thereof, in person, should they so wish.

3. The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 (as amended), specifies that only those holders of ordinary shares of 1.0p each of the Company registered in the Register of Members of the Company as at:

    3.1. 4.00pm on 25 February 2014; or

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

    shall be entitled to attend and vote at the meeting in respect of the number of ordinary shares of 1.0p each in the capital of the Company registered in their name at that time. Changes to entries on the Register of Members after 4.00pm on Tuesday 25 February 2014 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

4. Copies of contracts of service between Directors and the Company or any of its subsidiary undertakings will be available for inspection during normal business hours by members at the registered office of the Company on each business day from the date of this notice until the date of the Annual General Meeting, and at the place of the Annual General Meeting for at least 15 minutes prior to, and during, that meeting.

Corporate information

Websites

www.zytronicplc.com

www.zytronic.co.uk

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

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