The world at your fingertips...

Zytronic plc
Annual Report and Financial Statements 2016

WIDENING TOUCHSCREEN OPPORTUNITIES

The Zytronic range of interactive touch sensing overlay products are based upon our internationally award winning projected capacitive technologies. We develop and manufacture highly durable and adaptable sensors in a near limitless range of shapes and sizes, ideally suited for the most demanding self-service, industrial and public-facing interactive systems.

Unlike the majority of other touch technologies, the active component of Zytronic's technology is embedded behind the glass front for protection, providing a true safety laminated, pure-glass fronted construction. Cutting edge, durable and reliable, Zytronic, its technologies and its products put the world at your fingertips.

Read more about our technology **P2–3**

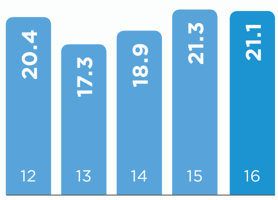
OVERVIEW

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

FINANCIAL OVERVIEW

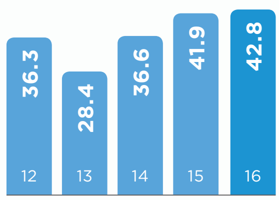
Group revenue (£m)

£21.1m -1%



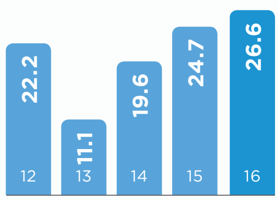
Gross profit margin (%)

42.8% +2%



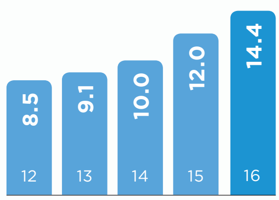
Earnings per share (p)

26.6p +8%



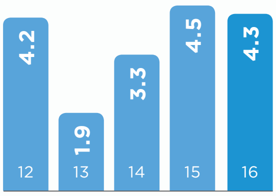
Dividends (p)

14.4p +20%



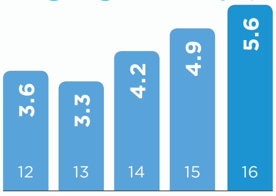
Profit before tax (£m)

£4.3m -6%



Cash generated from operating activities (£m)

£5.6m +15%



CONTENTS

Find out more about us and watch our video at **www.zytronic.co.uk**

At a glance

Touch technology is second nature and enhances every aspect of our lives.

OUR TECHNOLOGY	THE BENEFITS: High impact resistance	THE BENEFITS: Customisation
SINGLE TOUCH Projected capacitive technology ("PCT™") provides the same level of sensitivity experienced on smartphones and tablets, combined with the durability needed for the toughest industrial and self-service applications.	PCT™ touch sensors can be constructed from one, two or even three layers of laminated, toughened glass, up to a total thickness of 20mm or more. As a result PCT™ touchscreens can be designed to withstand whatever abuse the application and environment throws at it.	Designed and manufactured at our in-house glass processing facilities, our dedicated and experienced engineers create bespoke products tailored to the exact requirements of our clients and their customers.
MULTI-TOUCH Multi-touch projected capacitive technology ("MPCT™") offers most of the durability advantages of PCT™, but with added multi-touch capability.	The MPCT™ multi-touch sensors are typically constructed from a laminated toughened glass substrate of up to 10mm thick, meaning they are durable enough to withstand most impacts and extreme environments. The sensors are unaffected by rain or liquid spillages and, as they only react to finger, conductive stylus or gloved hand, "false" (accidental) touches are minimised.	Like PCT™ touch sensors, MPCT™ touch sensors are available in a near limitless choice of sizes, in glass of various thicknesses and types – for example, anti-reflective, mirrored and anti-microbial surfaces are available. Customers can also specify whether their touchscreen is flat or curved and request special edge profiles, cut outs, holes and slots.

MARKET UPDATES

APAC
Touch revenue from invoiced sales to the APAC region was £7.3m, which represented 41% of total touch export revenue (2015: £5.0m, 31%). The growth in the region was significantly influenced by demand for ultra-large format MPCT™ curved unit designs for casino cabinet gaming applications.

EMEA
Touch revenue from invoiced sales to the EMEA region was £6.7m, which represented 38% of total touch export revenue (2015: £6.8m, 42%).

Americas
Touch revenue from invoiced sales to the Americas was £3.6m, which represented 21% of total touch export revenue (2015: £4.5m, 27%). The reduction is mainly attributable to the benefit to sales of Coca-Cola in 2015 matching touch sensors to their last time buy requirements of the original LCD display unit.

Sensitivity	Reliability
PCT™ technology works by sensing minute frequency changes in an X-Y matrix of conductive traces. This method is so sensitive that a touch can be detected through very thick glass overlays approaching 20mm. Yet, it ignores raindrops, leaves, dirt, ice, etc., making it ideal for self-service, industrial and public use.	With its unrivalled durability, PCT™ provides 24/7 functionality in the most difficult of environments, minimising downtime, reducing maintenance and maximising return on system investment.
Unlike conventional capacitive, acoustic and optical touch sensors, the active component of MPCT™ is embedded behind the front substrate, ensuring protection, long life and stability. MPCT™ technology can also detect activity through glass thicknesses of 10mm or more, making it ideal for use in a variety of environments.	MPCT™ also provides 24/7 functionality in the most difficult of environments. It is proven, dependable, vandal-resistant and is practically immune to most types of physical, mechanical and chemical abuse.

UK

Touch revenue from invoiced sales to UK customers was £0.6m (2015: £1.0m). The year-on-year variance was attributable to an InfoTable project concluding in 2015 for a car showroom project.

WHERE IT'S USED

Leisure

Our highly durable and customisable touch sensors are used in a variety of entertainment applications, from video jukeboxes to the latest slot machines. They provide reliable performance and enable engaging designs.

Surfaces

Our award-winning multi-touch, MPCT™ touch sensors are available in any size or shape up to 85", perfect for multi-user touch tables in retail, leisure and commercial applications.

Signage

Our large format PCT™ touchscreens are increasingly used in digital signage, helping advertisers to engage directly with individual customers outdoors and indoors, and are reliable in all conditions.

Industrial

Our rugged, reliable PCT™ touch sensors are used in a variety of workplace applications, from medical diagnostic equipment to oil field machinery controls, providing low maintenance, year-round performance in all environments.

Retail

Our tough, customisable PCT™ touchscreens enable self-service equipment to be deployed at the point of sale irrespective of the location and to provide 24/7 customer access in the harshest environments and climates.

Banking

Our vandal-resistant PCT™ touch sensors have been trusted by global ATM and financial kiosk manufacturers for over a decade to provide reliable self-service performance both indoors and outdoors.

Read our business model P6

Chairman's statement

Touch product revenues continuing to increase.

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

We are pleased to announce the results for the year ended 30 September 2016 which, as explained in the recent pre-close statement, Group trading profit excluding fair value movements on foreign exchange forward contracts of £0.9m, shows a significant improvement to £5.2m.

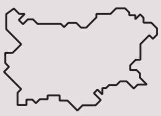
Results

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

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

EURO GAMES TECHNOLOGY

Zytronic speeds the pace of roulette with unique multiplayer table.



Location:
Bulgaria

Industry:
Entertainment and leisure

Application:
Multiplayer luxury roulette table

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

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

Dividend

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

Outlook

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

Tudor Davies
Chairman
12 December 2016

Operational review **P12**

Introduction

Euro Games Technology ("EGT"), one of the fastest growing companies in the global gaming industry, used PCT™ to create a completely new multiplayer luxury roulette game on an 84" table with up to eight independent touch areas. The EGT Luxury Touch Table won an award at G2E last year and has already been installed in 50 casinos, including WINBET in Bulgaria, Casino Advanced Technology, France, and Casino VINMOE in Ireland.

Key information

The EGT Luxury Touch Table is a high-end product featuring an exquisite design, modern technologies and demanding performance standards. Critically, the new table concept required six or eight completely independent touch zones operating seamlessly over a single 84" LCD, allowing individuals to place bets within a shared game experience, without the risk of each player's "virtual" gambling chips becoming mixed up.

Zytronic is supplying the 84" diagonal anti-glare treated glass panels, equipped with either six 21" or eight 19" separate touch zones around the perimeter of the screen. Each playing area is supported by its own ZXY100 touch controller. These touch areas are seamless, without bezel or border, blending into the overall display. Furthermore, the 6mm thick screen-printed glass is thermally toughened to resist deliberate or accidental damage.

Abuzz case study **P14**

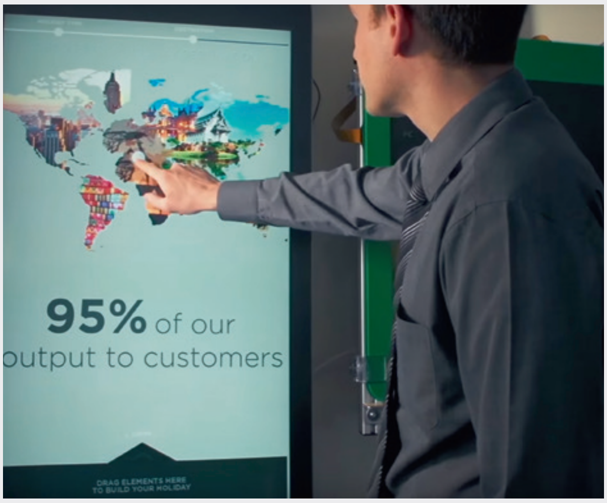
Our business model

Our competitive advantages – adding value to our capabilities.

OUR TECHNOLOGY

We invented the term "projected capacitive" more than 15 years ago and we are global leaders in its development with our proprietary PCT™ and patented MPCT™ technology.

At Zytronic we are committed to the future of touch interactivity for self-service and public use, and we reinvest approximately 10% of our annual revenue into the development of new technology and products.



OUR CAPABILITIES

We know glass. Our in-house facilities include automated cutting, edge grinding, polishing and drilling machines, complemented by bending and thermal tempering ovens and screen-printing equipment. Our dedicated and talented manufacturing team has decades of experience in glass processing and lamination.

Our commitment to develop innovative touch technology is backed up by stringent (ISO-approved) quality systems and our multilingual/multinational sales, customer service and technical support team are always on hand to assist customers throughout a project.

FOCUS ON DEVELOPMENT

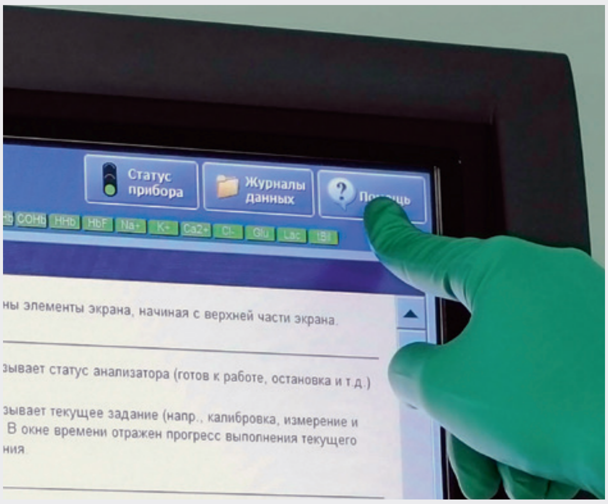
Over the last 16 years, we have built up a diverse team of mechanical, electronic, software and firmware engineering experts, to continually develop the processes, materials and functionality across the full gamut of all products that Zytronic designs and manufactures.

This ensures that the developed and, where appropriate, patented IP in our touch technologies and products remains at the forefront of the industry and allows us to take an important position within the touch ecosystem.

HOW WE ADD VALUE

We recognise the technical consultative nature of the interactions that we have with our customers, which, in the case of our touch technologies, allows us to provide them with a solution tailored to the needs of their developed systems and equipment.

We provide a fairly unique service into the touch ecosystem by providing a one-stop solution, by bringing the sensor manufacturing, controlling electronics, processing firmware and system software under the single supplied control, thus allowing our customers a fully managed and tuned solution.



Our strategy and key performance indicators ("KPIs")

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

INNOVATE

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

What we did in 2015/2016

- We released a new MPCT™ controller designed specifically to work with sensors <20" in size. Sampling of this controller then led to orders during the year.
- We tested alternative sensor materials and determined an optimum solution for relative low resistance load to drive via our electronics.
- We identified a new methodology to bond the flexi-tails to our sensors and will introduce this in the coming year.
- Development work on the MPCT™ Application Specific Integrated Chip ("ASIC") continued.

Our priorities for 2016/2017

- We aim to complete the development of the ASIC to then introduce it into the product range.
- We will continue to work within the H2020 Hi-Response consortium project.
- We will introduce the new laser bonding methodology into our manufacturing process.

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 additional countries, for example Indonesia and in the Middle East.

What we did in 2015/2016

- We expanded our direct sales in North America with further recruits for Zytronic Inc.
- We increased our channel partner network by three to 41 agreements worldwide.

Our priorities for 2016/2017

- We will continue to develop our sales channel partnerships across the world.
- We will seek to increase our channel partner network in Japan and Indonesia.
- We will drive the global value added reseller agreement with Future Electronics.
- We will continue to develop our presence in the US through Zytronic Inc.

INVEST

We review our manufacturing methods regularly to bring through efficiencies in production. We add new plant and equipment each year, as necessary, to add capacity and replace old equipment. We invest in our marketing activities to promote our business on a global level. We invest in our employees to ensure we have the necessary calibre of people in the organisation.

What we did in 2015/2016

- We purchased additional plotting machines to meet the increasing demand for large-format products.
- We rebranded our corporate identity to align with the touch interactivity focus.
- We launched new trading and corporate websites during the year.
- We introduced a new customer relationship management ("CRM") system to better control our opportunity log.
- We developed a production engineering training apprenticeship scheme during the year.

Our priorities for 2016/2017

- We will purchase further plotting machines as demand for large format products continues to increase.
- We will invest in in-house edge profiling equipment to meet increasing demand for shaped products.
- We will further invest in equipment used for bending glass.
- We will review our ERP system to ensure it continues to meet our requirements.

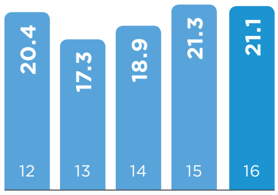
Measuring our performance

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

- 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); managing cashflow from operating activities; recording the order intake over the year; and monitoring accident levels.
- In addition, the Directors review a sales pipeline log which the sales team uses to record validated sales opportunities and the key dates in the development of each sales prospect with the customer, volumes and values of the opportunities and expected production commencement dates.

Group revenue (£m)

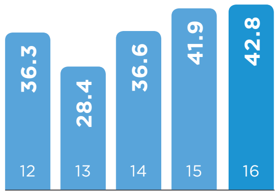
£21.1m -1%



The total amount the Group earns from the sale of its products.

Gross profit margin (%)

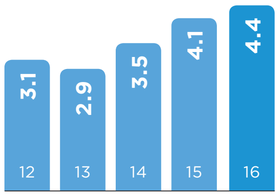
42.8% +2%



The gross amount of margin earned from the sale of the Group's products.

Administration expenses (£m)

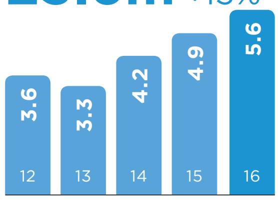
£4.4m +7%



The indirect costs incurred in running the Group.

Cash generated from operating activities (£m)

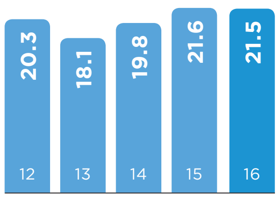
£5.6m +15%



Cashflow from operating activities adjusted for non-cash items.

Order intake over the year (£m)

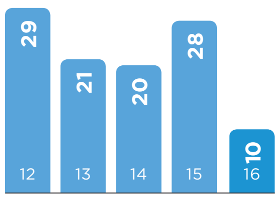
£21.5m 0%



Orders received during the financial year.

Recorded accidents

10 -64%



Total number of accidents recorded in the business over the year.

Risk management

Successfully managing risks through identification, evaluation and monitoring.

The Board has carried out a robust assessment of the principal risks facing the Group, including those that threaten the business model, the strategy, future performance, solvency and liquidity. Risks have been identified as principal based on the likelihood of occurrence and the severity of the impact on the Group, and have been identified through the application of policies and processes outlined below.

MANAGING OUR RISKS

The nature of the risk is reviewed including the possible triggering events and the aggregated impacts before setting appropriate mitigation strategies directed at the causes and consequences of each risk.

The risk is assessed in relation to the likelihood of occurrence and the potential impact of the risk upon the business and against a matrix scoring system which is then used to escalate risks within the Group.

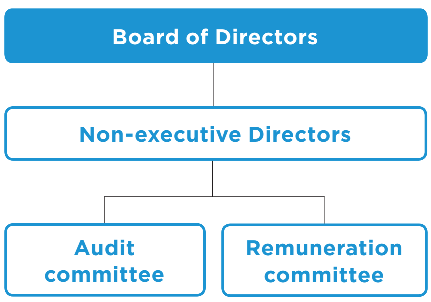
Impact and change key:

Unchanged Adverse Improved

Moderate Major Minor

Risk management structure

The responsibility for risk identification, analysis, evaluation and mitigation rests with the operational management team of the businesses and is regularly communicated to the Board. The operational management team are also responsible for reporting and monitoring key risks in accordance with established processes under the Group operational policies. Reporting within the Group is structured so that key issues can be escalated rapidly through the management team to the Board where appropriate.



RISK DESCRIPTION	MITIGATING ACTIONS	POTENTIAL FINANCIAL IMPACT	CHANGE
Advances in competing technologies			
The main risk to the Group's business is that of advances in competing technology, whereby a new, better touch sensor technology is created.	Management is very conscious of this and monitors competitors' developments and changes within the whole industry. By continually developing and evolving its own technologies, the Group expects to build upon its competitive strengths and thereby keep its technology ahead of its competitors. In order to protect itself the Group has applied for and had patents successfully granted.		
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.	Management has successfully met these challenges to date by re-designing and re-engineering the ZYTOUCH® touch sensor in developing the ZYPOS® touch sensor. This enabled the Group to reduce the cost of manufacture and therefore the sales price for subsequent touch sensor designs and has allowed the Group to enter markets that were previously closed to it on price grounds. The Group has subsequently taken the touch sensor manufacturing process changes and applied them to the re-design and manufacture of the optical display filters which it also produces.		
Increasing costs of raw material supplies			
There are continual upward pressures on the cost of raw material supplies, many arising from increases in oil prices and energy costs. Raw materials can also be purchased in US Dollars and Euros, whereby movements in exchange rates can affect the pricing.	Management continually reviews the sources and costs of raw material supplies, the design of the Group's products and the operational processes that are used in their manufacture. Where possible, it uses increases in volume purchases to obtain price reductions, discounts and improved specifications. Foreign exchange contracts are in place to try to mitigate FX movements.		
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 that has been strengthened by the introduction of a CRM system to monitor potential future sales levels. It has built in a degree of flexibility in its two main factories by ensuring that all products can be processed across its two buildings to continue to meet variable demand.		
Reliance on key customers			
At present the Group has 61% of its revenue from three key customers. The risk to the Group is the loss of one or more of these customers with revenues not being replaced by others.	The nature of the business often means that when a customer is brought into the Group they stay loyal for a long period due to the lengthy engagement process from initial discussion to the raising of the purchase order. It is also difficult for a customer to design-out the product once it has been chosen to be incorporated into their product offering. These factors help mitigate the risk of losing key customers. The Group constantly seeks new and increasing opportunities to replace and add to revenue when existing projects naturally come to their conclusion.		
Risks associated with currency movements			
A large proportion of the Group's sales are denominated in US Dollars and Euros, so the Group is subject to risks associated with currency movements. It is the Group's policy to manage these risks and provide a degree of certainty for cashflows into the UK without taking the risks of speculative positions.	Natural hedging is adopted to manage currency risk, whereby goods and services are sometimes sourced in Euros and US Dollars. Surplus currency is then protected through the use of forward foreign exchange contracts.		
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 the Group is wholly reactive to its customer demands.	The demands of the Group's customers is not something that can be controlled, so in order to mitigate this risk the Group constantly strives to have a diversified customer base with multiple projects over different time periods occurring at any one time. A project log is regularly reviewed to ensure that up-to-date information regarding pipeline projects is captured.		

Operational review

Increasing demand for touch sensor products.

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

Strategic sales and marketing initiatives

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

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

SUSTAINABILITY

We have core values that serve as the guidelines for our conduct as an organisation and for the behaviour of our employees.

Integrity
Building relationships of mutual respect with colleagues, customers, suppliers, advisers and investors, ensuring that we conduct ourselves at all times in an open, honest and ethical manner.

Quality
Providing customer satisfaction through the continual improvement of our products, processes and the capabilities of our employees, through innovation, development and training.

Performance
Achieving profitable growth and increasing shareholder value through the balance of short term demands and long term strategies.

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

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

Strategic research and development

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

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

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

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

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

Sales

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

Apprenticeships

We are committed to training and have embarked on an apprenticeship scheme to train our engineers of the future.

Environmental policy

At Zytronic we're committed to working towards a cleaner and greener future for all.

We endeavour to comply with all relevant environmental legislation and regulation. It is our goal to attain higher standards of environmental performance where practical and appropriate.

We are fully compliant with BSI Environmental Management System ISO 14001:2004.

Recycling

We promote environmental awareness throughout the Group and have introduced a number of activities which include the recycling of paper, cardboard, plastics, cans, bottles, metals, etc. Since introducing these recycling activities, Zytronic has reduced pollution into the environment by diverting 95% of our waste away from landfill with the remaining 5% being used as RDF fuel.

Operational review *continued*

Sales *continued*

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

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

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

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

	2016		2015		Variance	
Sensor size	Units (thousands)	% total	Units (thousands)	% total	Units (thousands)	% change
0–14.9"	39	30	42	28	(3)	(7)
15.0–29.9"	77	59	98	66	(21)	(21)
30.0"+	14	11	9	6	5	56
Totals	**130**	**100**	149	100	(19)	(13)

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

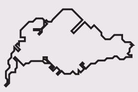
Touch application markets

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

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

ABUZZ MARINA BAY

Zytronic finds the way in Asia's leading integrated resort.



Location:
Singapore

Industry:
Leisure

Application:
Signage

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

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

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

Opportunities analysis

Zytronic maintains an active log to monitor all valid sales enquiries generated from the various input sources being the sales channel partners, regional sales managers, business development managers and exhibition participation.

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

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

Mark Cambridge
Chief Executive Officer
12 December 2016

Introduction

Zytronic was commissioned by global digital way-finding specialist Abuzz to deliver its PCT™ touch sensor assemblies for a prestigious project in one of the world's most spectacular integrated resorts – Marina Bay Sands in Singapore.

The way-finder solution includes Abuzz's popular landmark touchscreen directory which they customised to meet the brief. The landscape unit features a low form factor that maximises the customer's line of sight, allowing them to easily orient themselves. Abuzz specified Zytronic touchscreens both to provide the best possible user experience and because of the value added manufacturing service that Zytronic could provide.

Key information

The Abuzz directories feature 40" landscape format Zytronic touchscreens driven by the new ZXY110 touch controller. This controller provides enhanced performance in a number of areas. It offers better immunity against electrical noise in the environment, and dynamically retunes itself to avoid performance degradation from emissions from mobile phones and other nearby electronic devices. Although the directories are large units externally, there is in fact only very limited space inside and the ZXY110 board is pleasingly compact. The fact that the controller is offered with native Windows device drivers was an added advantage, simplifying integration.

Paul Pettersen, Operations Manager of Abuzz, commented: "This project was all about creating the best possible experience for the customer. The Shoppes at Marina Bay Sands is equipped to the very highest standards throughout, and the brief for the new way-finding points was to fully match that. Visitors' expectations are based on the tablets and smartphones they have in their hands. Delivering that accurate and completely reliable touch experience on a 40" toughened screen isn't easy – but it is a challenge that Zytronic fully meets with its latest PCT™ touch technology."

Nilfisk case study P16

Financial review

Continuing to be cash generative.

Overview

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

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

Gross margin

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

Group trading profit

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

Tax

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

NILFISK CAR WASH BUSINESS UNIT

The Zytronic touch improves car wash user experience.

Location:
Germany

Industry:
Industrial

Application:
Self-service car wash systems

Earnings per share

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

Dividend

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

Capital expenditure

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

Cash and debt

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

Net cash (cash less debt) balances at 30 September 2016 were £11.6m (2015: £8.5m), of which £2.6m was held between instant access and 95 days' notice interest-bearing deposit accounts, with the remainder being managed through a set-off arrangement.

The Group maintains an overdraft facility which is available for use in any of its currencies. The Group also had an FX policy in place at the year end whereby it is hedged in both US Dollars and Euros for a period of twelve months ahead to try to better manage its net GBP inflows from its surplus currency requirements. Following the year end the Group considered its position on FX and agreed to continue to hedge against FX movement but only up to a period of a maximum four months ahead. The current contracts in place will therefore unwind over the coming year and will be replaced as necessary as per the new policy.

The Group retains a property mortgage with Barclays Bank plc, entered into in 2012, which is repayable at £0.2m per annum for five years, at which time it will either be re-financed or repaid. As of 30 September 2016, the outstanding property mortgage is £1.1m.

Proposed capital reduction

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

Claire Smith
Group Finance Director
12 December 2016

Introduction

A leading international manufacturer of retail car wash units, Nilfisk Car Wash Business Unit, has chosen Zytronic's proven and durable PCT™ touch sensors to provide the user interface and interactive digital signage features for its popular Wap WaschBär self-service car wash systems. Nilfisk selected the 12" ZyBrid® touch sensors because of their consistent, reliable performance in a wet environment. Nilfisk has over 1,000 systems deployed in locations throughout Europe.

Key information

Self-service car washes represent a very demanding environment as they are outdoor, in operation 24/7, used year round in all weather conditions and are almost constantly wet. Sometimes, for example, the user may direct the wash hose at the control unit. The challenge for Nilfisk was identifying a touch technology that is completely sealable, works reliably when wet and delivers a great user experience in all conditions. It found that many touchscreens performed erratically or failed altogether when water was present on the screen, causing great frustration to customers, particularly if the problems led to car wash selection errors.

In addition to providing intuitive and easy-to-follow operating instructions, the ZyBrid® touchscreens offer a flexible interactive digital signage platform. Nilfisk provides a web interface, enabling images and videos to be uploaded and changed from a remote, networked location. Operators typically use the screens to promote car accessories and other products available within the forecourt store which allow customers to make purchases direct from the terminal.

Read more case studies at **www.zytronic.co.uk**

Read more
about our progress
during the year.

Corporate governance

Financial statements

Board of Directors

Tudor Griffith Davies Ⓐ

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. He is currently Chairman of Assetco plc and was formerly Chairman and/or Chief Executive of Hicking Pentecost plc, Stratagem plc, Dowding & Mills Ltd and 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

Chief Executive

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

Claire Smith

Group Finance Director

Claire graduated in 2000 in Business and Finance and attained CIMA accreditation in 2006 and a certificate in International Cash Management in 2011. She held various positions within Procter & Gamble and the NAAFI before joining Zytronic Displays Limited in April 2007 as Group Financial Controller. In 2012, Claire was appointed Finance Director of the operating subsidiary Zytronic Displays Limited and Finance Director of Zytronic plc in January 2014.

David John Buffham Ⓐ Ⓡ

Independent Non-executive Director

David is a Non-executive Director of Newcastle Building Society. He is the Society's Senior Independent Director, chairs the Society's Board risk committee, sits on the nominations and remuneration committees and is a Director of the Newcastle Systems Management Ltd subsidiary. 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, most recently as the Bank's regional agent for the North East for nine years.

Sir David Robert Macgowan Chapman, Bt. Ⓐ Ⓡ

Senior Independent Non-executive Director

Sir David, a former Chairman of the CBI North East, has held a variety of Non-executive roles, including at Northern Rock Plc and at the London Stock Exchange. He is currently Chairman of Virgin Money's pension scheme and its independent governance committee and is an advisory board member of North East Finance. A former First Vice President of Merrill Lynch International Bank and a consultant to UBS Wealth Management, Sir David was a member of the Greenbury Committee on Directors' remuneration. He is currently Chairman of the remuneration committee.

Ⓐ Member of audit committee

Ⓡ Member of remuneration committee

All of the Directors served throughout the financial year.

Corporate governance

Achieving high standards of corporate governance.

As an AIM-listed company, Zytronic plc is not obliged to comply with the UK Corporate Governance Code published in September 2014 (the "Code") but instead uses the provisions of the Code as a guide, applying them as the Board considers appropriate to the circumstances of the Company.

Tudor Davies
Chairman

The workings of the Board and its committees

The Board
Throughout the year, Tudor Davies, the Non-executive Chairman, Mark Cambridge, the Chief Executive, Claire Smith, the Group Finance Director, and Sir David Chapman, Bt. and David Buffham, the two Independent Non-executive Directors, were members of the Board.

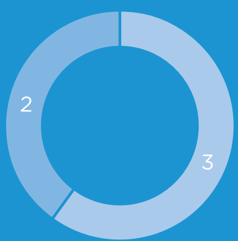
The Non-executive Directors demonstrate a range of experience and sufficient calibre to bring independent judgement on issues of strategy, performance, resources and standards of conduct, which is vital to the success of the Group.

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, the Chief Executive, the Group Finance Director and the 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.

THE BOARD

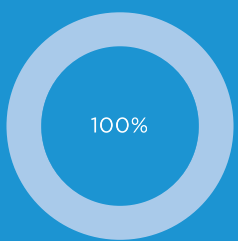
Number of meetings and the attendance of Directors

Board composition



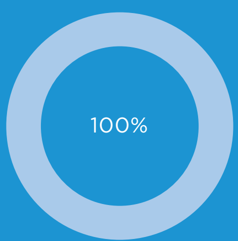
Non-executive Directors: 3
Executive Directors: 2

Board meetings
2016 total: five meetings



100% attendance by all Directors

Remuneration committee
2016 total: two meetings



100% attendance by all members

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 the 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 left below.

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 the 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 left below.

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 normally meets once a year.

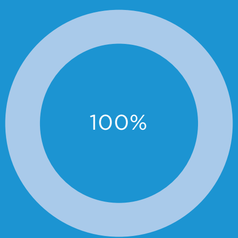
The committee provides a forum for reporting by the Group's external auditors.

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 below.

Audit committee
2016 total: one meeting



100% attendance by all members

"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 is vital to the success of the Group."

Corporate governance *continued*

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 Nomad produces a feedback report from those meetings which is made available to all Directors. The Executive Directors also report to the Board on any meetings with shareholders or institutional investors that may take place at other times of the year.

The Board uses both the annual report and financial statements and the Annual General Meeting to communicate directly with private and institutional investors and welcomes their participation. The Chairman aims to ensure that the Chairmen of the audit and remuneration committees are available at the Annual General Meeting to answer questions. Details of resolutions to be proposed at the Annual General Meeting on Thursday 16 February 2017 have been issued as a separate notice to all shareholders.

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

Internal control

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

An ongoing process, in accordance with the guidance of the Turnbull Committee on internal control, has been established for identifying, evaluating and managing the significant risks faced by the Group.

The process has been in place for the full year under review and up to the date of approval of the annual report and financial statements. The Board regularly reviews this process as part of its review of such risks within Board meetings. Where any weaknesses are identified, an action plan is prepared to address the issues and is then implemented.

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

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

Each year the Board approves the annual budget. Key risk areas are identified, reviewed and monitored. Performance is monitored against budget, relevant action is taken throughout the year and quarterly rolling forecasts are prepared to capture more accurate and up-to-date information. The reports reviewed by the Board include reports on operational as well as financial matters.

Capital and development expenditure is regulated by a budgetary process and authorisation levels. For expenditure beyond specified levels, detailed written proposals have to be submitted to the Board for approval. Reviews are carried out after the purchase is complete.

The Board requires management to explain any major deviations from authorised capital proposals and to seek further sanction from the Board.

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

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

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

Going concern

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

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 Directors present their annual report and financial statements for the year ended 30 September 2016.

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 2016/17 are disclosed in the Strategic report on pages 8 and 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 95% of all products are directly exported from the UK, with a large proportion of UK sales eventually being exported as well.

The Group draws strength from the diverse spread of its worldwide selling operations, particularly given the current uncertain economic conditions affecting different countries. The incorporation of Zytronic Inc. has further strengthened the Group's presence in the USA and the employment of a Taiwanese national in the APAC region has increased its presence there. Management continues to look for and engage with suitable appointees to expand the Group's presence of value added resellers ("VARs") worldwide.

Capital management

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

Management ensures that the Group has sufficient facilities to provide the Directors with comfort on the Group's foreseeable needs and its liquidity position. The Financial review includes a paragraph referring to the continuing strength of cashflows which occurred in the year ended 30 September 2016 and the overall net funds position.

No changes were made to these objectives, policies or processes during the years ended 30 September 2015 and 2016.

Research and development

During the year the Group released a new MPCT™ controller designed specifically to work with sensors less than 20" in size. Further development occurred on the MPCT™ ASIC which will reduce the footprint and cost of the Group's multi-touch controllers and it is expected that this will be released into production during fiscal year 2017. The Group also identified a new methodology to bond the flexi-tails to its sensors which will also be introduced into the business in 2017. Further details on the Group's R&D activities are included in the Operational review section of the Strategic report.

Results and dividends

The consolidated statement of comprehensive income is set out on page 29. The Group profit after tax amounted to £4.1m (2015: £3.8m). The Directors propose the payment of a final dividend of 10.96p per share (2015: 8.87p). Following the dividend of 3.45p per share paid in July 2016, this will bring the total dividend for the year to 14.41p per share (2015: 12.01p), an increase of 20%.

KEY STATISTICS

Research and development spend

2015 total: £418,000

2016 total: £395,000

Total number of employees

2015 total: 174

2016 total: 174

Dividend

2015 total: 12.01p

2016 total: 14.41p

Directors' report *continued*

Directors

The Directors of the Company are shown on page 19. All of the Directors were Directors for the whole of the year. The emoluments and interests of the Directors in the shares of the Company are set out in the Remuneration report.

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

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

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

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 19. 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.

Annual General Meeting ("AGM")

The AGM will be held at the office of Zytronic plc, on Thursday 16 February 2017 at 2.00pm. The Notice of Meeting accompanies this Annual Report and is also available on the Group's website at www.zytronicplc.com. Six resolutions will be proposed as special business. Explanatory notes on these resolutions are set out in the accompanying circular. Special business resolution number five proposes that the Company undertakes a court approved capital reduction process designed to convert £8.9m of non-distributable reserves into distributable reserves.

The Directors consider that all the resolutions to be proposed at the AGM are in the best interests of the Group and it is their recommendation that shareholders support these proposals as they intend to do so in respect of their own holdings.

Auditors

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

On behalf of the Board

Claire Smith
Company Secretary
12 December 2016

Registration number

3881244

Remuneration report

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

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

Remuneration policy

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

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

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

The remuneration packages of Executive Directors comprise the following elements:

Basic salary and benefits

Basic salaries for Executive Directors are reviewed annually having regard to individual performance and market practice. In most cases benefits provided to Executive Directors comprise the provision of a company car, or appropriate allowance, health insurance and contributions to a Group personal pension scheme. During the year the Board agreed to remove the provision of the company car or appropriate allowance and to instead add the cash benefit onto salaries with effect from 1 October 2016. Details of emoluments for the Directors of Zytronic plc are set out on page 26.

Annual bonus

In 2014, the remuneration committee implemented a three-year annual bonus plan linked to corporate performance targets, being the achievement of certain profit before tax ("PBT") measures.

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

In the financial year 2016 actual bonus payments of 20% of base salary are payable. The remuneration committee believes that this is a reasonable situation given the financial performance of the Group.

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

Long term incentive plan

The remuneration committee also agreed, in 2014, a long term cumulative cash bonus incentive scheme, payable in addition to the annual bonus scheme following the finalisation of the fiscal year 2016 annual report and financial statements, providing certain performance measures have been achieved.

These performance measures have subsequently been achieved and a bonus of 60% of base salary will be payable to the Chief Executive and a bonus of 45% of base salary will be payable to the Group Finance Director.

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 26 and 27.

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 2016 are shown in the table overleaf.

Pension contributions

During the year, the Group made annual pension contributions for Mark Cambridge and Claire Smith, Executive Directors, to a Group 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	2016 £'000	2015 £'000
Mark Cambridge	10	31
Claire Smith	41	36
Total*	51	67

* The Directors opted to pay some of their 2015 bonus award into their pension scheme as a Company contribution. Claire Smith opted to pay some of her 2016 bonus award into her pension scheme as a Company contribution.

CORPORATE GOVERNANCE

Remuneration report *continued*

Directors' shareholdings

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

	30 September 2016		30 September 2015	
	Number	**%**	Number	%
Tudor Davies	**90,909**	**0.59**	90,909	0.59
Mark Cambridge	**50,791**	**0.33**	50,791	0.33
Sir David Chapman, Bt.	**40,000**	**0.26**	40,000	0.26
David Buffham	**18,500**	**0.12**	18,500	0.12
Claire Smith	**714**	**—**	714	—

There has been no change in Directors' shareholdings since 30 September 2016.

Directors' emoluments for the year ended 30 September 2016

	Salary £'000	Fees £'000	Benefits £'000	Bonuses £'000	**Total emoluments* 2016 £'000**	Total emoluments* 2015 £'000
Non-executive Chairman						
Tudor Davies	—	74	—	—	**74**	71
Executive						
Mark Cambridge	124	—	8	99	**231**	194
Claire Smith**	76	—	10	57	**143**	137
Non-executive						
Sir David Chapman, Bt.	—	29	—	—	**29**	28
David Buffham	—	29	—	—	**29**	28
	200	132	18	156	**506**	458

* Excluding pension contributions.

** Claire Smith's salary reflects maternity pay for part of the year.

Claire Smith has opted to pay some of her bonus into her pension scheme.

Directors' share incentive scheme

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

- the consolidated PBT, before bonuses payable to certain individuals, of the Group for the accounting period ending 30 September 2016 being in excess of £4.5m; and
- the consolidated PBT, before bonuses payable to certain individuals, of the Group for the three accounting periods ending 30 September 2014, 2015 and 2016 being together at least £10.0m (where a loss in any such period shall be treated as a minus for those three years).

The performance target set out above was satisfied and therefore option shares will vest on the date on which the consolidated accounts for the Group for the accounting period ending 30 September 2016 are finalised.

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

Share price during the year

During the year to 30 September 2016, the highest share price was 436.5p and the lowest share price was 302.5p. The market price of the shares at 30 September 2016 was 375.0p.

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 2015 Number	Granted during year Number	Lapsed during year Number	Exercised during year Number	**30 September 2016 Number**	Exercise dates	Option price
Mark Cambridge*	21,750	—	—	21,750	**—**	29 March 2014 to 28 March 2021	172.8p
Mark Cambridge	71,787	—	—	—	**71,787**	December 2016 to December 2018	200.0p
Claire Smith**	5,000	—	—	5,000	**—**	28 February 2011 to 27 February 2018	216.5p
Claire Smith***	10,000	—	—	10,000	**—**	25 January 2015 to 24 January 2022	195.0p
Claire Smith	10,000	—	—	—	**10,000**	25 January 2016 to 24 January 2022	195.0p
Claire Smith	10,000	—	—	—	**10,000**	25 January 2017 to 24 January 2022	195.0p
Claire Smith	67,800	—	—	—	**67,800**	December 2016 to December 2018	200.0p

Unapproved Scheme	30 September 2015 Number	Granted during year Number	Lapsed during year Number	Exercised during year Number	**30 September 2016 Number**	Exercise dates	Option price
Mark Cambridge	53,213	—	—	—	**53,213**	December 2016 to December 2018	200.0p
Claire Smith	57,200	—	—	—	**57,200**	December 2016 to December 2018	200.0p

* 21,750 shares were exercised at 382.0p, realising a gain of £45,501.

** 5,000 shares were exercised at 382.0p, realising a gain of £8,275.

*** 10,000 shares were exercised at 382.0p, realising a gain of £18,700.

Independent auditors' report
To the members of Zytronic plc

We have audited the financial statements of Zytronic plc for the year ended 30 September 2016 which comprise the consolidated statement of comprehensive income, the consolidated statement of changes in equity and Parent Company statement of changes in equity, the consolidated balance sheet and Parent Company balance sheet, the consolidated cashflow statement and the related notes 1 to 25 for the Group and the related notes 1 to 12 for the Parent Company. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards ("IFRS") as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report and financial statements to identify material inconsistencies with the audited financial statements 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 financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 September 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Stuart Watson
(Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP
Statutory Auditors
Newcastle-upon-Tyne
12 December 2016

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 2016

	Notes	2016 £'000	2015 £'000
Group revenue	2	**21,087**	21,267
Cost of sales		**(12,071)**	(12,366)
Gross profit		**9,016**	8,901
Distribution costs		**(378)**	(278)
Administration expenses		**(4,365)**	(4,073)
Group trading profit	3	**4,273**	4,550
Finance costs	5(a)	**(23)**	(29)
Finance revenue	5(b)	**20**	23
Profit before tax		**4,270**	4,544
Tax expense	6	**(183)**	(775)
Profit for the year		**4,087**	3,769
Earnings per share			
Basic	8	**26.6p**	24.7p
Diluted	8	**26.1p**	24.3p

All profits are from continuing operations.

Consolidated statement of changes in equity
For the year ended 30 September 2016

	Called up share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
At 1 October 2014	152	7,290	10,611	18,053
Profit for the year	—	—	3,769	3,769
Exercise of share options	1	262	—	263
Share-based payments	—	—	180	180
Dividends	—	—	(1,574)	(1,574)
At 1 October 2015	153	7,552	12,986	20,691
Profit for the year	—	—	4,087	4,087
Tax recognised directly in equity	—	—	72	72
Exercise of share options	1	214	—	215
Share-based payments	—	—	71	71
Dividends	—	—	(1,900)	(1,900)
At 30 September 2016	**154**	**7,766**	**15,316**	**23,236**

Consolidated balance sheet
At 30 September 2016

	Notes	2016 £'000	2015 £'000
Assets			
Non-current assets			
Intangible assets	9	1,457	1,427
Property, plant and equipment	10	7,389	7,807
		8,846	9,234
Current assets			
Inventories	11	2,760	3,214
Trade and other receivables	12	3,745	3,055
Cash and short term deposits	13	12,763	9,833
		19,268	16,102
Total assets		28,114	25,336
Equity and liabilities			
Current liabilities			
Trade and other payables	14	1,302	971
Financial liabilities	15	1,148	200
Derivative financial liabilities	15	959	89
Provisions	16	205	—
Accruals	14	834	1,201
Tax liabilities		122	255
		4,570	2,716
Non-current liabilities			
Financial liabilities	15	—	1,144
Provisions	16	—	136
Government grants	17	48	59
Deferred tax liabilities (net)	19	260	590
		308	1,929
Total liabilities		4,878	4,645
Net assets		23,236	20,691
Capital and reserves			
Equity share capital	21	154	153
Share premium	21	7,766	7,552
Revenue reserve		15,316	12,986
Total equity		23,236	20,691

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

Mark Cambridge
Chief Executive
12 December 2016

Claire Smith
Group Finance Director

Consolidated cashflow statement
For the year ended 30 September 2016

	Notes	2016 £'000	2015 £'000
Operating activities			
Profit before tax		**4,270**	4,544
Net finance costs		**3**	6
Depreciation and impairment of property, plant and equipment		**766**	708
Amortisation and impairment of intangible assets		**355**	336
Loss on sale of fixed assets		**—**	54
Amortisation of government grant		**(11)**	(4)
Share-based payments		**71**	180
Fair value movement on foreign exchange forward contracts		**870**	(87)
Working capital adjustments			
Decrease/(increase) in inventories		**454**	(88)
(Increase)/decrease in trade and other receivables		**(690)**	13
Increase/(decrease) in trade and other payables and provisions		**76**	(249)
Cash generated from operations		**6,164**	5,413
Tax paid		**(576)**	(556)
Net cashflow from operating activities		**5,588**	4,857
Investing activities			
Interest received		**20**	23
Proceeds from disposal of property, plant and equipment		**—**	3
Receipt of government grant		**—**	63
Payments to acquire property, plant and equipment		**(387)**	(994)
Payments to acquire intangible assets		**(385)**	(388)
Net cashflow from investing activities		**(752)**	(1,293)
Financing activities			
Interest paid		**(21)**	(26)
Dividends paid to equity shareholders of the Parent		**(1,900)**	(1,574)
Proceeds from share issues relating to options		**215**	263
Repayment of borrowings		**(200)**	(200)
Net cashflow from financing activities		**(1,906)**	(1,537)
Increase in cash and cash equivalents		**2,930**	2,027
Cash and cash equivalents at the beginning of the year	13	**9,833**	7,806
Cash and cash equivalents at the year end	13	**12,763**	9,833

Notes to the consolidated financial statements
For the year ended 30 September 2016

1. Accounting policies

(a) Authorisation of financial statements and statement of compliance
The financial statements of Zytronic plc and its subsidiaries (the "Group") for the year ended 30 September 2016 were authorised for issue by the Board of Directors on 12 December 2016 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 registered 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, interpretations and amendments with an effective date after the date of these financial statements:

		Effective date
Amendments to IAS 1	Disclosure Initiative	1 January 2016
Amendments to IAS 7	Disclosure Initiative	1 January 2017
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Leases	1 January 2019

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

(d) Judgements and key sources of estimation uncertainty
The preparation of the Group's consolidated financial statements requires the Directors to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures at the date of the financial statements and the reported income and expense during the year. Although these judgements and assumptions are based on the Directors' best knowledge of the amounts, 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.

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

(e) Key sources of estimation uncertainty
The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below.

Fair value measurement of financial instruments
The fair values of financial assets and financial liabilities are recorded in the statement of financial position and measured by the financial institutions using valuation techniques based on market practice. Judgements include considerations around foreign exchange spot and forward rates and interest rate curves. Note 20 refers to these judgements.

Notes to the consolidated financial statements *continued*
For the year ended 30 September 2016

1. Accounting policies *continued*
(f) 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.

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 the income statement.

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.

(g) 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 better understand the elements of financial performance in the year, so as to facilitate comparison with prior periods and to better assess trends in financial performance.

(h) 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.

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

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

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

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

1. Accounting policies *continued*

(j) 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 (between ten and 17 years)
Capitalised development expenditure	–	four or ten years
Software	–	four years

Capitalised development expenditure in relation to electronics and software is usually amortised over a period of up to five years as the shelf-life of such technology is shorter. Hardware development is usually amortised over a period of up to ten years.

Intangible assets with indefinite useful lives, such as goodwill, are tested for impairment annually and are 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 costs 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.

(k) 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.

(l) 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.

(m) Trade and other receivables

Trade receivables are recognised and carried at their 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.

(n) Cash and cash equivalents

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

Notes to the consolidated financial statements *continued*
For the year ended 30 September 2016

1. Accounting policies *continued*

(o) 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.

(p) 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.

(q) Financial instruments
Fair value measurement of financial instruments
The Group remeasures its derivatives at fair value at each balance sheet date and for disclosure purposes estimates the fair value of its remaining financial instruments. Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

Level 2: valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and

Level 3: valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

(r) 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.

(s) 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.

1. Accounting policies *continued*

(s) Share-based payment transactions *continued*

Equity-settled transactions *continued*

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.

(t) Employee benefits

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

(u) 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.

(v) Government grants and subsidies

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

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

(w) Deferred tax

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

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred tax 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.

Notes to the consolidated financial statements *continued*
For the year ended 30 September 2016

2. Group revenue and segmental analysis

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

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

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

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

	30 September 2016		30 September 2015	
	£'000	%	£'000	%
Sale of goods – Americas (excluding USA)	342	2	1,467	7
– USA	3,575	17	3,247	15
– EMEA (excluding UK and Hungary)	4,758	22	5,405	25
– Hungary	3,230	15	3,487	16
– UK	970	5	1,582	7
– APAC (excluding South Korea)	2,896	14	3,297	17
– South Korea	5,316	25	2,782	13
Revenue	**21,087**	**100**	21,267	100
Finance revenue	20		23	
Total revenue	**21,107**		21,290	

Individual revenues from three major customers exceeded 10% of total revenue for the year. The total amount of revenue was £12.1m (2015: £9.3m).

The individual revenues from each of these three customers were: £5.0m (2015: £2.3m); £4.2m (2015: £4.4m); and £2.9m (2015: £2.6m).

3. Group trading profit

This is stated after charging/(crediting):

	30 September 2016 £'000	30 September 2015 £'000
R&D costs	395	418
Amortisation and impairment of development expenditure	201	178
	596	596
Auditors' remuneration – in respect of audit services*	60	55
– in respect of taxation compliance services	9	11
– in respect of taxation advisory services**	15	(16)
– in respect of other assurance services	—	1
Depreciation of owned assets	766	708
Amortisation of software	35	45
Amortisation and impairment of licences	119	113
Cost of inventories recognised as an expense including:	6,660	6,864
– write-down of inventories to net realisable value	40	50
– the net movement in the stock provision	(4)	(45)
Loss on disposal of plant and machinery	—	54
Operating lease rentals – minimum lease payments	38	54
Amortisation of capital grants	(11)	(4)
Net foreign currency differences	1,004	319

* £16,000 of this relates to the Company (2015: £15,000).

** Credit arose due to release of over-provision in the prior year.

4. Staff costs and Directors' emoluments

	30 September 2016 £'000	30 September 2015 £'000
Wages and salaries	**4,922**	4,997
Social security costs	**437**	411
Other pension costs	**148**	143
	5,507	5,551

Included in wages and salaries is a total charge for share-based payments of £71,000 (2015: £180,000), all of which arises from transactions accounted for as equity-settled share-based payment transactions.

The total of Directors' emoluments is £506,000 (2015: £458,000). The aggregate value of contributions paid to money purchase pension schemes includes £68,000 (2015: £64,000) in respect of two Directors (2015: two).

Amounts paid to the highest paid Director are £276,000 (2015: £194,000) plus a contribution paid to the money purchase pension scheme of £31,000 (2015: £30,000).

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

	30 September 2016 Number	30 September 2015 Number
Production	**129**	131
Administration and sales	**45**	43
	174	174

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.

5. Finance costs payable and revenue receivable

(a) Finance costs

Interest payable	30 September 2016 £'000	30 September 2015 £'000
Bank loans and overdrafts	**23**	29

(b) Finance revenue

Interest receivable	30 September 2016 £'000	30 September 2015 £'000
Bank interest receivable	**20**	23

6. Tax

	30 September 2016 £'000	30 September 2015 £'000
Current tax		
UK corporation tax	**732**	750
Corporation tax over-provided in prior years	**(289)**	31
Total current tax charge	**443**	781
Deferred tax		
Effect of change in tax rates	**(103)**	—
Origination and reversal of temporary differences	**(157)**	(6)
Total deferred tax credit	**(260)**	(6)
Tax charge in the income statement	**183**	775

Notes to the consolidated financial statements *continued*
For the year ended 30 September 2016

6. Tax *continued*
Tax relating to items debited to equity

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

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

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

Factors that may affect future tax charges
Under current tax legislation, some of the amortisation of licences will continue to be non-deductible for tax purposes.

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

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

There are no tax losses to carry forward at 30 September 2016 (2015: £Nil).

The main rate of corporation tax in the UK reduced to 20% with effect from 1 April 2015. The rate will be reduced to 19% from 1 April 2017 and 17% from 1 April 2020. Both of these lower rates have been substantively enacted by the balance sheet date. As the majority of the temporary differences will reverse when the rate is 17%, this rate has been applied to the deferred tax assets and liabilities arising at the balance sheet date.

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

7. Dividends

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

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

8. Earnings per share

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

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

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

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

Notes to the consolidated financial statements *continued*

For the year ended 30 September 2016

9. Intangible assets

	Software £'000	Goodwill £'000	Patents and licences £'000	Development expenditure £'000	Total £'000
Cost					
At 1 October 2014	554	235	1,924	2,245	4,958
Additions	24	—	69	295	388
Disposals	—	—	(18)	(73)	(91)
At 1 October 2015	578	235	1,975	2,467	5,255
Additions	20	—	42	323	385
At 30 September 2016	**598**	**235**	**2,017**	**2,790**	**5,640**
Amortisation and impairment					
At 1 October 2014	462	—	1,495	1,588	3,545
Provided during the year	45	—	102	178	325
Impaired during the year	—	—	11	—	11
Disposals	—	—	(9)	(44)	(53)
At 1 October 2015	507	—	1,599	1,722	3,828
Provided during the year	35	—	105	201	341
Impaired during the year	—	—	14	—	14
At 30 September 2016	**542**	**—**	**1,718**	**1,923**	**4,183**
Net book value at 30 September 2016	**56**	**235**	**299**	**867**	**1,457**
Net book value at 1 October 2015	71	235	376	745	1,427
Net book value at 1 October 2014	92	235	429	657	1,413

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.

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.

10. 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 1 October 2014	207	3,070	2,424	8,755	14,456
Additions	—	—	1	1,090	1,091
Disposals	—	—	—	(91)	(91)
At 1 October 2015	207	3,070	2,425	9,754	15,456
Additions	—	—	26	322	348
At 30 September 2016	**207**	**3,070**	**2,451**	**10,076**	**15,804**
Depreciation and impairment					
At 1 October 2014	—	400	372	6,241	7,013
Provided during the year	—	62	80	566	708
Disposals	—	—	—	(72)	(72)
At 1 October 2015	—	462	452	6,735	7,649
Provided during the year	—	61	79	626	766
At 30 September 2016	**—**	**523**	**531**	**7,361**	**8,415**
Net book value at 30 September 2016	**207**	**2,547**	**1,920**	**2,715**	**7,389**
Net book value at 1 October 2015	207	2,608	1,973	3,019	7,807
Net book value at 1 October 2014	207	2,670	2,052	2,514	7,443

11. Inventories

	30 September 2016 £'000	30 September 2015 £'000
Raw materials and consumables	**1,721**	1,984
Work in progress	**467**	377
Finished goods	**572**	853
	2,760	3,214

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

12. Trade and other receivables

Current assets

	30 September 2016 £'000	30 September 2015 £'000
Trade receivables	**3,469**	2,773
VAT recoverable	**90**	92
Prepayments	**186**	190
	3,745	3,055

Notes to the consolidated financial statements *continued*
For the year ended 30 September 2016

12. Trade and other receivables *continued*
Current assets *continued*
Trade receivables are denominated in the following currencies:

	30 September 2016 £'000	30 September 2015 £'000
Sterling	576	807
US Dollar	1,846	1,164
Euro	1,047	802
	3,469	2,773

Out of the carrying amount of trade receivables of £3.5m (2015: £2.8m), £2.5m (2015: £1.8m) is the amount of debts owed by three major customers. Regular reviews are undertaken on these major customers so as to ascertain that there are no going concern issues with them.

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

As at 30 September 2016, trade receivables at a nominal value of £37,000 (2015: £26,000) were impaired due to poor payment history. Movements in the provision for impairment of trade receivables were as follows:

	£'000
At 1 October 2014	23
Charge for the year	3
Utilised	—
At 1 October 2015	26
Charge for the year	33
Utilised	(22)
At 30 September 2016	**37**

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

	Neither past due nor impaired	Past due but not impaired <3 months £'000	Past due but not impaired >3 months £'000	Total £'000
2016	**2,933**	**530**	**6**	**3,469**
2015	2,147	625	1	2,773

Credit limits are set for each customer, using Dun & Bradstreet credit reports as appropriate, or pro-forma invoices are raised, or cash upfront is received for a new customer where a credit limit is not easily established. Slow payers are chased vigorously, including making use of solicitors in the collection process. The credit quality of trade receivables that are neither past due nor impaired is assessed by reference to external credit ratings where available; otherwise, historical information relating to counterparty default rates is used.

13. Cash and short term deposits

	30 September 2016 £'000	30 September 2015 £'000
Cash at bank and in hand	9,097	8,583
Short term deposits	3,666	2,578
Bank overdrafts	—	(1,328)
	12,763	9,833

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 2016, the Group had available a net £1.0m (total cash less overdrawn accounts) overdraft facility from Barclays Bank plc which will fall for review in November 2017.

The fair value of cash and cash equivalents is £12.8m (2015: £9.8m).

14. Trade and other payables

	30 September 2016 £'000	30 September 2015 £'000
Trade payables	1,188	870
Other taxes and social security costs	114	101
	1,302	971
Accruals	834	1,201
	2,136	2,172

Terms and conditions of the above financial liabilities are as follows:

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

15. Financial liabilities

Loans	30 September 2016 £'000	30 September 2015 £'000
Bank loan – current (a)	1,148	200
Bank loan – non-current (a)	—	1,144
Foreign exchange forward contracts (b)	959	89
Total	2,107	1,433
Total current	2,107	289
Total non-current	—	1,144

The foreign exchange forward contract liabilities above are measured at fair value through the income statement as they are not in designated hedge relationships. They are, nevertheless, intended to reduce the level of foreign currency risk for expected sales and purchases.

(a) Property mortgage

On 29 June 2012, Zytronic plc borrowed £2.0m under a ten-year mortgage (to be re-financed or repaid 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.

(b) Fair values

The fair value of the financial liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Management asserts that the fair value of cash, trade receivables and trade payables approximate to their carrying amounts largely due to the short term maturities of these instruments.

At 30 September 2016, the Group has used a Level 2 valuation technique to determine the fair value of all forward exchange contracts and loans.

Derivative financial instruments

The Group enters into derivative financial instruments with financial institutions. Derivatives valued using valuation techniques with market observable inputs are foreign exchange forward contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations prepared by the financial institutions. The models incorporate foreign exchange spot and forward rates, and interest rate curves. These derivatives are valued externally by the financial institutions using both intrinsic value and time value, which is standard market practice.

Loans

The fair value of the Group's interest-bearing loans are determined by discounting future cashflows using rates currently available for debt on similar terms, credit risk and remaining maturities. The fair value of the loan outstanding at 30 September 2015 is not significantly different to its book value.

Notes to the consolidated financial statements *continued*

For the year ended 30 September 2016

16. Provisions

	Total £'000
At 1 October 2015	136
Arising during the year	69
At 30 September 2016	**205**

Long term incentive plan

The provision for the long term incentive scheme relating to the Chief Executive, the Group Finance Director and other management personnel was calculated based on future expectations that the bonus would be payable.

The provision included in the table above will be utilised after the announcement of the financial year 2016 results, as performance targets have been achieved.

17. Government grants

	30 September 2016 £'000	30 September 2015 £'000
At 1 October	**59**	–
Received during the year	**–**	63
Released to the income statement	**(11)**	(4)
At 30 September	**48**	59
Non-current	**48**	59

The government grant was received as part of R&D work on a European Commission ("EC") consortium project.

There are no unfulfilled obligations or contingencies attached to this grant.

18. Obligations under leases

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

Group as lessee	**30 September 2016 £'000**	30 September 2015 £'000
Operating leases which expire:		
– not later than one year	**7**	26
– later than one year and not later than five years	**1**	12
	8	38

19. Deferred tax liability/(asset)

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

	30 September 2016 £'000	30 September 2015 £'000
Deferred tax liability		
Accelerated capital allowances	**431**	532
R&D tax credit	**147**	148
Other	**10**	12
	588	692
Deferred tax asset		
Fair value movement on currency contracts	**(163)**	–
Share-based payments	**(163)**	(100)
Pension asset	**(2)**	(2)
	(328)	(102)
Disclosed on the balance sheet	**260**	590

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

	30 September 2016 £'000	30 September 2015 £'000
Deferred tax in the income statement		
Fair value movement on currency contracts	**(163)**	–
Accelerated capital allowances	**(22)**	36
R&D tax credits	**20**	20
Share-based payments	**7**	(60)
Other	**1**	10
	(157)	6
Effect of change in tax rates	**(103)**	–
Deferred income tax expense	**(260)**	6

20. Financial risk management policy and financial instruments

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

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

Credit risk

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

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

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

Notes to the consolidated financial statements *continued*
For the year ended 30 September 2016

20. Financial risk management policy and financial instruments *continued*
Liquidity risk
The Group 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 November 2017 and is to provide funding for working capital.

The Company entered into a secured property loan of £2.0m in June 2012, repayable in 20 quarterly instalments of £50,000, with the balance of £1.0m to be re-financed or repaid in 2017.

Maturity profile of financial liabilities
Year ended 30 September 2016

	On demand £'000	<3 months £'000	3–12 months £'000	1–5 years £'000	Total £'000
Interest-bearing loans and borrowings	—	59	175	1,027	1,261
Trade and other payables	1,374	648	—	—	2,022
Foreign exchange forward contracts – outflows	—	1,721	5,546	—	7,267
Total	1,374	2,428	5,721	1,027	10,550

Interest-bearing loans and borrowings comprise principal repayments due of £1.2m and contractual interest payments of £0.1m. Interest is calculated based on interest rates prevailing at the balance sheet date.

Year ended 30 September 2015

	On demand £'000	<3 months £'000	3–12 months £'000	1–5 years £'000	Total £'000
Interest-bearing loans and borrowings	—	60	180	1,262	1,502
Trade and other payables	1,632	439	—	—	2,071
Foreign exchange forward contracts – outflows	—	1,300	2,155	1,788	5,243
Total	1,632	1,799	2,335	3,050	8,816

Derivatives comprise both cashflows from derivative financial instruments with negative fair values and cashflows from derivatives with positive fair values for which gross settlement has been agreed. The cash outflows from derivatives for which gross settlement has been agreed are matched in part by cash inflows. These cash inflows are not reported in the maturity analysis above. If these cash inflows were recognised, the cashflows presented would be substantially lower.

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

The Group has a policy in that forward contracts are used to sell surplus US Dollars and Euros, generated from sales less purchases in those currencies. Contracts are in place at 30 September 2016 for a period of twelve months ahead so that the budgeted US Dollar and Euro rates are known. Any additional surplus currency at the end of each month is dealt with at spot rates.

The Group entered into forward vanilla contracts during the year in both US Dollars and Euros. The US Dollar forward vanilla contracts are fixed over a series of twelve one-monthly contracts at rates between $1.40 and $1.56 and are in place until September 2017. The Euro forward vanilla contracts are fixed over a series of twelve one-monthly contracts at rates between €1.16 and €1.41, and are in place until September 2017.

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

Foreign exchange risk *continued*

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

	Change in US Dollar rate	Effect on profit before tax £'000	Change in Euro rate	Effect on profit before tax £'000
2016				
Sterling	**+10%**	**(183)**	**+10%**	**(75)**
	-10%	**224**	**-10%**	**91**
2015				
Sterling	+5%	(11)	+5%	(2)
	-5%	12	-5%	2

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, a relatively low level of borrowings and estimates that an increase of 1% in interest rates would not have a material effect on the Group's pre-tax profits.

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

	Increase/ decrease in basis points	Effect on profit before tax £'000
2016		
Sterling	**+100**	**(7)**
	-100	**7**
2015		
Sterling	+100	(10)
	-100	10

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

Capital management

The Group's policies on capital management are included in the Directors' report on page 23.

21. Share capital and share-based payments

(a) Share capital

	2016 Number Thousands	2015 Number Thousands	**2016 £'000**	2015 £'000
Allotted, called up and fully paid				
Ordinary shares of 1p each	**15,430**	15,322	**154**	153

(b) Share premium

	£'000
At 1 October 2015	7,552
Increase in cash on exercise of share options	214
At 30 September 2016	**7,766**

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Notes to the consolidated financial statements *continued*
For the year ended 30 September 2016

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

(c) Share-based payments

Senior Executive Plans and EMI Scheme – pre-2014 awards

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

Senior Executive Plans and EMI Scheme – 2014 awards

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

- the consolidated PBT, before bonuses payable to certain individuals, of the Group for the accounting period ending 30 September 2016 being in excess of £4.5m; and
- the consolidated PBT, before bonuses payable to certain individuals, of the Group for the three accounting periods ending 30 September 2014, 2015 and 2016, being together at least £10.0m (where a loss in any such period shall be treated as a minus for those three years).

The performance target set out above was satisfied and therefore option shares will vest on the date on which the consolidated accounts for the Group for the accounting period ending 30 September 2016 are finalised.

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

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

	30 September 2015 Number	Granted during year Number	Exercised during year Number	Lapsed during year Number	**30 September 2016 Number**	Exercise dates	Option price
Unapproved Executive Option Scheme	20,000	—	—	—	**20,000**	29 March 2016 to 28 March 2021	172.8p
	141,861*	—	—	—	**141,861**	December 2016 to December 2018	200.0p
EMI Scheme	5,000	—	5,000	—	**—**	28 February 2011 to 27 February 2018	216.5p
	31,750	—	31,750	—	**—**	29 March 2014 to 28 March 2021	172.8p
	12,000	—	10,146	—	**1,854**	29 March 2014 to 28 March 2021	216.0p
	50,445	—	22,786	—	**27,659**	25 January 2015 to 24 January 2022	243.5p
	10,000	—	10,000	—	**—**	25 January 2015 to 24 January 2022	195.0p
	20,000	—	20,000	—	**—**	29 March 2015 to 28 March 2021	172.8p
	20,000	—	—	—	**20,000**	25 January 2016 to 24 January 2022	195.0p
	7,500	—	7,500	—	**—**	25 January 2016 to 24 January 2022	243.5p
	20,000	—	—	—	**20,000**	25 January 2017 to 24 January 2022	195.0p
	383,139*	—	—	—	**383,139**	December 2016 to December 2018	200.0p

* These options are subject to the performance criteria described above. No performance conditions are attached to any of the other outstanding share options.

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

(c) Share-based payments *continued*

Income statement expense for year ended 30 September 2016

The expense recognised for share-based payments in respect of employee services received during the year to 30 September 2016 is £71,000 (2015: £180,000).

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

	2016 Number	2016 WAEP Pence	2015 Number	2015 WAEP Pence
Outstanding at 1 October	**721,695**	**200.8**	874,573	203.3
Lapsed during the year	**—**	**—**	(24,000)	274.5
Exercised during the year	**(107,182)**	**201.0**	(128,878)	204.2
Outstanding at 30 September	**614,513**	**200.8**	721,695	200.8
Exercisable at 30 September	**69,513**	**208.5**	129,195	207.8

For the share options outstanding as at 30 September 2016, the weighted average remaining contractual life is 2.7 years (2015: 4.0 years).

There was no grant of options during the year. The range of exercise prices for options outstanding at the end of the year was 172.8p to 243.5p (2015: 172.8p to 243.5p).

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

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

22. Capital commitments

Amounts contracted for at 30 September 2016 but not provided in the financial statements amounted to £438,000 (2015: £959,000) for the Group.

23. Pension scheme commitments

Contributions for the year ended 30 September 2016 amounted to £148,000 (2015: £143,000) and the outstanding contributions at the balance sheet date were £13,000 (2015: £12,000). 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. Some of the employees of the Group opt to pay part of their bonus into their pension.

24. Related party transactions

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

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

	2016 £'000	2015 £'000
Salaries/fees	**397**	405
Bonuses	**177**	116
Pension contributions	**58**	77
Share-based payments	**34**	70
	666	668

25. Guarantees

Zytronic plc has given a guarantee to Barclays Bank plc in connection with the overdraft facility detailed in note 13.

Five-year summaries

Consolidated income statement

For the five years ended 30 September 2012 to 2016

	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 £'000
Group revenue	**21,087**	21,267	18,886	17,282	20,424
Cost of sales	**(12,071)**	(12,366)	(11,979)	(11,961)	(13,008)
Exceptional costs	**—**	—	—	(413)	—
Gross profit	**9,016**	8,901	6,907	4,908	7,416
Distribution costs	**(378)**	(278)	(156)	(210)	(243)
Administration expenses	**(4,365)**	(4,073)	(3,488)	(2,858)	(3,089)
Group trading profit	**4,273**	4,550	3,263	1,840	4,084
Other operating income	**—**	—	—	94	187
Group operating profit	**4,273**	4,550	3,263	1,934	4,271
Finance costs	**(23)**	(29)	(35)	(39)	(91)
Finance revenue	**20**	23	33	44	15
Profit before tax	**4,270**	4,544	3,261	1,939	4,195
Tax expense	**(183)**	(775)	(301)	(277)	(898)
Profit for the period	**4,087**	3,769	2,960	1,662	3,297
Earnings per share					
Basic	**26.6p**	24.7p	19.6p	11.1p	22.2p
Diluted	**26.1p**	24.3p	19.5p	11.0p	21.9p
Adjusted basic	**26.6p**	24.7p	19.6p	13.9p	22.2p
Adjusted diluted	**26.1p**	24.3p	19.5p	13.8p	21.9p
Dividends per share	**12.3p**	10.3p	9.1p	8.7p	8.2p

All profits are from continuing operations.

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

Consolidated balance sheet
At 30 September 2012 to 2016

	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 £'000
Assets					
Non-current assets					
Intangible assets	**1,457**	1,427	1,413	1,453	1,613
Property, plant and equipment	**7,389**	7,807	7,443	7,888	8,231
Trade and other receivables	**—**	—	—	—	413
	8,846	9,234	8,856	9,341	10,257
Current assets					
Inventories	**2,760**	3,214	3,126	3,509	3,441
Trade and other receivables	**3,745**	3,055	3,068	2,430	3,090
Other current financial assets	**—**	—	48	—	—
Cash and short term deposits	**12,763**	9,833	7,806	5,474	4,217
	19,268	16,102	14,048	11,413	10,748
Total assets	**28,114**	25,336	22,904	20,754	21,005
Equity and liabilities					
Current liabilities					
Trade and other payables	**1,302**	971	1,057	1,410	1,299
Financial liabilities	**1,148**	200	200	200	200
Derivative financial liabilities	**959**	89	224	—	—
Provisions	**205**	—	—	—	—
Accruals	**834**	1,201	1,264	688	1,016
Tax liabilities	**122**	255	30	192	476
Government grants	**—**	—	—	—	97
	4,570	2,716	2,775	2,490	3,088
Non-current liabilities					
Financial liabilities	**—**	1,144	1,341	1,538	1,735
Provisions	**—**	136	139	—	—
Government grants	**48**	59	—	—	—
Deferred tax liabilities (net)	**260**	590	596	625	602
	308	1,929	2,076	2,163	2,337
Total liabilities	**4,878**	4,645	4,851	4,653	5,425
Net assets	**23,236**	20,691	18,053	16,101	15,580
Capital and reserves					
Equity share capital	**154**	153	152	150	149
Share premium	**7,766**	7,552	7,290	7,003	6,862
Revenue reserve	**15,316**	12,986	10,611	8,948	8,569
Total equity	**23,236**	20,691	18,053	16,101	15,580

Parent Company balance sheet
At 30 September 2016

	Notes	2016 £'000	Restated 2015 £'000
Fixed assets			
Tangible assets	3	**4,513**	4,626
Investments	4	**10,106**	10,035
		14,619	14,661
Current assets			
Debtors:			
– amounts falling due within one year	5	**8**	8
– amounts falling due after one year	5	**135**	320
Cash at bank and in hand		**9,632**	7,570
		9,775	7,898
Creditors: amounts falling due within one year	6	**1,971**	416
Net current assets		**7,804**	7,482
Total assets less current liabilities		**22,423**	22,143
Creditors: amounts falling due after more than one year	7	**—**	1,144
Provisions for liabilities and charges			
Deferred tax	9	**184**	224
		22,239	20,775
Capital and reserves			
Called up share capital	10	**154**	153
Share premium		**7,766**	7,552
Profit and loss account		**14,319**	13,070
Shareholders' funds		**22,239**	20,775

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

Mark Cambridge
Chief Executive
12 December 2016

Claire Smith
Group Finance Director

Parent Company consolidated statement of changes in equity
For the year ended 30 September 2016

	Called up share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
At 1 October 2014 (restated)	152	7,290	11,996	19,438
Profit for the year	—	—	2,468	2,468
Exercise of share options	1	262	—	263
Share-based payments	—	—	180	180
Dividends	—	—	(1,574)	(1,574)
At 1 October 2015 (restated)	153	7,552	13,070	20,775
Profit for the year	—	—	3,078	3,078
Exercise of share options	1	214	—	215
Share-based payments	—	—	71	71
Dividends	—	—	(1,900)	(1,900)
At 30 September 2016	**154**	**7,766**	**14,319**	**22,239**

Notes to the Parent Company financial statements
For the year ended 30 September 2016

1. Accounting policies
The preparation of the Company's financial statements requires the Directors to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures at the date of the financial statements and the reported income and expense during the year. Although these judgements and assumptions are based on the Directors' best knowledge of the amounts, events or actions, actual results may differ from those estimates.

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

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

(b) Basis of preparation
The financial statements of Zytronic plc were approved for issue by the Board of Directors on 12 December 2016. The financial statements are prepared in accordance with FRS 101 Reduced Disclosure Framework.

A profit and loss account is not presented for the Company as permitted by Section 408 of the Companies Act 2006.

These Company financial statements are the first presented using FRS 101 Reduced Disclosure Framework. Zytronic plc transitioned to FRS 101 from the previously applicable UK GAAP as at 1 October 2014.

The financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except where otherwise indicated.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 30 September 2016.

In these financial statements, the Company has taken advantage of the following disclosure exemptions available under FRS 101:

- the requirements of paragraphs 45(b) and 46–52 of IFRS 2. The disclosures required by these paragraphs can be found in note 21 to the Group financial statements;
- the requirements of IFRS 7 Financial Instruments. The disclosures are available in the Group financial statements of Zytronic plc;
- the requirements in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
  - paragraph 73(e) of IAS 16 Property, Plant and Equipment; and
  - paragraph 79(a)(iv) of IAS 1;
- the requirements of paragraphs 10(d), 16, 111 and 134–136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirement of paragraph 17 of IAS 24 Related Party Transactions;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is party to the transaction is wholly owned by such a member;
- the requirements of IFRS 1 First-time Adoption of International Financial Reporting Standards paragraphs 6–21 to present an opening statement of financial position at transition; and
- the requirements of paragraphs 91–99 of IFRS 13 Fair Value Measurement.

1. Accounting policies *continued*

(c) 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, 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. 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 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.

(d) Tangible fixed assets

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

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

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

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

Notes to the Parent Company financial statements *continued*
For the year ended 30 September 2016

1. Accounting policies *continued*

(e) Investments
Fixed asset investments in subsidiaries are shown at cost less provision for impairment.

(f) Deferred taxation
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.

(g) 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.

2. Auditors' remuneration
Auditors' remuneration for the year ended 30 September 2016 was £16,000 (2015: £15,000).

3. Tangible fixed assets

	Land £'000	Freehold property £'000	Long leasehold property £'000	Total £'000
Cost				
At 1 October 2015 and 30 September 2016	**207**	**3,070**	**2,097**	**5,374**
Depreciation				
At 1 October 2015	—	462	286	748
Provided during the year	—	61	52	113
At 30 September 2016	**—**	**523**	**338**	**861**
Net book value at 30 September 2016	**207**	**2,547**	**1,759**	**4,513**
Net book value at 1 October 2015	207	2,608	1,811	4,626

4. Investments

Investments in subsidiary companies

	2016 £'000	2015 £'000
Shares in subsidiary companies		
At beginning of year	**10,035**	9,855
Share options granted to subsidiary employees	**71**	180
At end of year	**10,106**	10,035

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

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

5. Debtors

	2016 £'000	2015 £'000
Prepayments and accrued income	**8**	8

Amounts falling due after more than one year are:

	2016 £'000	2015 £'000
Amounts owed by Group undertakings	**135**	320

6. Creditors: amounts falling due within one year

	2016 £'000	2015 £'000
Bank loan (note 8)	**1,148**	200
Trade creditors	**2**	2
Other creditors and accruals	**70**	106
Other amounts owed to subsidiary undertakings	**723**	81
Corporation tax	**28**	27
	1,971	416

Notes to the Parent Company financial statements *continued*
For the year ended 30 September 2016

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

	2016 £'000	2015 £'000
Bank loan (note 8)	**–**	1,144

8. Bank loan
On 29 June 2012, Zytronic plc borrowed £2.0m under a ten-year mortgage (to be re-financed or repaid 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 tax liability
The deferred tax included in the balance sheet is as follows:

	2016 £'000	2015 £'000
Accelerated capital allowances	**184**	224
At 1 October	**224**	232
Credit in the profit and loss account	**(40)**	(8)
At 30 September	**184**	224

10. Share capital and share-based payments
(a) Share capital

	2016 Number Thousands	2015 Number Thousands	**2016 £'000**	2015 £'000
Allotted, called up and fully paid				
Ordinary shares of 1p each	**15,430**	15,322	**154**	153

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

(b) Share premium

	£'000
At 1 October 2015	7,552
Increase in cash on exercise of share options	214
At 30 September 2016	**7,766**

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

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

11. 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 November 2017. This facility is to provide funding for working capital.

12. Transition to FRS 101

For all periods up to and including the year ended 30 September 2015, the Company prepared its financial statements in accordance with previously extant United Kingdom Generally Accepted Accounting Practice ("UK GAAP"). These financial statements, for the year ended 30 September 2016, are the first the Company has prepared in accordance with FRS 101.

Accordingly, the Company has prepared individual financial statements which comply with FRS 101 applicable for periods beginning on or after 1 October 2014 and the significant accounting policies meeting those requirements are described in the relevant notes.

In preparing these financial statements, the Company has started from an opening balance sheet as at 1 October 2014, the Company's date of transition to FRS 101, and made those changes in accounting policies and other restatements required for the first-time adoption of FRS 101. As such, this note explains the principal adjustments made by the Company in restating its balance sheet as at 1 October 2014 prepared under previously extant UK GAAP and its previously published UK GAAP financial statements for the year ended 30 September 2015.

On transition to FRS 101, the Company has applied the requirements of paragraphs 6–33 of IFRS 1 First-time Adoption of International Financial Reporting Standards, except for the requirement of paragraphs 6 and 21 to present an opening statement of financial position at the date of transition.

Exemptions applied

IFRS 1 allows first-time adopters certain exemptions from the general requirements to apply IFRSs as effective for September 2016 year ends retrospectively. The Company has taken advantage of the following exemption:

- IFRS 2 Share-based Payment has not been applied to any equity instruments that were granted on or before 7 November 2002, nor has it been applied to equity instruments granted after 7 November 2002 that vested before 1 January 2005. This treatment is consistent with the transitional provisions taken when the Company adopted FRS 20, the UK equivalent standard.

Reconciliation of equity as at 1 October 2014	Notes	UK GAAP £'000	FRS 101 reclassification/ remeasurements £'000	FRS 101 £'000
Fixed assets				
Tangible assets		4,739	—	4,739
Investments		9,855	—	9,855
		14,594	—	14,594
Current assets				
Debtors:				
– amounts falling due within one year		6	—	6
– amounts falling due after one year		1,178	—	1,178
Cash at bank and in hand		5,671	—	5,671
		6,855	—	6,855
Creditors: amounts falling due within one year		438	—	438
Net current assets		6,417	—	6,417
Total assets less current liabilities		21,011	—	21,011
Creditors: amounts falling due after more than one year		1,341	—	1,341
Provisions for liabilities and charges				
Deferred tax	1	102	130	232
		19,568	130	19,438
Capital and reserves				
Called up share capital		152	—	152
Share premium		7,290	—	7,290
Profit and loss account		12,126	130	11,996
Shareholders' funds		19,568	130	19,438

Notes to the Parent Company financial statements *continued*
For the year ended 30 September 2016

12. Transition to FRS 101 *continued*

Reconciliation of equity as at 30 September 2015	Notes	UK GAAP £'000	FRS 101 reclassification/ remeasurements £'000	FRS 101 £'000
Fixed assets				
Tangible assets		4,626	–	4,626
Investments		10,035	–	10,035
		14,661	–	14,661
Current assets				
Debtors:				
– amounts falling due within one year		8	–	8
– amounts falling due after one year		320	–	320
Cash at bank and in hand		7,570	–	7,570
		7,898	–	7,898
Creditors: amounts falling due within one year		416	–	416
Net current assets		7,482	–	7,482
Total assets less current liabilities		22,143	–	22,143
Creditors: amounts falling due after more than one year		1,144	–	1,144
Provisions for liabilities and charges				
Deferred tax	1	96	128	224
		20,903	128	20,775
Capital and reserves				
Called up share capital		153	–	153
Share premium		7,552	–	7,552
Profit and loss account		13,198	128	13,070
Shareholders' funds		20,903	128	20,775

(1) Deferred tax asset and provisions for liabilities
Deferred tax has been restated to take into account temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements. In particular, on restatement, temporary differences have been recognised in respect of assets which qualified for industrial building allowances. A provision was not required for such items under UK GAAP.

Upon transition, an additional deferred tax liability of £128,000 (2014: £130,000) was recognised relating to accelerated capital allowances.

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