



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

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

www.zytronicplc.com
News and information
from an investor's
perspective

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At a glance

Our highlights

- Profit before tax increased by 18% to £4.2m (2011: £3.6m)
- EPS increased by 21% to 22.2p (2011: 18.3p)
- Total dividends for year increased by 10% to 8.5p (2011: 7.7p)
- Touch revenue accounts for 71% of Group revenue (2011: 70%)
- Gross profit margin increased to 36.3% from 33.7%
- Net cash generated from operations of £4.6m (2011: £4.5m)
- Net cash balance less borrowings increased by £1.8m to £2.3m

Sales revenue (£m)

£20.4m

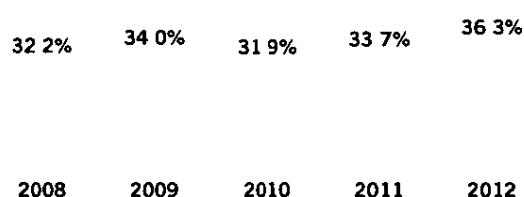
Steady



Gross profit margin (%)

36.3%

8%



Profit from continuing operations ("PBT") (£m)

£4.2m

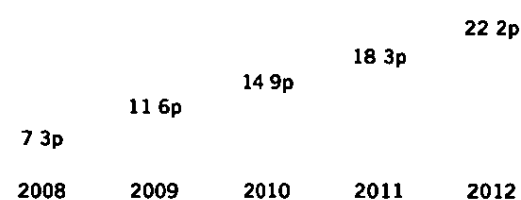
18%



Earnings per share (pence)

22.2p

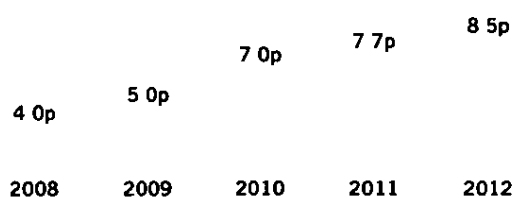
21%



Dividends (pence)

8.5p

10%



Cash generated from operations (£m)

£4.6m

4%



At a glance

Our technology and applications

1

2

3

4

5

PCT™ touch technology

Over the last 12 years we have developed our patented projected capacitive touch technology ("PCT") into a family of product offerings for use in a wide range of applications

PCT is unique to Zytronic and offers significant benefits to traditional users of resistive, capacitive and surface acoustic wave ("SAW") technologies. Unlike other touch technologies, the active component of Zytronic's technology is embedded behind the glass front for protection, providing a true safety laminated, pure-glass fronted construction

Zytronic's touch sensor technology is also readily scalable in size, allowing customers to use sensors ranging in size from 6 inches to 82 inches and with different glass substrate thicknesses from 1mm to 12mm. Additional customisation can be provided, including printed borders, logos, etc., non-rectangular shapes, shaped polished edges, and drilled or cut-out holes

• At leisure

1 Touch tables

Multi-touch capability, large form factor availability and high levels of impact/scratch resistance make PCT touch sensors perfect for the latest generation of public and social interactive devices, such as touch tables in cafes, restaurants and bars

2 Video jukeboxes

Unaffected by liquids, impact resistant and with low volume customisation possible, PCT touch sensors are used in a growing number of interactive entertainment displays deployed in all types of public areas

3 Vending machines

PCT touch sensors are increasingly deployed in the latest self-service POS devices, such as indoor/outdoor vending machines, due to their unparalleled vandal resistance, large size availability and simple customisation

4 Gaming and lottery terminals

With high impact resistance and a variety of customisation options such as printed glass and special shapes, designers of gambling and video lottery terminals use PCT touch sensors to maximise their "uptime" and revenues whilst making their products stand out from the crowd



• On the street

5 Outdoor digital signage

Available in sizes up to 82 inches, sealable and impact resistant PCT touch sensors are an excellent choice when considering adding interactivity to large format digital signage systems, whatever the environment

6 Public information displays

With the touch sensors' ability to function through thick glass and plastic overlays, their environmental resistance and availability in ultra large form factors ("ULFF"), PCT is an excellent technology for public information displays such as way-finders, directories and interactive screens in museums and offices

7 Financial kiosks/automated tellers

Customisable (including privacy options), vandal and weather resistant, PCT touch sensors are already widely used and a proven technology for ATMs and the latest financial and bill payment kiosks

8 Through window signage

Available with optional integrated projection film and in large sizes, the flexible film forms of PCT touch sensors are designed for adhering to the inside of shop windows and enable retailers to temporarily add interactivity to their store fronts for quick, 24/7 engagement with potential customers

9 Kiosks/point of sale terminals

Capable of operating in all environments, both indoor and outdoor, PCT touch sensors are a great all-round solution for self-service kiosks of all types, such as ticket machines, fuel dispensers, bicycle rental stations and electric vehicle charging stations

• In the workplace

10 Industrial/marine vehicle telematics

Gloved hand operability, scratch resistance and touch controller chip-set availability combines to make PCT touch sensors the right solution for the most demanding, compact displays used in on-board controls and GPS systems

11 Security/access controls

With massive levels of impact resistance possible, PCT touch sensors can be put into the most demanding user-facing security applications, such as door access controls in public offices, prisons and government buildings

12 Factory automation displays

With the capability of sealing to IP67 levels, coupled with unrivalled levels of resistance to dirt, abrasion and impact, PCT touch sensors make a great choice for demanding human-machine interfaces in factory, process industry and mining/drilling applications

13 Medical devices

Highly sensitive, even to surgical gloved hand operation, and with durable, hygienic pure-glass fronted designs possible, PCT touch sensors are ideal in a range of static and portable healthcare applications

At a glance

Our global reach

• UK

9%
of total
revenue

Invoiced sales to the UK have increased in 2012 due, in the main, to additional sales to customers in the Vending, Gaming, ATM and Digital Signage markets

37
countries served from
our UK base

10,000 sq ft
of state of the art
controlled clean rooms

Over 90%
of production exported
out of the UK

80,000 sq ft
total space of our three
modern factories

• Americas

26%
of total
revenue

Touch revenues in the Americas improved by 6%, as sales for The Coca-Cola Company® Freestyle™ drinks dispenser supported its continued deployment, which included initial shipments beyond North America to both Japan and the UK. Sales for telematics systems for earth-moving vehicles also increased as did sales to the ATM manufacturers

13
agreements in place covering three
countries including all of the USA

Mexico
being investigated as
a new area over the next
two years

24%
increase in
sales to Canada

• EMEA

46%
of total
revenue

EMEA sales were mainly affected by a decline in the application areas of Ticketing and Home Automation within the Eurozone. ATM touch sales performed strongly, as did the emergence of the financial bill-pay type kiosks in Eastern Europe.

12
agreements in place
covering 24 countries

7%
increase in
sales to Spain

42%
increase in
sales to Finland

• APAC

19%
of total
revenue

Revenues in the APAC region improved by 7%, being mainly driven from sales to Australia, India and Taiwan in the application areas of Telematics, Digital Signage and Industrial Automation. Optical display filter sales to ATM customers, as expected, started to decline during the year.

7
agreements in place
covering 10 countries

Malaysia
being investigated as
a new area for a sales
agreement over the
next two years

59%
increase in
sales to Australia

57%
increase in
sales to India

Our strategy and Key Performance Indicators ("KPIs")

The strategy of the Zytronic Group is to increase the profitability of the business by growing revenues from touch sensors through continual improvement and development of the PCT touch technology and the continuing roll-out of sales channels around the world, while investing in the manufacturing facilities to enable the Group to meet that sales growth

Strategic goals

How do we achieve this?

Innovate

- Our research and development ("R&D") team has been expanded over the last three years and we intend to recruit more members in 2013. We identify development projects which will enhance our technology, increase its ease of use and functionality for customers and end-users, and listen to existing and potential customers and our markets on future requirements. Recent examples of these include the development of an Application Specific Integrated Circuit ("ASIC"), leading to the availability of chipset solutions, and our new multi-touch, multi-user mutual capacitance touch technology ("MPCT")

Grow

- The drive for growth in sales of our touch sensors is fuelled by exports. To achieve this, we are continually reviewing the members of our existing network of agents and Value Added Resellers ("VARs"), our sales channels, across the world. We also continue to seek opportunities to expand them, for example with additions in the USA and China, and to establish representation in new countries, for example in Mexico and Indonesia

Invest

- Since 2007 we have added a third factory, expanded our clean room facilities in 2011 and bought additional equipment each year. As a consequence, we have been able to replicate our manufacturing facilities between our two main factories for greater flexibility and to enhance security of customers' supply. We continue to add new plant and equipment, as necessary, each year to add capacity, aid efficiency and replace older equipment. We also review our manufacturing methods to bring through efficiencies in production

How do we measure how well our strategy is working?

- The KPIs for the business are primarily financial. The Directors have not yet developed KPIs relating to environmental matters, the employees, or social and community issues
- The current KPIs consist of setting targets for and monitoring the level and growth of sales, improving the gross profit margin, controlling the level of overheads (administration expenses), and managing cashflow from operating activities. The actual performance of the Group against each of these KPIs is set out in the Chairman's statement and Business review
- In addition, the Directors review an "activity monitor" which the sales team uses to record significant sales opportunities, the key dates in the development of each sale's prospect with the customer, volumes and values of the opportunities and expected production commencement dates

Sales revenue (£m)

£20.4m



2008 2009 2010 2011 2012

Administration expenses (£m)

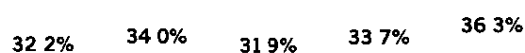
£3.1m



2008 2009 2010 2011 2012

Gross profit margin (%)

36.3%



2008 2009 2010 2011 2012

Cash generated from operations (£m)

£4.6m



2008 2009 2010 2011 2012

Chairman's statement

“The continuing MPCT technical advances and the successful public roll-out of our PCT touch products for vending applications has resulted in further opportunities from major global food and drinks companies, and also for ATM and ticketing applications.”

In summary

- Profit after tax increased by 22% to £3.3m (2011 £2.7m)
- Earnings per share increased by 21% to 22.2p (2011 18.3p)
- Dividends per share increased by 10% to 8.5p (2011 7.7p)
- Net cash balance less borrowings increased by £1.8m to £2.3m (2011 £0.5m)

This report and financial statements for the year ended 30 September 2012 show continuing progress with an improvement of 22% in profit after tax to £3.3m (2011 £2.7m), a 21% increase in earnings per share, and a 10% increase in the dividends to 8.5p for the year.

The strategy of concentrating on the sale of PCT touch products, which now represent 71% of revenues, continued with PCT sales to UK, USA and Asia showing good progress and increasing by 10%, but there was an 8% decline in sales to Europe. Whilst the slowdown in Europe, some project deferrals, and the planned move away from the traditional electronic display products held back sales growth, the PCT products, and particularly those for large applications, were the basis for the improvement in gross margins which drove the increase in profits.

Results

Revenue for the year ended 30 September 2012 was £20.4m (2011 £20.5m) with operating profit improving by 16% to £4.3m (2011 £3.7m) on the back of gross margins increasing from 33.7% to 36.3%. Profit after taxation improved by 22% to £3.3m (2011 £2.7m) and earnings per share increased by 21% to 22.2p (2011 18.3p).

Product development

We continued to invest in the development of new products, and in particular we successfully showcased our new multi-touch, multi-user, mutual projected capacitive technology “MPCT” touch products, and curved touch sensors, at the Society for Information Displays conference in Boston in June, and at the Electronica exhibition in Munich in November 2012.

These technical developments increase our competitive advantage and enhance our product range and reputation as a market leader for PCT touch products for industrial and public access applications where the rugged construction is suitable for high use environments.

The continuing MPCT technical advances and the successful public roll-out of our PCT touch products for vending applications has resulted in further opportunities from major global food and drinks companies, and also for ATM and ticketing applications.

Financial position/cash generation

The Group continues to generate significant cash from operations at £4.6m in 2012 (2011 £4.5m) and the net cash position has improved by £1.8m during the course of the year, with cash and short term deposits of £4.2m, net current borrowings of £0.2m, and mortgage of £1.7m, representing a net financial position of £2.3m (2011 £0.5m).

Dividend

The Board proposes a final dividend of 5.9p which increases the dividends for the year by 10% to 8.5p (2011 7.7p).

Outlook

We have some very interesting and substantial projects for major customers under development that we expect will provide the basis for growth later this year, and in the future. We are currently experiencing a steady level of business and interest in the application of the multi-touch products but, as expected, current trading is behind the equivalent period last year when the first half benefited from some one-off electronic display orders.

Tudor Davies B.Sc
Chairman
19 December 2012



ULFF multi-touch, multi-user PCT technology

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

In May 2012, seven patent applications were submitted to the UK Patent Office for this new technology and it was introduced to the market at the Society of Information Displays Exposition in Boston, Mass. in early June. It was very well received.

As with all Zytronic's PCT touch sensors, the size of these is readily scalable and 'standard' sizes of 22 inches, 42 inches and 64 inches sensors are being sent out as samples to potential customers.

The benefit of these ULFF sensors is that they can readily be operated simultaneously by a number of users, using a number of hands and many fingers. It is anticipated that early adopters will be in gaming, social interactivity and digital signage applications.

Business review

“EPS increased significantly by 21% to 22.2p (2011: 18.3p). The growth arises both from the increase of 18% in the profit before tax of the Group and from the benefit of a reduction in the effective rate of corporation tax of the tax expense for the year to 21% (2011: 24%).”

In summary

- Group revenue steady at £20.4m (2011: £20.5m)
- Touch product sales increased by 2% to £14.5m (2011: £14.2m)
- Gross profit margin improved to 36.3% (2011: 33.7%)
- Profit before tax increased by 18% to £4.2m (2011: £3.6m)
- EPS increased by 21% to 22.2p (2011: 18.3p)
- Total dividends for year increased by 10% to 8.5p (2011: 7.7p)

This business review provides information on the sales, profitability, operational and research and development (“R&D”) activities of the business during fiscal year 2012 and, where necessary, draws comparisons with the previous year.

Overview

The year has continued to show growth in a number of key performance metrics: gross profit margin improved to 36.3% (2011: 33.7%), profit before tax improved by 18% to £4.2m (2011: £3.6m), and EPS improved by 21% to 22.2p (2011: 18.3p). Recent capital investments have underpinned these improvements this year, helping to drive manufacturing efficiencies as the size and product mix change, as expected.

2012 has continued to illustrate the trend in sales of two contrasting halves, albeit contrary to the historical norm, with a very strong first half performance being offset this year by a weaker second half. We have seen increases in sales for some touch sensor applications but decreases for others and, while the UK, The Americas and APAC regions have all shown growth, our EMEA region has shown some effects from Eurozone issues.

The overall result is continuing improvements in our gross profit margin, profitability and EPS, albeit from flat sales.

Sales

The first half of the fiscal year followed on from the strong fourth quarter finish to fiscal year 2011. In the first half we experienced the unexpected benefit from continuation of ATM optical display filter sales to a customer in the APAC region, beyond the scheduled project conclusion, together with increasing volume sales of our PCT touch products into self-service and home automation projects.

Although sales in the first half were well ahead of the same period in 2011, they have remained relatively neutral in full fiscal year 2012, decreasing by 0.3% to £20.4m (2011: £20.5m). The main contributing factor to this in the full year was the smaller than anticipated growth in the touch product sales, not fully offsetting the expected and managed reduction in the non-touch products’ sales. This has predominantly been affected by

total sales to our European customer base, which declined by 6% to £9.4m (2011: £10.0m).

Exports represent 91% of sales (2011: 92%), with EMEA still our largest market area at 46% (2011: 49%), followed by The Americas at 26% (2011: 25%) and APAC at 19% (2011: 18%).

Touch sensor sales

Sales of our touch products have shown a 2% growth in 2012 to £14.5m (2011: £14.2m), accounting for 71% of total sales (2011: 70%). Exports represent 92% of the touch product sales (2011: 94%), with the largest market area continuing to be EMEA at 39% (2011: 44%), followed by The Americas at 35% (2011: 33%) and APAC at 18% (2011: 17%). EMEA sales decreased by £0.5m, but were more than offset in all three of the other geographic regions by an average of £0.3m increase per region. Touch sensor volumes likewise increased 2% and were 123,000 units in 2012 (2011: 121,000).

Self-Service and Vending

The Self-Service and Vending applications group remains our strongest application group by volume and, due to the unique features and suitability of our PCT touch products, is a very important application group upon which we continue to focus strategically. Although total volumes in that application group remained static, we did experience a 10% reduction in revenues as a consequence of a shift in mix of sizes supplied, with the increase in the lower average selling price (“ASP”) sensors with a diagonal of less than 9.9 inches, not quite offsetting the decrease in the comparably higher ASP sensors with a diagonal of 15.0 inches to 19.9 inches.

Volume sales of the 15.1 inch sensor, for the well-received Coca-Cola Freestyle™ drinks dispensing unit, were relatively equal in H1 and H2. Market information has indicated that although the number of Freestyle™ deployments is gathering pace, the actual number of units deployed in the market is currently well behind the volume of units supplied by Zytronic to date. As a consequence, a period of stock reduction is inevitable before new product needs to be supplied. Initial units have now been deployed outside North America in the UK and Japan.

Self-service and vending

Our touch sensors are increasingly being adopted in self-service and vending applications due to the ruggedness, reliability and availability of larger sizes

Current applications include

- Coca-Cola's use of a 15.1 inch ZYBRID touch sensor in the Freestyle™ beverage dispenser
- The use of a 47 inch ZYBRID sensor by the beverage dispensing division of JR East Group, in its next generation digital vending machine, called "acure", being deployed through its expansive network of Japan Rail railway stations
- Dong Hwa Prime, Korea's most experienced provider of advanced self-service fuel dispensing systems, with around 80% of its domestic market, uses a 15.1 inch ZYBRID sensor in its MERIT dispenser, for its resilience, custom versatility and bright modern appearance

• JC Decaux gets French cities moving

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

• Boris' BIXI bikes

The illustration below shows a sight that is now very familiar to Londoners and has been strongly endorsed by the mayor, Boris Johnson. The Canadian company, Public Bike System Company, has used a 12.8 inch ZYBRID customised touch sensor with a protective overlay of 6mm thick toughened glass to provide the user interface for its bike rental system. The BIXI is in use also in Australia, the USA and Canada.

Business review continued

Some of our milestones

2012

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

2011

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

2010

ZXY100 Series controllers and chipset solution to market

2009

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

2008

New ZYPOS manufacturing facility becomes operational

2006

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

2005

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

2002

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

2001

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

Sales continued

Touch sensor sales continued

ATMs

The application grouping of ATMs is our second largest group by volume, where we continued to see encouraging volume growth of 19% in the early adopting (2003) ATM touch market, and in which we continue to explore the potential of further opportunities with new and existing customers. Although, as mentioned earlier, EMEA revenue has shown an overall general decline in 2012, for ATM touch products we have experienced an 18% revenue growth in that region.

Gaming applications

With the adoption of Zytronic PCT touch products in new casino-based gaming deployments, we continue to see a recovery from a low in 2010, having experienced a volume growth of 36% in 2012.

Ticketing and Home Automation

The application groups with the largest percentage volume decreases, of 40% and 38%, have been Ticketing and Home Automation respectively, due to reduced orders from EMEA-based customers.

Transit and parking ticket issuing systems are strong application areas for the use of the Zytronic PCT touch products due to the robust and ruggedised environmental requirements. As such equipment is mostly reliant upon substantial infrastructural investment programmes, either as new or upgrade systems, we experienced a level of deferred projects with customers in H2. We are confident that these projects will proceed in due course.

Home Automation, by volume, is still primarily represented by sales to Bosch Siemens for its Gaggenau branded novel induction cooktop. Volumes for 2012 are much in line with our expectations, whilst presently designed into only one high-end brand, in Europe. Volumes, as expected, are behind the volume run-rate of 2011, as the customer's distribution pipeline was at that time being initially filled after launch of the product.

2012 Financial review

The key influences on the reported 2012 financial performance include:

Gross profit margin improvement

The gross profit margin has continued to increase from 33.7% in 2011 to 36.3% in 2012. This is mainly due to the focus of management increasingly being on the touch product side of the business, which accounts for over 70% of sales, where we are achieving increasing

production efficiencies in the use of labour and materials due to our structured capital expenditure, and the increasing volume of larger touch products.

The gross profit margin has also been helped following the redesigns of optical display filters for our ATM customers as we use the newer manufacturing technologies developed in our touch product manufacturing processes.

Control of administration costs

Since 2008, administration expenses have varied between a low of £2.7m (2008 and 2010) and a high of £3.2m (2011). This year we have achieved a decrease of £0.1m to £3.1m. Over that same period, sales revenues have increased from £14.7m to £20.4m. Management continues to control these costs tightly and so add to the increasing profitability arising from sales revenue growth and gross profit margin improvement.

Profit before tax

Profit before tax has increased by 18% to £4.2m from £3.6m. This increase has been generated by the increasing gross profit margin and management's ability to control administration expenses. The net interest charge has also decreased to below £0.1m, reflecting better cash management, lower borrowings and savings following our move of banking.

Earnings per share ("EPS")

EPS increased significantly by 21% to 22.2p (2011: 18.3p). The growth arises both from the increase of 18% in the profit before tax of the Group, as outlined above, and also from the benefit of a reduction in the effective rate of corporation tax of the tax expense for the year to 21% (2011: 24%).

Cashflow

Overall the increase in cash and cash equivalents, as shown on page 33, increased to £1.6m from £1.4m, reflecting the ability of the Group to generate cash.

The cash generated from operations was £3.6m (2011: £3.6m), with profit from continuing operations being £0.6m larger, offset by a significant change in working capital, which has increased by £0.5m. Stock has increased by £0.7m, largely as a consequence of introducing further Supplier Managed Inventory to three overseas locations for one of our largest customers, whereby we hold finished goods in third party warehouses close to its factories, for rapid call-off. Trade debtors and creditors both decreased, the former as sales were lower in August and September 2012 than they were in those months in 2011, and the latter because we were purchasing fewer raw materials as a consequence.

Digital signage

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

- **Advantech of Taiwan**

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

- **Infinitus of Slovenia**

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

Business review continued

Gross profit margin (%)

36.3% **8%**

34.0% 31.9% 33.7% 36.3%

2009 2010 2011 2012

Profit before tax

£4.2m **18%**

£2.3m £2.9m £3.6m £4.2m

2009 2010 2011 2012

2012 Financial review continued

Cashflow continued

Cash spent on tangible and intangible fixed assets totalled £1.0m (2011: £0.8m) which was the same as the combined depreciation and amortisation charge for the year.

Other significant outgoings were the payments of dividends which increased 17% to £1.2m from £1.0m, taxation which increased some £0.2m to £1.0m, and the net repayment of borrowings which were £0.1m (2011: £0.3m).

Re-financing and borrowings

During the year, we moved our banking from Lloyds Bank to Barclays Bank. As part of that process we took the opportunity to re-finance our two property mortgages, with Lloyds and Santander, into a new mortgage for £2.0m with Barclays. It is repayable at £0.2m a year for five years, at which time it will be re-financed or repaid.

The only other borrowing which the Group has is through the overdraft facility with Barclays, whereby it maintains overdrafts in US Dollars and Euros as part of its hedging of its FX exposure. Details of the mortgage and overdraft facility are set out in note 21. At 30 September 2012, the Group had net cash balances less borrowings of £2.3m and was therefore not geared.

Foreign exchange

With our growth in exports, our exposure to foreign exchange continues to increase. We rely on natural hedging to reduce our FX exposure, particularly in Euros, but we also increasingly use forward foreign exchange contracts. We successfully took out 12-monthly forward contracts in both Euro and US Dollar currencies to cover the financial year just ended. We also took out a further 12-monthly forward contracts in US Dollars for the year ending 30 September 2013. As noted above, we also maintain overdrafts in both currencies as part of this risk management. Details are set out in note 21.

Operations

Capital investment

The major operational investment in 2012 was the upgrade and expansion of the central clean room within the main, and original, factory building. The clean room suite comprised two sections separated by an adjoining corridor, the first section being erected in 1989 and the second section in 2001.

To facilitate the mirroring of capabilities of the ZYPOS manufacturing clean room, an 1,800 sq ft expansion was undertaken between October 2011 and January 2012 to the newer section of the clean room. This enlarged clean room area was then brought up to the same quality control specifications as the ZYPOS facility, therefore enabling the manufacture of the full range of ZYPOS touch products, as well as the range of cold laminated ATM display products across the two factories.

Other capital investment programmes in the year added to production efficiencies through product quality and yield improvements. Significant work was undertaken on improving several key processes by the addition of high accuracy, camera-based optical alignment systems.

Protecting our environment

As noted in the Business review last year, to formalise our approach to environmental matters, we were applying for the British Standard EN ISO14001:2004. We were very pleased to receive certification during the year.

Accelerating our R&D efforts

A substantial focus of the business during 2012 has been to accelerate the development and market introduction of the Company's new and unique multi-touch, multi-user Mutual Projected Capacitive Technology ("MPCT") touch sensors, in ground breaking ultra-large form factor ("ULFF") sensor sizes (> 32 inches diagonally). There has also been further development and enhancement of Zytronic's ASIC, its family of controllers and drivers on the R&D team's efforts to bring through cost and efficiency benefits to the existing product line.

Multi-touch, multi-user touch technology

The greatest achievement made by the Zytronic R&D team in 2012 has been the development of the new and novel MPCT touch solution. Building on the processing techniques and materials used in the manufacture of Zytronic's range of ZYPOS sensors, the novel use of micro-fine metallic wire electrodes, coupled with a new pattern array and bespoke electronics (ZXY200 series), has allowed the Zytronic team to develop a level of multiple simultaneous touch performance on factory manufactured ULFF glass sizes not previously attained by other competing projected capacitive companies.

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

Industrial automation

Zytronic's PCT touch sensors are able to cope with the harshest of environments making them very at home in hard industrial applications. With the ability to operate them with a gloved or ungloved hand, the sensors can withstand very high and low temperatures, high humidity and can be fully waterproofed. These two examples give an indication of their use in very different situations.

- **Advantech of Taiwan**

Taiwan's leading embedded computing manufacturer, Advantech, uses a ZYPOS sensor in the 17 inch ruggedised panel PC, shown below. It is designed for use in the harshest industrial environments, from 0°C through to 50°C, in humidity levels of 85% and is capable of withstanding up to 10G of shock.

- **FM Scanu and BHP Billiton**

FM Scanu, a leading Australian kiosk manufacturer, has chosen Zytronic's PCT technology for the 17 inch ZYPOS touch sensor used in its kiosk for the mining giant BHP Billiton. The system will be used by BHP to supply occupational health and safety information in a busy mine environment, where it will be constantly exposed to coal dust, grit, moisture and heavy use. It also needs to work when touched by gloved or dirty hands, playing to the strengths of PCT technology.

Business review continued

Touch product export sales

19%

46%

26%

91% 2011: 92%

EMEA 46% (2011 49%)

Americas 26% (2011 25%)

APAC 19% (2011 18%)

Accelerating our R&D efforts continued Multi-touch, multi-user touch technology continued

In May 2012, a number of patent applications were filed with, and are presently under review by, the UK Patent Office. This is the critical first stage to the protection process before longer term views can be taken by management on which are the key patents and in which countries to facilitate wider protection.

Our MPCT development was showcased at the Society for Information Displays conference and exhibition in Boston, Mass. in June and subsequently at the Electronica exhibition in Munich in November 2012. The feedback from visitors to our exhibition stand was extremely encouraging.

Sampling commenced on schedule in September 2012 on a standard 22 inch sensor configuration, and has been followed by the sampling of custom design sensors in diagonal sizes up to 55 inches, although lab sizes of 72 inches have also been tested. We consider that the early application adopters of this solution and applications that we are strategically focusing upon are gaming, digital signage and social interactivity systems (tables).

Developments of the ASIC, drivers and the family of controllers

Work has continued throughout the year on bringing into production, and the supply chain, a second revision of the Company's ASIC, which was first introduced in 2010. The revision to the ASIC has mostly centred upon the improvement to the technology's signal-to-noise ratio, a critical parameter in how the Zytronic PCT touch sensors operate through thicker mediums, larger sizes and all with greater environmental and mechanical stability than the general competition.

Work is now continuing on the production of a revision to the present ZXY100 series controller family in which the ASIC is utilised. This is closely to be followed in 2013 by the release of ZXY110, a new series of controllers, the main driver being improved dual touch functionality.

Software developments have also featured highly in the outputs of the R&D team in 2012, with an improved Zytronic driver released for the latest versions of Windows CE and Linux Operating Systems. Windows 7 and the newly released Windows 8 are now supported by the ZXY100 series controllers as plug and play Human Interface Devices ("HID") directly at the system operating level.

Windows 8 has been developed by Microsoft® with multiple touch functionality in mind, and again the ZXY200 series control electronics have been developed to interact and function at the system operating level as a plug and play HID.

Linux, which is an open source platform with many commercial derivatives, has been slower to fully adopt multiple touch functionality. However, we are also pleased to note that the R&D team has successfully attained integration of the ZXY200 series at Linux system level from the Linux kernel 3.5.1 release. It will take some time for this particular kernel to become fully populated through commercial Linux variant releases, but this advance will make Linux support much easier for the future.

Curved touch sensors

Other key work has been conducted this year on the development of curved touch sensors, where development samples have been provided over a range of bespoke sizes up to 40 inches on both the concave and convex surfaces, using both ZXY100 and ZXY200 series electronics. Although still in the development stage, work is being undertaken on the evaluation of the equipment requirements for volume production, as there are now several potential suppliers of truly curved LCD systems being introduced to the markets. This unique capability is expected to be of great interest to manufacturers of casino/gaming equipment and public information displays.

A video illustrating the scope of the performance of both curved and MPCT sensors is readily viewable on Zytronic's YouTube channel at www.youtube.com.

Finally, on behalf of the Group's management, we would like to take this opportunity to thank all employees for their contribution to the successful outcome of this fiscal year.

Mark Cambridge B.Sc.
Chief Executive Officer

Denis Mullan B.Sc., FCA
Group Finance Director
19 December 2012

Gaming, entertainment and leisure

This application area encompasses interactive screens, which are increasingly multi-touch capable, and which are being used in a variety of leisure activities, such as games in bars and casinos, wagering and lottery terminals in bookmakers and shops, video jukeboxes in pubs and clubs, and touch tables in cafés and restaurants

The displays and designs can vary from less than 10 inches to more than 40 inches, meaning the selected touch technology must be readily scalable. Furthermore, such “lively” public environments require a screen capable of operating despite spillages, accidental knocks and malicious attacks. Zytronic's PCT provides the answer

- Through our Australian VAR, Transcity Pty, Zytronic has been able to supply Tabcorp, Australia's leading wagering, gaming and Keno lottery game operator with the perfect solution for lottery and wagering terminals with a damage-proof custom printed 17 inch ZYTOUCH sensor

In the case of the Transcity/Tabcorp application, the touch screen enabled information and game terminals can be deployed in shops and bars, with few worries about terminal downtime and lost revenue associated with spilled drinks or malicious damage. It is used in clubs and hotels across New South Wales, Queensland and Victoria

- A 10.4 inch ZYBRID® customised touch sensor is used by international gaming machine manufacturer Shuffle Master to enhance the user interfaces of its electronic card table offering, the i-Table™. Utilising six networked touch-enabled player displays, plus an additional dealer station, embedded in a full size gaming table, the i-Table combines a feature-rich, highly efficient and intuitive electronic betting interface with the human interaction of a live dealer

The custom touch sensor has a rear printed border to help blend the screens into the table top, and the edge-to-edge glass design eliminates unsightly bezels required by many other touch technologies. Therefore the i-Table has the look and feel of the live tables that customers prefer without the heavy operating costs or risks of theft and cheating associated with them. It can also quickly switch between a selection of different card games, with Blackjack, Baccarat, Three Card Poker and Ultimate Texas Hold'em all being supported

Risk management

The Group faces a number of significant risks in the development and growth of its business. Shown below are the five most significant ones, together with the mitigation that management adopts to minimise them.

Risk description

- **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.

Mitigation

Management is very conscious of this and monitors competitors' developments and changes within the whole industry. By continually developing and evolving its own technologies, the Group expects to build upon its competitive strengths and thereby keep its technology ahead of its competitors.

- **Downward price pressures from competing technologies**

This is most prevalent in the lower valued touch sensor sector dominated by resistive, capacitive and surface acoustic wave touchscreens. However, price pressure in those markets does have a knock-on effect on prices throughout the industry.

Management has successfully met these challenges to date by redesigning and re-engineering the ZYTOUCH touch sensor in developing the ZYPOS touch sensor. This enabled the Group to reduce the cost of manufacture and therefore the sales price for subsequent touch sensor designs and has allowed the Group to enter markets that were previously closed to it on price grounds. The Group has subsequently taken the touch sensor manufacturing process changes and applied them to the redesign and manufacture of the optical display filters which it also produces.

- **Increasing costs of raw material supplies**

There are continuous upward pressures on the cost of raw material supplies, many arising from increases in oil prices and energy costs.

Management continually reviews the sources and costs of raw material supplies, the design of the Group's products and the operational processes that are used in the manufacture of all of the Group's products. Where possible, it has used increases in volume purchases to obtain price reductions, discounts and improved specifications.

- **Managing increases in the overhead base**

With the significant time that may occur between meeting potential customers and receiving first orders, management must ensure that the capacity of its factories is adequate for future growth in sales and the development of the business, while managing the profitability of the Group.

This is not straightforward when the business is developing new products and manufacturing processes and when the visibility and timing of orders from customers is unclear. Management uses a comprehensive sales pipeline model to monitor potential future sales levels and has built in a degree of flexibility to its two main factories.

- **Risks associated with currency movements**

A growing proportion of the Group's sales are denominated in US Dollars and Euros, so the Group is subject to risks associated with currency movements. It is the Group's policy to manage these risks and provide a degree of certainty for cashflows into the UK without taking the risks of speculative positions.

Natural hedging is adopted where possible to manage currency risk, whereby goods and services are sourced from Europe and the USA and the liability arises in the respective currencies. This is especially relevant with specialised glass, some electronic components and certain other raw materials. The Group also enters into forward contracts to manage its foreign currency exposure risk.

Board of Directors

Tudor Griffith Davies B.Sc (61) • **Non-executive Chairman**

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

Mark Cambridge B.Sc. (48) **Chief Executive**

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

Denis Gerald Wilson Mullan B.Sc., FCA (58)

Group Finance Director

Denis was formerly a partner in Ernst & Young LLP, specialising in corporate finance. He was based successively in its offices in London, Newcastle-upon-Tyne and finally Bristol. While based in Ernst & Young's Newcastle-upon-Tyne office, he led its work on the demerger of Zytronic Displays Limited from the Romag Group of companies in June 2000 and the subsequent admission to AIM of Zytronic plc in July 2000. Shortly thereafter he transferred to Ernst & Young's Bristol office, at which time his formal advisory role to the Group ceased. He joined the Group in August 2003.

David John Buffham (53) • • **Independent Non-executive Director**

David worked at the Bank of England (the "Bank") for 32 years until mid-2010. He held several roles in the Bank, including working in the Banking Supervision Division for five years following the changes to banking regulations introduced in 1987 and as a Credit Risk Manager. In addition, he advised overseas central banks on the conduct of monetary policy operations. Most recently he was the Bank's Agent for the North East of England for nine years.

Since leaving the Bank, David has been appointed a Non-executive Director of Newcastle Building Society, where he chairs the Group risk committee and sits on the nominations and remuneration committees of the Board. He is also a Director of William Leech (Investments) Limited.

Sir David Robert Macgowan Chapman Bt., DL, B Comm (71) • •

Senior Independent Non-executive Director

Sir David, a former Chairman of the CBI North East, has held a variety of non-executive roles including Northern Rock Plc and the London Stock Exchange. He is currently a director of several regional venture capital funds. A former First Vice President of Merrill Lynch International Bank and a consultant to UBS Wealth Management, Sir David was a member of the Greenbury Committee on Directors' remuneration. He is currently Chairman of the remuneration committee.

- Member of audit committee
- Member of remuneration committee

All of the Directors served throughout the financial year.

Corporate governance

“The Board uses both the annual report and financial statements and the Annual General Meeting to communicate with private and institutional investors and welcomes their participation.”

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

As an AIM listed company, Zytron is not obliged to comply with The UK Corporate Governance Code published in June 2010 (the “Code”) but instead uses its provisions as a guide, only as considered appropriate to the circumstances of the Company

The Company is committed to high standards of corporate governance. The Directors consider that, except for the matters noted below, the Company has, throughout the year, been in full compliance with the provisions set out in the Code

- B2.1 – For reasons explained below, the Company does not have a separate nominations committee
- B2.3 – The Non-executive Directors have not been appointed for a specific term but their contracts are terminable with six months’ notice
- B6 – The Board has not undertaken a formal evaluation of its own performance and that of its committees and individual members
- C3.1 – The Company Chairman may sit on the audit committee but he shouldn’t chair it. Tudor Davis became Chairman of Zytron plc on 4 March 2011, at which date he was already Chairman of the audit committee. As the only Non-executive Director on the Board with an accountancy background it was considered to be beneficial to the Company for him to remain in that position for the time being. David Buffham, who became a Non-executive Director in September 2010, has joined the audit committee

In view of the size and structure of the Group, the Board does not believe that these exceptions had any detrimental effect on the control environment and corporate governance

The workings of the Board and its committees

The Board

Throughout the year, Tudor Davies, the Non-executive Chairman, Mark Cambridge, the Chief Executive, Denis Mullan, 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 are vital to the success of the Group

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

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

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

Number of meetings and the attendance of Directors

The Board

2012 total 5 meetings

Tudor Davies (4)

Mark Cambridge (5)

Denis Mullan (5)

David Buffham (5)

Sir David Chapman, Bt (5)

Remuneration committee

2012 total 3 meetings

Sir David Chapman, Bt (3)

David Buffham (3)

Audit committee

2012 total 2 meetings

Tudor Davies (2)

Sir David Chapman, Bt (2)

David Buffham (2)

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.

Remuneration committee

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

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

Audit committee

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

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

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

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

Relations with shareholders

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

Following the half year and year-end presentations of results, the Executive Directors report to the Board on the feedback received from journalists, analysts and shareholders. In addition, the Company's financial PR advisers and the Company's Nomad also each produce a feedback report from those meetings which is made available to all Directors. The Executive Directors also report to the Board on any meetings 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 28 February 2013 can be found in the Notice of Annual General Meeting on pages 66 and 67.

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

Corporate governance continued

“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.”

Internal control

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

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

The Board has overall responsibility for the Group and there is a formal schedule of matters specifically reserved for decision by the Board. Authority to operate the trading subsidiary, Zytronic Displays Limited, is delegated to its Board of Directors and through them it is run by its management within limits set by the Board. The appointment of Executives to the most senior positions within the Group requires the approval of the Board.

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

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

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

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

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

Going concern

The Group’s business activities, together with the factors likely to affect its future development, performance and position are set out in the Business review on pages 10 to 17. The financial position of the Group, its cashflows, liquidity position and borrowing facilities are described within the Business review also. In addition, note 21 to the financial statements includes the Group’s objectives, policies, its financial risk management objectives, details of its financial instruments and hedging activities and its exposure to credit risk and liquidity risk.

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

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

Directors' report

“The Group has continued with the development of its electronic controllers, software and firmware used in the touch sensors. Seven patent applications were filed in May 2012 relating to Zytronic’s newly developed mutual capacitive multi-touch, multi-user PCT touch sensor technology (“MPCT”).”

The Directors present their annual report and financial statements for the year ended 30 September 2012

Business review

Details of developments and the progress of the Group are contained within this Directors' report as well as in the Chairman's statement and Business review

The Group's business strategy together with the Key Performance Indicators (“KPIs”) which management uses to measure progress against its strategy, are set out on pages 6 and 7

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

Competitive advantages

The Group's competitive advantages are based upon both the patented technology relating to the operation of the touch sensors and the lamination techniques and processes, built up over more than 40 years of operations, which are a feature of all the Group's products. These advantages allow the Group to produce products which have optical clarity and ruggedness and can be customised to include individual features for customers, including privacy filters and anti-reflective and anti-glare properties. In the case of touch sensors, these advantages also result in the significant ability for them to be used by bare fingers and gloved hands and result in them not experiencing positional drift and therefore not requiring periodic re-calibration

The growth of the Group and its future prospects comes from the exploitation of this relatively new touch sensor technology. Our focus on the development, over 12 years, of this

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

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

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

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

Business risks and their management

The principal risks to the successful development and growth of the Group's business are set out on page 18, together with a description of the mitigation of those risks adopted by management

Capital management

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

Management ensures that the Group has sufficient facilities to provide the Directors with comfort on the Group's foreseeable needs and its liquidity position. The Business review includes a paragraph referring to the continuing strength of cashflows which occurred in the year ended September 2012 and the absence of net gearing

No changes were made to these objectives, policies or processes during the years ended 30 September 2011 and 2012

Research and development

The Group has continued with the development of its electronic controllers, software and firmware used in the touch sensors. Seven patent applications were filed in May 2012 relating to Zytronic's newly developed MPCT

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

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

Results and dividends

The consolidated income statement is set out on page 30. The Group profit after taxation amounted to £3.3m (2011: £2.7m). The Directors propose the payment of a final dividend of 5.9p per share (2011: 5.6p). Following the dividend of 2.6p per share paid in July 2012, this will bring the total dividend for the year to 8.5p per share (2011: 7.7p), an increase of 10%

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 and loss of the Group for that period. In preparing those financial statements the Directors are required to:

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

Creditor payment policy and practice

It is the Group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Group and its suppliers, provided that all trading terms and conditions have been complied with. At 30 September 2012, the Company had an average of 30 days' (2011: 30 days') purchases outstanding in trade creditors.

Political and charitable contributions

The Group did not make any political or charitable contributions during the year (2011: £Nil).

Special business

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

The special resolutions numbered four and five provide for ratification of breaches of certain procedural and technical provisions of the Companies Acts 1985 and 2006 with regards to the declaration of dividends by the Company in some prior years. The Company has been advised that there should not be any financial impact to any party as a consequence of such breaches and, provided that the special resolutions numbered four and five are passed at the AGM, the Company does not anticipate that resolutions dealing with the same issue will need to be put to shareholders again in the future.

A resolution will be proposed at the forthcoming Annual General Meeting to renew the existing authority of the Directors, last conferred by a resolution passed at the Annual General Meeting held in 2012, to allot unissued ordinary shares of the Company. The authority (special resolution 1 in the Notice of Annual General Meeting) will extend until the Annual General Meeting held in 2014 and is in respect of one-third of the Company's issued share capital.

The Directors consider it advisable that they continue to have power to make allotments of ordinary shares of the Company for cash without reference to the statutory pre-emption rights, up to a maximum of 745,159 ordinary shares, being 5% of the issued ordinary share capital of the Company at 30 September 2012. The authority (special resolution 2 in the Notice of Annual General Meeting) will extend until the Annual General Meeting held in 2014 and also would enable the Directors to implement a rights issue.

In addition, the Directors consider it advisable that the Company has the authority to make market purchases of its own shares up to a maximum of 1,490,319 ordinary shares of the Company, being 10% of the issued ordinary share capital. The authority (special resolution 3 in the Notice of Annual General Meeting) will extend until the Annual General Meeting held in 2014. The power conferred by this authority would only be used after careful consideration by the Directors, having taken into account market conditions prevailing at the time, the investment needs of the Company, its opportunities for expansion and its overall financial position. The authority would only be exercised by the Directors if they considered it to be in the best interests of shareholders generally and if the purchase(s) could be expected to result in an increase in EPS.

Special resolution 4: Ratification of final dividends paid in 2009 to 2011 and Interim dividends paid in 2002 and 2006 to 2011.

A technical issue has arisen in respect of the final dividends of 3.0p, 3.8p and 5.0p per ordinary share paid by the Company to shareholders (amounting to approximately £1.7m) on 9 March 2009, 26 February 2010 and 25 February 2011 (the "Final Dividends") and the interim dividends of 0.5p, 1.0p, 1.0p, 1.0p, 1.2p, 2.0p and 2.1p per ordinary share paid by the Company to shareholders (amounting to approximately £1.3m) on 21 June 2002, 30 June 2006, 29 June 2007, 27 June 2008, 26 June 2009, 25 June 2010 and 29 July 2011 (the "Interim Dividends"). When the Company paid the Final Dividends and the Interim Dividends, although the Company had sufficient distributable profits to pay that dividend at the payment date or the Company's trading subsidiary was in a position to pay dividends

Significant interests in shares

On 7 December 2012, the following had significant interests in the ordinary shares of the Company

	3 4%
	5 7%
	16 3%
	8 0%
	10 0%
	11 1%
AXA Investment Managers Ltd 2,425,991 shares	16 3%
Hargreave Hale 1,660,113 shares	11 1%
Blackrock Investment Managers 1,488,650 shares	10 0%
Investec Wealth and Investment Ltd 1,196,211 shares	8 0%
John Kennair MBE – past Chairman (beneficial and non-beneficial) 845,140 shares	5 7%
Cavendish Opportunities and Cavendish AIM Funds 510,000 shares	3 4%

to the Company so as to support those dividends by the Company, relevant accounts showing the requisite level of distributable profits had inadvertently not been filed at Companies House, as required by the Companies Act 1985 and the Companies Act 2006, as they were in force at the relevant times. As a result, the Final Dividends and the Interim Dividends were paid in technical infringement of the Companies Act 1985 or the Companies Act 2006, as the case may be.

The Company has been advised that it may have claims against past and present shareholders who were recipients of a Final Dividend and/or an Interim Dividend to recover the amount paid by way of the relevant dividend. Similarly, the Company has also been advised that it may also have claims against those Directors who participated in the meetings of the Board of Directors at which the decisions were taken to pay the Final Dividends and the Interim Dividends.

It is not the intention of the Company that any such claim should be made by the Company against either its shareholders or its Directors, as there is not considered to be any financial loss to any party. This matter can be remedied by the shareholders passing a resolution which puts shareholders and Directors into the position in which they were always intended to be. Special resolution 4, which is proposed as a special resolution, is to ratify the appropriation of profits to the payment of the Final Dividends and the Interim Dividends, to waive any rights of the Company against the shareholders who received the Final Dividends and the Interim Dividends, to waive any rights of the Company against both past and present Directors in respect of the Final Dividends and the Interim Dividends and to approve the Company entering into deeds of release in favour of such shareholders and Directors. Copies of the form of the deeds of release are available for inspection in the manner described in paragraph 4 of the Notes to the Notice of Annual General Meeting.

The Company has been advised that the tax position of UK shareholders is not affected by any irregularity in the original dividends. Therefore, if shareholders approve the resolution submitted for their approval, this should have no effect on their UK tax position. If any non-UK resident shareholder has any doubts about their tax position, they should consult their own professional adviser.

As a result of their interest in its subject matter, the Directors who are also shareholders (holding beneficially in aggregate approximately 2.1% of the issued share capital of the Company as at 7 December 2012 (the latest practicable date before publication of the Notice of Annual General Meeting)) will not vote on this special resolution.

Special resolution 5: Ratification of the validity of Board meetings and meetings of Board committees in preparation for the matters referred to in special resolution 4.

All of the current Directors of the Company were Directors at some or all of the times at which the matters referred to in special resolution 4 took place, and are therefore interested, for that reason but also in their respective capacities as shareholders in the Company, in the matters proposed to the members of the Company as contained in special resolution 4. In those circumstances, although each Director has stood aside from any Board decisions in relation to their respective individual deeds of release as referred to in special resolution 4, it is not possible for the Board to have avoided procedural complications in the course of their consideration of the matters referred to in special resolution 4 and in the final decision to propose special resolution 4 to the members of the Company at the Annual General Meeting, including uncertainties over their ability to hold valid and quorate Board or committee meetings in such circumstances. However, Article 102.6 of the Company's Articles of Association allows for the Company to pass an ordinary resolution in general meeting suspending those provisions of the Articles which would otherwise have the effect of invalidating such decisions or actions of the Board or any committee of the Board, so as to allow such proposals to be ratified. In the circumstances, the Board considers that it is most likely to promote the success of the Company for the benefit of the Company's members as a whole for special resolution 5 to be proposed and passed so as to ensure an orderly situation in relation to the matters referred to in special resolution 4.

As a result of their interest in its subject matter, the Directors who are also shareholders (holding beneficially in aggregate approximately 2.1% of the issued share capital of the Company as at 7 December 2012 (the latest practicable date before publication of the Notice of Annual General Meeting)) will not vote on this special resolution.

Auditors

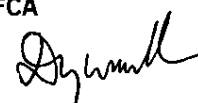
A resolution to re-appoint Ernst & Young LLP as the Company's auditors will be put to the shareholders at the forthcoming Annual General Meeting.

By order of the Board

Denis Mullan, B.Sc., FCA

Company Secretary
19 December 2012

Registration number
3881244



Remuneration report

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

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

Remuneration policy

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

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

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

The remuneration packages of Executive Directors comprise the following elements

Basic salary and benefits

Basic salaries for Executive Directors are reviewed annually having regard to individual

performance and market practice. In most cases benefits provided to Executive Directors comprise the provision of a company car, or appropriate allowance, health insurance and contributions to a Group personal pension scheme. Details of emoluments for the Directors of Zytronic plc are set out on page 27

Annual bonus

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

Share options and incentive schemes

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

The Company has executive share option and incentive schemes, which are designed to promote long term improvement in the performance of the Group, sustained increase in shareholder value and clear linkage between executive reward and the Group's performance. The share options and incentive schemes of the Directors of Zytronic plc are set out on pages 27 and 28

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

The Company also has a sharesave option scheme. Membership is open to all eligible employees, including Directors, who have more than three months' employment with the Group at the time options are offered under a scheme. In compliance with the Combined Code the Board has agreed that it will not grant share options to Non-executive Directors

Service contracts

Mark Cambridge and Denis Mullan 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 2012 are shown in the table on the right

Pension contributions

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

Details of contributions payable by the Company are

Director	2012 £'000	2011 £'000
Mark Cambridge	4	3
Denis Mullan	3	3
Total	7	6

“During the year to 30 September 2012, the highest share price was 332.5p and the lowest share price was 184.0p. The market price of the shares at 30 September 2012 was 327.5p.”

Directors' shareholdings

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

	30 September 2012		30 September 2011	
	Number	%	Number	%
Denis Mullan	127,109	0.85	140,109	0.95
Tudor Davies	90,909	0.61	90,909	0.62
Mark Cambridge	42,958	0.29	36,113	0.25
Sir David Chapman, Bt	40,000	0.27	40,000	0.27
David Buffham	12,500	0.08	12,500	0.08

There has been no change in Directors' shareholdings since 30 September 2012

Directors' emoluments for the year ended 30 September 2012

	Salary £ 000	Fees £ 000	Benefits £ 000	Bonus £ 000	Total emoluments* 2012 £'000	Total emoluments* 2011 £ 000
Non-executive Chairman						
Tudor Davies	—	65	—	—	65	49
David Banks**	—	—	—	—	—	60
Executive						
Mark Cambridge	111	—	15	22	148	144
Denis Mullan	96	—	11	12	119	123
Non-executive						
Sir David Chapman, Bt	—	28	—	—	28	27
David Buffham	—	26	—	—	26	25
John Kennair MBE***	—	—	—	—	—	11
	207	119	26	34	386	439

* Excluding pension contributions

** Fees were paid to David Banks Associates a partnership in which David Banks is a partner
David Banks resigned from the Board on 4 March 2011. Fees include payment for contractual notice

*** John Kennair MBE withdrew from re-election at the AGM on 10 February 2011

Director's share incentive scheme

Share incentive scheme for Mark Cambridge, Chief Executive

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

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

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

Remuneration report continued

Director's share incentive scheme continued

Share incentive scheme for Mark Cambridge, Chief Executive continued

Vesting is

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

If the 24 5p EPS criteria is not achieved in year 3, there will still be an opportunity for shares to vest in year 4 (to 30 September 2012) or year 5 (to 30 September 2013) on the achievement of

24 5p EPS on the basis that, on achievement, the maximum total entitlement reduces to 125,000 shares or 50,000 shares respectively, or the number of shares already vested if that is greater

As at 30 September 2012, no shares had vested under this incentive scheme

Vesting will also take place in the event of a successful takeover and will be based on the takeover price, with full vesting at a share price of 500p and pro rata vesting down to a price of 300p as follows

- 1,000 shares for each 1p above 300p up to 500p until 30 September 2011, reduced for any shares which have already vested,
- 625 shares for each 1p above 300p up to 500p between 1 October 2011 and 30 September 2012, reduced for any shares which have already vested, and

- 250 shares for each 1p above 300p up to 500p between 1 October 2012 and 30 September 2013, reduced for any shares which have already vested

Share price during the year

During the year to 30 September 2012, the highest share price was 332 5p and the lowest share price was 184 0p. The market price of the shares at 30 September 2012 was 327 5p

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 2011 Number	Granted during year Number	Lapsed during year Number	Exercised during year Number	30 September 2012 Number	Exercise dates	Option price
Denis Mullan	100,000	—	—	7,000	93,000	16 March 2006 to 15 March 2014	70 0p
Denis Mullan	17,182	—	—	—	17,182	18 January 2008 to 17 January 2015	145 5p
Denis Mullan	2,300	—	—	—	2,300	28 February 2011 to 27 February 2018	216 5p
Denis Mullan	7,500	—	—	—	7,500	15 July 2013 to 15 July 2020	177 5p
Denis Mullan	3,100	—	—	—	3,100	29 March 2014 to 28 March 2021	172 8p
Mark Cambridge	17,182	—	—	17,182	—	18 January 2008 to 17 January 2015	145 5p
Mark Cambridge	27,250	—	—	—	27,250	6 October 2013 to 5 October 2016	176 0p
Mark Cambridge	21,750	—	—	—	21,750	29 March 2014 to 28 March 2021	172 8p
<hr/>							
Unapproved Scheme	30 September 2011 Number	Granted during year Number	Lapsed during year Number	Exercised during year Number	30 September 2012 Number	Exercise dates	Option price
Denis Mullan	12,700	—	—	—	12,700	28 February 2011 to 27 February 2018	216 5p
Denis Mullan	10,000	—	—	—	10,000	29 March 2014 to 28 March 2021	172 8p

Independent auditors' report

To the members of Zytronic plc

We have audited the Group financial statements of Zytronic plc for the year ended 30 September 2012 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet, the Consolidated Cashflow Statement and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

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

Respective responsibilities of Directors and auditors

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the Group financial statements

- give a true and fair view of the state of the Group's affairs as at 30 September 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Other matter

We have reported separately on the Parent Company financial statements of Zytronic plc for the year ended 30 September 2012.


Annie Graham (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Newcastle-upon-Tyne

19 December 2012

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 2012

	Notes	2012 £ 000	2011 £ 000
Group revenue	2	20,424	20,488
Cost of sales		13,008	13,574
Gross profit		7,416	6,914
Distribution costs		243	239
Administration expenses		3,089	3,194
Group trading profit		4,084	3,481
Other operating income		187	187
Group operating profit from continuing operations	3	4,271	3,668
Finance costs	5(a)	91	112
Finance revenue	5(b)	15	1
Profit from continuing operations		4,195	3,557
Tax expense	6	898	865
Profit for the year from continuing operations		3,297	2,692
Earnings per share			
Basic	8	22 2p	18 3p
Diluted	8	21 9p	18 1p

Consolidated statement of changes in equity

For the year ended 30 September 2012

	Called up share capital £ 000	Share premium** £ 000	Retained earnings £ 000	Total £ 000
At 30 September 2010	147	6,550	4,755	11,452
Profit for the year	—	—	2,692	2,692
Tax recognised directly in equity	—	—	7	7
Exercise of share options	—	38	—	38
Share-based payments	—	—	(38)	(38)
Dividends	—	—	(1,044)	(1,044)
At 30 September 2011	147	6,588	6,372	13,107
Profit for the year	—	—	3,297	3,297
Tax recognised directly in equity	—	—	43	43
Exercise of share options	2	274	—	276
Share-based payments	—	—	74	74
Dividends	—	—	(1 217)	(1,217)
At 30 September 2012	149	6,862	8,569	15,580

* Share capital represents proceeds on issue of the Company's equity share capital

** Share premium comprises the excess in proceeds on issue of the Company's equity share capital above the nominal value of the shares issued

Consolidated balance sheet

At 30 September 2012

	Notes	2012 £'000	2011 £'000
Assets			
Non-current assets			
Intangible assets	9	1,613	1,811
Property, plant and equipment	10	8,231	8,113
Trade and other receivables	12(b)	413	296
		10,257	10,220
Current assets			
Inventories	11	3,441	2,754
Trade and other receivables	12(a)	3,090	4,021
Cash and short term deposits	13	4,217	4,513
		10,748	11,288
Total assets		21,005	21,508
Equity and liabilities			
Current liabilities			
Trade and other payables	14	1,299	1,778
Financial liabilities	15	200	2,266
Accruals	14	1,016	1,118
Taxation liabilities		476	502
Government grants	16	97	192
		3,088	5,856
Non-current liabilities			
Financial liabilities	17	1,735	1,722
Deferred tax liabilities (net)	20	602	726
Government grants	16	—	97
		2,337	2,545
Total liabilities		5,425	8,401
Net assets		15,580	13,107
Capital and reserves			
Equity share capital	22	149	147
Share premium	22	6,862	6,588
Revenue reserve		8,569	6,372
Total equity		15,580	13,107

These financial statements have been approved by the Board of Directors on 10 December 2012 and signed on its behalf by

Mark Cambridge, B.Sc **Denis Mullan, B Sc , FCA**

Chief Executive

Group Finance Director

19 December 2012



Consolidated cashflow statement

For the year ended 30 September 2012

	Notes	2012 £'000	2011 £'000
Operating activities			
Profit from continuing operations		4,195	3,557
Net finance costs		76	111
Depreciation and impairment of property, plant and equipment		689	802
Amortisation and impairment of intangible assets		350	355
Profit on sale of fixed assets		(13)	—
Amortisation of government grant		(192)	(192)
Share-based payments		74	(38)
Working capital adjustments			
Increase in inventories		(687)	(166)
Decrease/(increase) in trade and other receivables		808	(647)
(Decrease)/increase in trade and other payables		(658)	697
Cash generated from operations		4,642	4,479
Taxation paid		(998)	(821)
Net cashflow from operating activities		3,644	3,658
Investing activities			
Interest received		15	1
Proceeds from disposal of property, plant and equipment		24	11
Proceeds from disposal of intangible assets		84	—
Payments to acquire property, plant and equipment		(732)	(525)
Payments to acquire intangible assets		(236)	(297)
Net cashflow from investing activities		(845)	(810)
Financing activities			
Interest paid		(90)	(110)
Dividends paid to equity shareholders of the parent		(1,217)	(1,044)
Proceeds from share issues re options		276	38
New borrowings		2,000	—
Repayment of borrowings		(2,129)	(323)
Repayment of capital element of hire purchase contracts		—	(45)
Net cashflow from financing activities		(1,160)	(1,484)
Increase in cash and cash equivalents		1,639	1,364
Cash and cash equivalents at the beginning of the year	13	2,578	1,214
Cash and cash equivalents at the year end	13	4,217	2,578

Notes to the consolidated financial statements

For the year ended 30 September 2012

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 2012 were authorised for issue by the Board of Directors on 10 December 2012 and the balance sheet was signed on behalf of the Board by Mark Cambridge and Denis Mullan. Zytronic plc is a public limited company incorporated, domiciled and has its registered office in England and Wales. The Company's ordinary shares are traded on AIM. The address of its registered office and principal place of operation are disclosed in the Corporate information section of this report.

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

(b) New standards and interpretations not applied

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

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

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

(c) New standards adopted

The following new standards or interpretations are mandatory for the first time for the financial year ended 30 September 2012:

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

Adoption of the remaining new standards and interpretations did not have a material impact on the financial performance of the Group.

1. Accounting policies continued

(d) Judgements and key sources of estimation uncertainty

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

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

Impairment of non-financial assets

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

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

Development costs

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

Accounting for corporation tax

As part of the process of preparing financial statements, the Group estimates corporation tax in each of the jurisdictions in which the Group operates. This process involves estimating actual current tax expense and temporary differences between carrying amounts of assets and liabilities for tax expense and financial reporting purposes. Temporary differences result in deferred tax assets and liabilities, which are included in the statement of financial position. Further details are contained in note 6.

Royalty prepayment

In accounting for the impairment of any prepayment that arises on the payment of royalties, management prepares forecasts of its future sales of touch products to assess royalty prepayment recoverability. Any prepayment which is not considered to be recoverable over the period of the licence is provided against.

(e) Basis of consolidation and goodwill

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

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

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

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

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

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

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

Notes to the consolidated financial statements continued

For the year ended 30 September 2012

1 Accounting policies continued

(f) 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.

(g) 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.

(h) Intangible assets

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

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

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

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

Patent applications

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

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

(i) 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.

1. Accounting policies continued

(j) 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.

(k) Trade and other receivables

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

(l) Cash and cash equivalents

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

(m) 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.

(n) 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.

(o) Financial instruments

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

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

The Group does not apply any hedge accounting.

(p) 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.

Notes to the consolidated financial statements continued

For the year ended 30 September 2012

1. Accounting policies continued

(q) Share-based payment transactions

Equity-settled transactions

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

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

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

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

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

IFRS 2 Share-based Payments has only been applied to grants of equity instruments after 7 November 2002 that had not vested at 1 October 2006. For awards granted before 7 November 2002, the Group recognises only the intrinsic value or cost of these potential awards as an expense. This is accrued over the performance period of each plan based on the intrinsic value of the equity-settled awards.

(r) 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.

(s) Government grants and subsidies

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

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

(t) Royalty payments

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

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

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

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

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

1 Accounting policies continued

(u) Deferred tax

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

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

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

2 Group revenue and segmental analysis

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

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

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

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

		30 September 2012		30 September 2011	
		£'000	%	£'000	%
Sale of goods	– UK	1,812	9	1,748	8
	– Americas	5,281	26	5,055	25
	– EMEA (excluding UK)	9,408	46	10,030	49
	– APAC	3,923	19	3,655	18
Revenue		20,424	100	20,488	100
Finance revenue		15		1	
Total revenue		20,439		20,489	

Individual revenues from three major customers exceed 10% of total revenue for the year. The total amount of revenue is £9.7m (2011: £9.5m).

The individual revenues from each of these three customers were £4.0m (2011: £4.1m), £3.2m (2011: £3.3m), and £2.5m (2011: £2.1m).

Notes to the consolidated financial statements continued

For the year ended 30 September 2012

3 Group operating profit

This is stated after charging/(crediting)

	30 September 2012 £'000	30 September 2011 £'000
R&D costs	391	308
Amortisation of development expenditure	179	164
Impairment of development expenditure	—	11
	570	483
Auditors' remuneration – in respect of audit services*	50	44
– in respect of taxation services	13	14
Depreciation of owned assets	662	671
Impairment of owned assets	27	131
Amortisation of software	46	54
Amortisation of licences	125	125
Impairment of licences	—	1
Cost of inventories recognised as an expense including	7,163	7,615
– write-down of inventories to net realisable value	48	58
– reversals of impairments in inventories**	(72)	(152)
Hire of plant and machinery	2	2
(Gain)/loss on disposal of plant and machinery	(13)	10
Operating lease rentals – minimum lease payments	34	40
Amortisation of capital grants	(192)	(192)
Net foreign currency differences	(127)	26

* £13,500 of this relates to the Company (2011 £13,000)

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

4 Staff costs and Directors' emoluments

	30 September 2012 £'000	30 September 2011 £'000
Wages and salaries	4,806	4,663
Social security costs	431	418
Other pension costs	62	56
	5,299	5,137

Included in wages and salaries is a total charge for share-based payments of £74,000 (2011 £38,000 credit) all of which arises from transactions accounted for as equity-settled share-based payment transactions

The total of Directors' emoluments is £386,000 (2011 £439,000). The aggregate value of contributions paid to money purchase pension schemes includes £7,000 (2011 £6,000) in respect of two Directors (2011 two)

Amounts paid to the highest paid Director are £148,000 (2011 £144,000) plus a contribution paid to the money purchase pension scheme of £4,000 (2011 £3,000)

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

	30 September 2012 Number	30 September 2011 Number
Production	166	171
Administration and sales	41	40
	207	211

The information required by 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**

	30 September 2012 £'000	30 September 2011 £'000
Interest payable		
Write-off of unamortised arrangement fees on loans repaid	10	—
Bank loans and overdrafts	81	112
	91	112

(b) Finance revenue

	30 September 2012 £'000	30 September 2011 £'000
Interest receivable		
Bank interest receivable	15	1

6 Taxation

	30 September 2012 £'000	30 September 2011 £'000
Current tax		
UK corporation tax	985	941
Corporation tax (over)/under provided in prior years	(6)	18
Total current tax charge	979	959
Deferred tax		
Effect of change in tax rates	(38)	(56)
Origination and reversal of temporary differences	(43)	(38)
Total deferred tax credit	(81)	(94)
Tax charge in the income statement	898	865

Tax relating to items credited to equity

	30 September 2012 £'000	30 September 2011 £'000
Deferred tax		
Tax on share-based payments	(43)	(7)
Total deferred tax credit	(43)	(7)
Tax credit in the statement of changes in equity	(43)	(7)

Reconciliation of the total tax charge

The effective tax rate of the tax expense in the income statement for the year is 21% (2011 24%) compared with the average rate of corporation tax in the UK of 25% (2011 27%). The differences are reconciled below

	30 September 2012 £'000	30 September 2011 £'000
Accounting profit before tax	4,195	3,557
Accounting profit multiplied by the UK average rate of corporation tax of 25% (2011 27%)	1,049	960
Effects of		
Expenses not deductible/(income not chargeable) for tax purposes	(5)	(8)
"Gain" on exercise of share options allowable for taxation purposes but not reflected in the income statement	(45)	(29)
Depreciation in respect of non-qualifying items	48	49
Enhanced tax reliefs	(135)	(93)
Difference in tax rates	(8)	4
Tax over provided in prior years	(6)	(18)
Total tax expense reported in the income statement	898	865

Notes to the consolidated financial statements continued

For the year ended 30 September 2012

6. Taxation continued

Factors that may affect future tax charges

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

Under HMRC's R&D tax credit scheme, the Group will receive an uplift of 100% on qualifying R&D expenditure for tax purposes incurred in the six months ended 31 March 2012 and 125% on expenditure incurred from 1 April 2012. Until the financial year 2006, where R&D expenditure has been capitalised, the benefit of the uplift is only recognised as the asset is amortised. The unrecognised element relating to the year ended 30 September 2005 and prior, at 30 September 2012 was £40,000 (2011: £50,000). Following changes to HMRC's rules which took effect for financial year 2006, the uplift on expenditure which has been capitalised in any year is recognised in that year.

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

There are no tax losses to carry forward at 30 September 2012 (2011: £Nil).

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

The future tax charge will also be affected by the reduction in the main rates of capital allowances from 20% to 18% and from 10% to 8% with effect from 1 April 2012.

7 Dividends

The Directors propose the payment of a final dividend of 5.9p per share (2011: 5.6p), payable on 15 March 2013 to shareholders on the Register of Members on 1 March 2013. This dividend has not been accrued in these financial statements. The dividend payment will amount to some £880,000.

	30 September 2012 £'000	30 September 2011 £'000
Ordinary dividends on equity shares		
Final dividend of 5.0p per ordinary share paid on 25 February 2011	—	735
Interim dividend of 2.1p per ordinary share paid on 29 July 2011	—	309
Final dividend of 5.6p per ordinary share paid on 24 February 2012	830	—
Interim dividend of 2.6p per ordinary share paid on 27 July 2012	387	—
	1,217	1,044

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 2012 £'000	Weighted average number of shares 30 September 2012 Thousands	EPS 30 September 2012 Pence	Earnings 30 September 2011 £'000	Weighted average number of shares 30 September 2011 Thousands	EPS 30 September 2011 Pence
Profit on ordinary activities after taxation	3,297	14,833	22.2	2,692	14,718	18.3
Basic EPS	3,297	14,833	22.2	2,692	14,718	18.3

8. Earnings per share continued

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

	Earnings 30 September 2012 £ 000	Weighted average number of shares 30 September 2012 Thousands	EPS 30 September 2012 Pence	Earnings 30 September 2011 £ 000	Weighted average number of shares 30 September 2011 Thousands	EPS 30 September 2011 Pence
Profit on ordinary activities after taxation	3,297	14,833	22.2	2,692	14,718	18.3
Weighted average number of shares under option	—	209	(0.3)	—	124	(0.2)
Diluted EPS	3,297	15,042	21.9	2,692	14,842	18.1

9. Intangible assets

	Software £ 000	Goodwill £ 000	Patents and licences £ 000	Development expenditure £ 000	Total £ 000
Cost					
At 30 September 2010	374	235	2,128	1,824	4,561
Additions	68	—	5	224	297
At 30 September 2011	442	235	2,133	2,048	4,858
Additions	30	—	60	146	236
Disposals	—	—	(300)	(136)	(436)
At 30 September 2012	472	235	1,893	2,058	4,658
Amortisation and impairment					
At 30 September 2010	274	—	1,219	1,199	2,692
Provided during the year	54	—	125	164	343
Impairment	—	—	1	11	12
At 30 September 2011	328	—	1,345	1,374	3,047
Provided during the year	46	—	125	179	350
Disposals	—	—	(216)	(136)	(352)
At 30 September 2012	374	—	1,254	1,417	3,045
Net book value at 30 September 2012	98	235	639	641	1,613
Net book value at 30 September 2011	114	235	788	674	1,811
Net book value at 30 September 2010	100	235	909	625	1,869

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

Impairment of goodwill

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

Zytronic Displays Limited operates in one continuing area of activity, which is the lowest level at which goodwill is monitored for internal purposes. That activity has demonstrated underlying 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.

Notes to the consolidated financial statements continued

For the year ended 30 September 2012

9. Intangible assets continued

Impairment of goodwill continued

The cashflows for the cash-generating unit have been discounted using a discount rate of 10%, based on 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 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 30 September 2010	207	3,068	2,155	7,858	13,288
Additions	—	2	3	534	539
Disposals	—	—	—	(148)	(148)
At 30 September 2011	207	3,070	2,158	8,244	13,679
Additions	—	—	151	667	818
Disposals	—	—	—	(599)	(599)
At 30 September 2012	207	3,070	2,309	8,312	13,898
Depreciation and impairment					
At 30 September 2010	—	155	121	4,625	4,901
Impairment	—	—	—	131	131
Provided during the year	—	61	55	555	671
Disposals	—	—	—	(137)	(137)
At 30 September 2011	—	216	176	5,174	5,566
Impairment	—	—	—	27	27
Provided during the year	—	62	55	545	662
Disposals	—	—	—	(588)	(588)
At 30 September 2012	—	278	231	5,158	5,667
Net book value at 30 September 2012	207	2,792	2,078	3,154	8,231
Net book value at 30 September 2011	207	2,854	1,982	3,070	8,113
Net book value at 30 September 2010	207	2,913	2,034	3,233	8,387

The impairment charge of £27,000 relates to assets written down to £Nil net book value as these assets are no longer regularly used within production.

11 Inventories

	30 September 2012 £ 000	30 September 2011 £ 000
Raw materials and consumables	1,716	1,847
Work in progress	533	472
Finished goods	1,192	435
	3,441	2,754

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

The amount of write-down of inventories recognised as an expense is £48,000 (2011 £58,000), which is recognised in cost of sales

12 Trade and other receivables**(a) Current assets**

	30 September 2012 £ 000	30 September 2011 £ 000
Trade receivables	2,831	3,752
VAT recoverable	94	129
Prepayments	165	140
	3,090	4,021

Trade receivables are denominated in the following currencies

	30 September 2012 £'000	30 September 2011 £ 000
Sterling	665	1,011
US Dollar	1,154	1,521
Euro	1,012	1,220
	2,831	3,752

Out of the carrying amount of trade receivables of £2.8m (2011 £3.8m), £1.7m (2011 £2.0m) is the amount of debts owed by three major customers. Regular reviews are undertaken on these major customers so as to ascertain that there are no going concern issues with them.

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

As at 30 September 2012, trade receivables at a nominal value of £15,000 (2011 £37,000) were impaired due to poor payment history. Movements in the provision for impairment of trade receivables were as follows:

	£ 000
At 30 September 2010	52
Charge for the year	24
Utilised	(39)
At 30 September 2011	37
Charge for the year	2
Utilised	(24)
At 30 September 2012	15

Notes to the consolidated financial statements continued

For the year ended 30 September 2012

12 Trade and other receivables continued

(a) Current assets continued

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

	Neither past due nor impaired	Past due but not impaired		Total £'000
		<three months £'000	>three months £'000	
2012	1,821	963	47	2,831
2011	2,871	890	(9)	3,752

The good credit quality of trade receivables at 30 September 2012 is reflected in the improved ageing of the year-end receivables, in comparison to the prior year, and the reduction of the impairment provision. Credit limits are set for each customer, using Dun & Bradstreet credit reports as appropriate, or pro-forma invoices are raised, or cash up front is received for a new customer where a credit limit is not easily established. Slow payers are chased vigorously, including making use of solicitors in the collection process. The credit quality of trade receivables that are neither past due or impaired is assessed by reference to external credit ratings where available, otherwise historical information relating to counterparty default rates is used.

(b) Non-current assets

	30 September 2012 £'000	30 September 2011 £'000
Royalty prepayments	413	296

13 Cash and short term deposits

	30 September 2012 £'000	30 September 2011 £'000
Cash at bank and in hand	3,156	1,302
Short term deposits	2,252	3,211
Bank overdrafts	(1,191)	—
	4,217	4,513

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.

During the year the Group changed its provider of banking facilities from Lloyds TSB Bank plc to Barclays Bank plc. Under this new arrangement, the Group has a right to a cash pooling facility and now reports its cash and short term deposits on a net basis.

At 30 September 2012, the Group had available a net £1m overdraft facility from Barclays Bank plc which will fall for review in April 2013.

For the purpose of the consolidated cashflow statement, cash and cash equivalents comprise the following

	30 September 2012 £'000	30 September 2011 £'000
Cash at bank and in hand	3,156	1,302
Short term deposits	2,252	3,211
Bank overdraft	(1,191)	(1,935)
	4,217	2,578

The fair value of cash and cash equivalents is £4.2m (2011: £2.6m).

14. Trade and other payables

	30 September 2012 £ 000	30 September 2011 £ 000
Trade payables	1,182	1,647
Other taxes and social security costs	117	131
	1,299	1,778
Accruals	1,016	1,118
	2,315	2,896

Terms and conditions of the above financial liabilities

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

15 Financial liabilities – current

	30 September 2012 £'000	30 September 2011 £ 000
Bank overdrafts	—	1,935
Bank loans (notes 18(a), 18(b) and 18(c))	200	331
	200	2,266

Following the transfer of banking to Barclays Bank during 2012, the Group operates under a pooling arrangement whereby overdrafts are offset against credit balances. Therefore there is not separate disclosure in financial liabilities of the 2012 overdraft balances

16 Government grants

	30 September 2012 £ 000	30 September 2011 £ 000
At 1 October	289	481
Released to the income statement	(192)	(192)
At 30 September	97	289
Current	97	192
Non-current	—	97
	97	289

Government grants have been received following the purchase of certain items of property, plant and equipment and the protection of jobs in the Company. There are no unfulfilled conditions or contingencies attached to these grants.

17. Financial liabilities – non-current

	30 September 2012 £ 000	30 September 2011 £ 000
Bank loans (notes 18(a), 18(b) and 18(c))	1,735	1,722
	1,735	1,722

Notes to the consolidated financial statements continued

For the year ended 30 September 2012

18 Bank loans

(a) Property mortgage

On 13 January 2006, Zytronic plc drew down funds under a ten-year mortgage with Lloyds TSB Bank plc under which it borrowed £750,000, repayable by monthly instalments. The loan is secured against its freehold interest in Britannia Court, the freehold factory premises which it acquired in January 2006. Interest is payable at 1.25% above that bank's base rate. This loan was paid off on 1 July 2012.

(b) Property mortgage

On 4 June 2009, Zytronic plc borrowed £2.25m under a ten-year mortgage with Alliance & Leicester Commercial Bank, repayable by monthly instalments. The loan is secured against its freehold interest in Haworth Court and its interest in a 999-year long leasehold on its third factory. Previous to the acquisitions of these interests, the Group occupied these premises on leases expiring in 2019. Interest is payable at 2.5% above three-month LIBOR. The balance is shown net of issue costs which are being amortised over the life of the loan. This loan was paid off on 1 July 2012.

(c) Property mortgage

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

19 Obligations under leases

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

Group as lessee	30 September 2012 £'000	30 September 2011 £'000
Operating leases which expire		
– not later than one year	33	23
– later than one year and not later than five years	46	21
– later than five years	1	6
	80	50

20 Deferred taxation liability/(asset)

The deferred tax included in the balance sheet is as follows

	30 September 2012 £'000	30 September 2011 £'000
Deferred tax liability		
Accelerated capital allowances	554	614
R&D tax credit	135	152
Other	9	11
	698	777
Deferred tax asset		
Share-based payment	(95)	(51)
Pension asset	(1)	—
	(96)	(51)
Disclosed on the balance sheet	602	726

20 Deferred taxation liability/(asset) continued

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

	30 September 2012 £'000	30 September 2011 £'000
Deferred tax in the income statement		
Accelerated capital allowances	(31)	(51)
R&D tax credits	(5)	25
Share-based payment	(6)	(6)
Other	(1)	(6)
	(43)	(38)
Effect of change in tax rates	(38)	(56)
Deferred income tax expense	(81)	(94)

21. Financial risk management policy and financial instruments

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

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

Credit risk

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

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

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

Liquidity risk

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

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

The Group has an unsecured net overdraft facility of £1.0m arranged with its principal banker, Barclays Bank plc. This facility extends until 30 April 2013 and is to provide funding for working capital.

In January 2006, the Company acquired a freehold property and in May and June 2009 the Company acquired the freehold of, and a 999-year lease on, its existing two leased factories. To manage liquidity risk, the Company part-funded these acquisitions using two secured property loans, each repayable over ten years. In June 2012 these two loans were repaid and were replaced by a new secured property loan of £2.0m repayable in 20 quarterly instalments of £50,000, with the balance of £1.0m to be refinanced in 2017.

The Group entered into a US Dollar forward extra contract in June 2012 to protect itself against adverse movements in the exchange rate. A series of 12 one-monthly contracts may be triggered depending on the movement of the USD rate within each month. A protection rate of \$1.555 offers the worst case scenario for exchange with the trigger rate being granted at \$1.450. Movements between these two rates offer the best possible outcome.

The table overleaf demonstrates the possible outcomes based on the worst case scenario rate of \$1.555.

Notes to the consolidated financial statements continued

For the year ended 30 September 2012

21. Financial risk management policy and financial instruments continued

Liquidity risk continued

Year ended 30 September 2012

Derivative financial liabilities	On demand £'000	<3 months £'000	3–12 months £'000	1–5 years £'000	>5 years £'000	Total £'000
Gross settled						
Foreign exchange forward contracts – outflow	—	(1,543)	(4,631)	—	—	(6,174)
Foreign exchange forward contracts – inflow	—	1,543	4,631	—	—	6,174
Total	—	—	—	—	—	—

Year ended 30 September 2011

Derivative financial liabilities	On demand £'000	<3 months £'000	3–12 months £'000	1–5 years £'000	>5 years £'000	Total £'000
Gross settled						
Foreign exchange forward contracts – outflow	—	(1,500)	(4,500)	—	—	(6,000)
Foreign exchange forward contracts – inflow	—	1,500	4,500	—	—	6,000
Total	—	—	—	—	—	—

The maturity profile in the above tables reflects only one side of the Group's liquidity position

Maturity profile of financial liabilities

Year ended 30 September 2012

Non-derivative financial liabilities	On demand £'000	<3 months £'000	3–12 months £'000	1–5 years £'000	>5 years £'000	Total £'000
Interest-bearing loans and borrowings	—	48	195	2,006	—	2,249
Trade and other payables	1,848	350	—	—	—	2,198
Total	1,848	398	195	2,006	—	4,447

Interest-bearing loans and borrowings comprise principal repayments due of £1.9m and contractual interest payments of £0.3m. Interest is calculated based on interest rates prevailing at the balance sheet date.

Year ended 30 September 2011

	On demand £'000	<3 months £'000	3–12 months £'000	1–5 years £'000	>5 years £'000	Total £'000
Interest-bearing loans and borrowings	1,935	74	293	1,809	66	4,177
Trade and other payables	2,339	426	—	—	—	2,765
Total	4,274	500	293	1,809	66	6,943

21. Financial risk management policy and financial instruments continued

Foreign exchange risk

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

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

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

	Change in US Dollar rate	Effect on profit before tax £ 000	Change in Euro rate	Effect on profit before tax £ 000
2012				
Sterling	+5%	(9)	+5%	(15)
	-5%	9	-5%	16
2011				
Sterling	+5%	(1)	+5%	(1)
	-5%	2	-5%	1

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

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

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

	Increase/ decrease in basis points	Effect on profit before tax £ 000
2012		
Sterling	+100	(21)
	-100	21
2011		
Sterling	+100	(19)
	-100	19

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

Notes to the consolidated financial statements continued

For the year ended 30 September 2012

21. Financial risk management policy and financial instruments continued

Fair values of financial assets and financial liabilities

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

Capital management

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

22. Share capital and share-based payments

(a) Share capital

	2012 Number Thousands	2011 Number Thousands	2012 £'000	2011 £'000
Authorised				
Ordinary shares of 1p each	25,000	25,000	250	250
Allotted, called up and fully paid				
Ordinary shares 1p each	—	14,734	149	147

(b) Share premium

	£'000
At 1 October 2011	6,588
Increase for cash on exercise of share options	274
At 30 September 2012	6,862

(c) Share-based payments

Senior Executive Plans and EMI Scheme

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

All Employee Share-option Plan, the Sharesave Scheme

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

22. Share capital and share-based payments continued

(c) Share-based payments continued

All Employee Share-option Plan, the Sharesave Scheme continued

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

	30 September 2011 Number	Granted during year Number	Exercised during year Number	Lapsed during year Number	30 September 2012 Number	Exercise dates	Option price
Unapproved Executive Scheme	12,700	—	—	—	12,700	28 February 2011 to 27 February 2018	216 5p
	30,000	—	—	—	30,000	29 March 2014 to 28 March 2021	172 8p
Sharesave Scheme (2009) – five-year term	19,546	—	—	—	19,546	1 April 2013 to 30 September 2013	220 0p
EMI Scheme	100,000	—	7,000	—	93,000	16 March 2006 to 15 March 2014	70 0p
	75,350	—	58,168	—	17,182	18 January 2008 to 17 January 2015	145 5p
	40,000	—	—	—	40,000	11 January 2009 to 10 January 2016	274 5p
	85,300	—	68,000	—	17,300	28 February 2011 to 27 February 2018	216 5p
	36,500	—	36,500	—	—	19 February 2012 to 18 February 2019	106 0p
	82,500	—	—	—	82,500	15 July 2013 to 15 July 2020	177 5p
	77,250 ⁽¹⁾	—	—	—	77,250	6 October 2013 to 5 October 2016	176 0p
	64,850	—	—	—	64,850	29 March 2014 to 28 March 2021	172 8p
	46,000	—	—	—	46,000	29 March 2014 to 28 March 2021	216 0p
	—	95,523	—	—	95,523	25 January 2015 to 24 January 2022	243 5p
	—	20,000	—	—	20,000	25 January 2015 to 24 January 2022	194 8p
	—	20,000	—	—	20,000	25 January 2016 to 24 January 2022	194 8p
	—	20,000	—	—	20,000	25 January 2017 to 24 January 2022	194 8p

1 Of the 77,250 shares issued on 5 October 2010, 40,000 shares are "parallel" shares issued to recipients of similar sized grants in 2006 (exercisable between 11 January 2009 and 10 January 2016 at 274 5p). Each individual is allowed to exercise the appropriate number of shares under either the 2006 grant or the 2010 grant (hence the term "parallel") but not under both. The exercise of one grant automatically terminates the other grant.

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

Notes to the consolidated financial statements continued

For the year ended 30 September 2012

22. Share capital and share-based payments continued

(c) Share-based payments continued

Income statement expense for year ended 30 September 2012

The expense recognised for share-based payments in respect of employee services received during the year to 30 September 2012 is £74,000 (2011 credit of £38,000)

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

	2012 Number	2012 WAEP Pence	2011 Number	2011 WAEP Pence
Outstanding at 30 September*	869,996**	167 6	761,215**	155 2
Granted during the year	155,523	224 7	218,100	120 7
Lapsed during the year	—	—	(86,281)	128 1
Exercised during the year	(169,668)	162 3	(23,038)	168 1
Outstanding at 30 September	855,851**	163 9	869,996**	167 6
Exercisable at 30 September	180,182	110 6	313,350	166 8

* Included within this balance are options over 93,000 (2011 100,000) shares that have not been recognised in accordance with IFRS 2 as the options had vested before 1 October 2006. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2

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

For the share options outstanding as at 30 September 2012, the weighted average remaining contractual life is six years (2011 five years)

There were four grants of options during the year. The weighted average fair value of options granted during the year was 67.6p (2011 64.4p)

The range of exercise prices for options outstanding at the end of the year was 70.0p to 274.5p (2011 70.0p to 274.5p)

The fair value of equity-settled share options granted is estimated as at the date of grant using a model designed by the Quoted Company Alliance (based on a Black-Scholes-Merton model), taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the years ended 30 September 2012 and 30 September 2011

	2012	2011
Dividend yield	3.4%	3.3%
Expected share price volatility	35.0%	35.0%
Risk-free interest rate	5.8%	4.8%
Expected life of option (years)	3.0 to 7.0	3.0 to 5.0

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

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

(d) Director's share incentive scheme

Share incentive scheme for Mark Cambridge, Chief Executive

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

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

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

22 Share capital and share-based payments continued**(d) Director's share incentive scheme** continued**Share incentive scheme for Mark Cambridge, Chief Executive** continued

Vesting is

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

If the 24 5p EPS criteria is not achieved in year 3, there will still be an opportunity for shares to vest in year 4 (to 30 September 2012) or year 5 (to 30 September 2013) on the achievement of 24 5p EPS on the basis that, on achievement, the maximum total entitlement reduces to 125,000 shares or 50,000 shares respectively, or the number of shares already vested if that is greater

Vesting will also take place in the event of a successful takeover and will be based on the takeover price, with full vesting at a share price of 500p and pro rata vesting down to a price of 300p as follows

- 1,000 shares for each 1p above 300p up to 500p until 30 September 2011, reduced for any shares which have already vested,
- 625 shares for each 1p above 300p up to 500p between 1 October 2011 and 30 September 2012, reduced for any shares which have already vested, and
- 250 shares for each 1p above 300p up to 500p between 1 October 2012 and 30 September 2013, reduced for any shares which have already vested

23. Capital commitments

Amounts contracted for at 30 September 2012 but not provided in the financial statements amounted to £94,000 (2011 £267,000) for the Group

24 Pension scheme commitments

Contributions for the year ended 30 September 2012 amounted to £62,000 (2011 £56,000) and the outstanding contributions at the balance sheet date were £5,000 (2011 £5,000). The Group is a member of a group personal pension scheme which is a defined contribution scheme. Contributions are charged to the income statement as they become payable in accordance with the rules of the scheme

25. 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 payable to the Directors

	2012 £'000	2011 £'000
Salaries/fees	352	393
Bonuses	34	46
Pension contributions	6	6
Share-based payments	2	2
	394	447

26. Guarantees

Zytronic plc has given a guarantee to Barclays Bank plc in connection with the overdraft facility detailed in note 21

Five-year summaries

Consolidated income statement

For the five years ended 30 September 2008 to 2012

	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Group revenue	20,424	20,488	18,483	15,921	14,717
Cost of sales	13,008	13,574	12,589	10,514	9,978
Gross profit	7,416	6,914	5,894	5,407	4,739
Distribution costs	243	239	231	183	217
Administration expenses	3,089	3,194	2,738	2,850	2,675
Group trading profit	4,084	3,481	2,925	2,374	1,847
Other operating income	187	187	112	20	27
Group operating profit from continuing activities	4,271	3,668	3,037	2,394	1,874
Finance costs	91	112	126	98	146
Finance revenue	15	1	13	4	12
Profit from continuing operations	4,195	3,557	2,924	2,300	1,740
Tax expense	898	865	736	593	677
Profit for the period from continuing operations	3,297	2,692	2,188	1,707	1,063
Earnings per share					
Basic	22 2p	18 3p	14 9p	11 6p	7 3p
Diluted	21 9p	18 1p	14 8p	11 5p	7 2p
Dividends per share	8 2p	7 1p	5 8p	4 2p	3 0p

The results for all the above years derive from continuing operations

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

Consolidated balance sheet
At 30 September 2008 to 2012

	2012 £'000	2011 £ 000	2010 £ 000	2009 £ 000	2008 £ 000
Assets					
Non-current assets					
Intangible assets	1,613	1,811	1,869	1,974	2,058
Property, plant and equipment	8,231	8 113	8,387	8,375	5,315
Trade and other receivables	413	296	198	210	210
	10,257	10,220	10,454	10,559	7,583
Current assets					
Inventories	3,441	2,754	2,588	2,503	2,496
Trade and other receivables	3,090	4,021	3,466	3,110	3,039
Cash and short term deposits	4,217	4,513	1,505	739	1,260
	10,748	11,288	7,559	6 352	6,795
Total assets	21,005	21,508	18,013	16,911	14,378
Equity and liabilities					
Current liabilities					
Trade and other payables	1,299	1,778	1,582	1,306	1,480
Financial liabilities	200	2,266	669	1,442	1,182
Accruals	1,016	1,118	600	574	533
Taxation liabilities	476	502	357	300	341
Government grants	97	192	192	—	—
	3,088	5,856	3,400	3,622	3,536
Non-current liabilities					
Financial liabilities	1,735	1,722	2,045	2,428	1,088
Deferred tax liabilities (net)	602	726	827	820	817
Government grants	—	97	289	43	55
	2,337	2,545	3,161	3,291	1,960
Total liabilities	5,425	8,401	6,561	6,913	5,496
Net assets	15,580	13,107	11,452	9,998	8,882
Capital and reserves					
Equity share capital	149	147	147	147	147
Share premium	6,862	6,588	6,550	6,479	6,479
Revenue reserve	8,569	6,372	4,755	3,372	2,256
Total equity	15,580	13,107	11,452	9,998	8,882

Statement of Directors' responsibilities

In relation to the Parent Company financial statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). These financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those financial statements, the Directors are required to

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

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

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

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

Parent Company auditors' report

To the members of Zytronic plc

Independent auditors' report to the members of Zytronic plc

We have audited the Parent Company financial statements of Zytronic plc for the year ended 30 September 2012 which comprise the balance sheet and the related notes 1 to 13. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' responsibilities statement set out on page 58, the Directors are responsible for the preparation of the Parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the Parent Company financial statements

- give a true and fair view of the state of the Company's affairs as at 30 September 2012,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion

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

Matters on which we are required to report by exception

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

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

Other matter

We have reported separately on the Group financial statements of Zytronic plc for the year ended 30 September 2012.


Annie Graham (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Newcastle-upon-Tyne

19 December 2012

Parent Company balance sheet

At 30 September 2012

	Notes	2012 £'000	2011 £'000
Fixed assets			
Tangible assets	3	4,965	4,926
Investments	4	9,690	9,625
		14,655	14,551
Current assets			
Debtors			
– amounts falling due within one year	5	403	1,323
– amounts falling due after one year	5	2,000	2,000
Cash at bank and in hand		4,033	1,183
		6,436	4,506
Creditors amounts falling due within one year	6	445	498
Net current assets		5,991	4,008
Total assets less current liabilities		20,646	18,559
Creditors amounts falling due after more than one year	7	1,735	1,722
Provisions for liabilities and charges			
Deferred tax	9	114	119
		18,797	16,718
Capital and reserves			
Called up share capital	10	149	147
Share premium	11	6,862	6,588
Profit and loss account	11	11,786	9,983
Shareholders' funds		18,797	16,718

These financial statements have been approved by the Board of Directors on 10 December 2012 and signed on its behalf by

Mark Cambridge, B.Sc **Denis Mullan, B Sc , FCA**

Chief Executive

Group Finance Director

19 December 2012



Notes to the Parent Company financial statements

For the year ended 30 September 2012

1. Accounting policies

(a) Basis of preparation

The financial statements of Zytronic plc were approved for issue by the Board of Directors on 10 December 2012. The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

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

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

(b) Share-based payments

Equity-settled transactions

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

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

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

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

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

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

Notes to the Parent Company financial statements continued

For the year ended 30 September 2012

1 Accounting policies continued

(c) Tangible fixed assets

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

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

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

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

(d) Investments

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

(e) Deferred taxation

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

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

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

(f) Interest-bearing loans and borrowings

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

2 Auditors' remuneration

Auditors' remuneration for the year ended 30 September 2012 was £13,500 (2011: £13,000).

3 Tangible fixed assets

	Land £ 000	Freehold property £ 000	Long leasehold property £ 000	Total £ 000
Cost				
At 30 September 2011	207	3,070	1,958	5,235
Additions	—	—	139	139
At 30 September 2012	207	3,070	2,097	5,374
Depreciation				
At 30 September 2011	—	216	92	308
Provided during the year	—	62	39	101
At 30 September 2012	—	278	131	409
Net book value at 30 September 2012	207	2,792	1,966	4,965
Net book value at 30 September 2011	207	2,853	1,866	4,926

4 Investments

Investments in subsidiary companies

	2012 £'000	2011 £'000
Shares in subsidiary companies		
At beginning of year	9,625	9,650
Share options granted to subsidiary employees	65	(25)
At end of year	9,690	9,625

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

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

The trading subsidiary is incorporated in England

5. Debtors

	2012 £'000	2011 £'000
Trade debtors	2	2
Amounts owed by Group undertakings	394	3,304
Prepayments and accrued income	7	17
	403	3,323

Amounts falling due after more than one year included above are

	2012 £'000	2011 £'000
Amounts owed by Group undertakings	2,000	2,000

6 Creditors amounts falling due within one year

	2012 £'000	2011 £'000
Bank loans (note 8)	200	331
Trade creditors	16	7
Other creditors and accruals	135	79
Other amounts owed to subsidiary undertakings	81	81
Corporation tax	13	—
	445	498

7 Creditors amounts falling due after more than one year

	2012 £'000	2011 £'000
Bank loans (note 8)	1,735	1,722

Notes to the Parent Company financial statements continued

For the year ended 30 September 2012

8. Bank loans

On 13 January 2006, Zytronic plc drew down funds under a ten-year mortgage with Lloyds TSB Bank plc under which it borrowed £750,000, repayable by monthly instalments. The loan is secured against its freehold interest in Britannia Court, the freehold factory premises which it acquired in January 2006. Interest is payable at 1.25% above that bank's base rate. This loan was paid off on 1 July 2012.

On 4 June 2009, Zytronic plc borrowed £2.25m under a ten-year mortgage with Alliance & Leicester Commercial Bank, repayable by monthly instalments. The loan is secured against its freehold interest in Haworth Court and its interest in a 999-year long leasehold on its main factory. Previous to the acquisitions of these interests, the Group occupied these premises on leases expiring in 2019. Interest is payable at 2.5% above three-month LIBOR. The balance is shown net of issue costs which are being amortised over the life of the loan. This loan was paid off on 1 July 2012.

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

9 Deferred taxation liability

The deferred tax included in the balance sheet is as follows

	2012 £'000	2011 £'000
Accelerated capital allowances	114	119
At 1 October	119	76
(Credit)/charge in the profit and loss account	(6)	46
Other	1	(3)
At 30 September	114	119

10 Share capital and share-based payments

(a) Share capital

	2012 Number Thousands	2011 Number Thousands	2012 £'000	2011 £'000
Authorised				
Ordinary shares of 1p each	25,000	25,000	250	250
Allotted, called up and fully paid				
Ordinary shares 1p each	14,903	14,734	149	147

Note 22(c) in the Group financial statements sets out the details of the share option schemes of the Group and the numbers of shares in the Parent Company which are contingently exercisable under them.

(b) Share-based payments

Note 22(c) in the Group financial statements identifies the basis of the Senior Executive Plans and the Sharesave Scheme. It also contains a table which illustrates the number and weighted average exercise prices of, and movements in, share options during the year.

(c) Director's share incentive scheme

Note 22(d) in the Group financial statements sets out the details of the Share Incentive Award Scheme for Mark Cambridge, Chief Executive, in shares of the Parent Company.

11. Reconciliation of movements in shareholders' funds

	Called up share capital £ 000	Share premium £ 000	Profit and loss account £ 000	Total £ 000
At 30 September 2010	147	6,550	8,820	15,517
Exercise of share options	—	38	—	38
Profit on ordinary activities after taxation	—	—	2,245	2,245
Share-based payments	—	—	(38)	(38)
Dividends	—	—	(1,044)	(1,044)
At 30 September 2011	147	6,588	9,983	16,718
Exercise of share options	2	274	—	276
Profit on ordinary activities after taxation	—	—	2,946	2,946
Share-based payments	—	—	74	74
Dividends	—	—	(1,217)	(1,217)
At 30 September 2012	149	6,862	11,786	18,797

A profit of £2,946,000 (2011 £2,245,000), before payments of dividends of £1,217,000 (2011 £1,044,000), has been dealt with in the financial statements of the Company which, under the exemption contained in Section 408 of the Companies Act 2006, has not presented its own profit and loss account

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

12. Pension scheme commitments

Contributions for the year ended 30 September 2012 amounted to £2,900 (2011 £2,800) and the outstanding contributions at the balance sheet date were £Nil (2011 £Nil)

13 Guarantees

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

(a) Borrowing facilities

The Group has an unsecured overdraft facility of £1.0m arranged with its principal banker, Barclays Bank plc. This facility extends until 30 April 2013. This facility is to provide funding for working capital.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at Whiteley Road, Blaydon-on-Tyne, Tyne and Wear NE21 5NJ on 28 February 2013 at 2 00pm for the following purposes

Ordinary business

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

- 1 To receive the financial statements for the year ended 30 September 2012 and the reports of the Directors and auditors thereon
- 2 To pay a final dividend of 5 9p per ordinary share of 1 Op for the year ended 30 September 2012 on Friday 15 March 2013 to members on the Register at the close of business on Friday 1 March 2013
- 3 To re-elect Mark Cambridge as a Director
- 4 To re-elect Sir David Chapman Bt as a Director
- 5 To re-appoint Ernst & Young LLP as auditors and to authorise the Directors to fix their remuneration

Special business

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

- 1 The Directors of the Company be and are hereby generally and unconditionally authorised (in substitution for any previous authority) for the purposes of Section 551 of the Companies Act 2006 (as amended) (the "Act") to exercise all the powers of the Company to allot shares in the Company, or to grant rights to subscribe for or to convert any security into shares in the Company (such shares and such rights to subscribe for or to convert any security into shares in the Company being "relevant securities") on such terms and in such manner as they shall think fit, up to a maximum aggregate nominal amount of £49 677 30 at any time (unless and to the extent previously revoked, varied or renewed by the Company in general meeting) during the period from the date hereof until the conclusion of the Company's Annual General Meeting held in 2014 provided that the Directors of the Company may make an offer or enter into an agreement which would or might require relevant securities to be allotted, offered or otherwise dealt with or disposed of after the expiry of such authority and the Directors may allot any relevant securities after the expiry of such authority in pursuance of any such offer or agreement as if this authority had not expired
- 2 Subject to and conditional upon the passing of special resolution 1 above, the Directors of the Company be given power pursuant to Sections 570 and 573 of the Act to allot equity securities (as defined in Section 560 of the Act) of the Company for cash pursuant to the authority conferred by special resolution 1 above, as if Section 561 of the Act did not apply to any such allotment, such power to expire at the conclusion of the Company's Annual General Meeting held in 2014 provided that before such expiry the Directors of the Company may make an offer or enter into an agreement which would or might require equity securities to be allotted after the expiry of such power and the Directors may allot equity securities after such expiry under this power in pursuance of any such offer or agreement as if this power had not expired. This power is limited to
 - 2 1 the allotment of equity securities for cash in connection with a rights issue or other pre-emptive offer to holders of ordinary shares of 1 Op each in the capital of the Company where the equity securities respectively attributable to the interests of such holders are proportionate (as nearly as may be practicable) to the respective numbers of ordinary shares of 1 Op each in the capital of the Company held by them but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with any fractional entitlements or any legal or practical problems under the laws of, or the requirements of any regulatory body or any recognised stock exchange in, any territory, and
 - 2 2 the allotment (other than pursuant to 2 1 of this special resolution) of equity securities up to a maximum aggregate nominal amount of £7,451 59

This power applies in relation to any sale of shares which is an allotment of equity securities by virtue of Section 560(3) of the Act as if in the first paragraph of this resolution the words "pursuant to the authority conferred by special resolution 1 above," were omitted
- 3 That the Company be and is hereby generally and unconditionally authorised pursuant to Section 701 of the Act to make market purchases (within the meaning of Section 693(4) of the Act) of ordinary shares of 1 Op each in the capital of the Company (for the purposes of this special resolution 3, "Shares") provided that
 - 3 1 the maximum number of Shares hereby authorised to be purchased shall be 1,490,319,
 - 3 2 the minimum price which may be paid for a Share shall be 1 Op,
 - 3 3 the maximum price which may be paid for a Share shall be not more than 5% above the average of the middle market quotations for Shares as derived from the London Stock Exchange daily list for securities admitted to the AIM market of the London Stock Exchange for the five business days immediately preceding the date of the purchase of the Share, and

Special business continued

- 3 4 unless previously renewed, revoked or varied, the authority hereby conferred shall expire at the conclusion of the Company's Annual General Meeting held in 2014 save that the Company may, prior to such expiry, enter into a contract to purchase Shares which will or may be executed wholly or partly after the expiry of such authority and may purchase Shares pursuant to such contract as if such authority has not expired, and that all Shares so purchased in pursuance of this authority shall be held as Treasury Shares (as defined by Section 724 of the Act) for future resale for cash, transfer for the purposes of an employees' share scheme or for cancellation
- 4 That
- 4 1 the payment of the amounts shown as paid in pence per ordinary share by way of interim or final dividends respectively (herein referred to as either "Int" or "Fin", as the case may be, and referred to collectively as the "Interim and Final Dividends") on 21 June 2002 (Int, 0 5p), 30 June 2006 (Int, 1 0p), 29 June 2007 (Int, 1 0p), 27 June 2008 (Int, 1 0p), 9 March 2009 (Fin, 3 0p), 26 June 2009 (Int, 1 2p), 26 February 2010 (Fin, 3 8p), 25 June 2010 (Int, 2 0p), 25 February 2011 (Fin, 5 0p) and 29 July 2011 (Int, 2 1p) and the entries in the audited accounts of the Company for the years ended 30 September 2002, 2006, 2007, 2008, 2009, 2010 and 2011 respectively, whereby distributable profits of the Company were appropriated to the payments of the Interim and Final Dividends, be and are hereby ratified and confirmed,
- 4 2 any and all claims which the Company may have in respect of the payments of the Interim and Final Dividends against its shareholders who appeared on the register of shareholders on the relevant record dates be released with effect from 21 June 2002, 30 June 2006, 29 June 2007, 27 June 2008, 9 March 2009, 26 June 2009, 26 February 2010, 25 June 2010, 25 February 2011 and 29 July 2011 and a deed of release in favour of such shareholders be entered into by the Company in the form of the deed produced to the meeting and signed by the Chairman for the purposes of identification and thereafter be delivered to the Company Secretary for retention by him on behalf of the said shareholders,
- 4 3 any distribution involved in the giving of any such release in relation to the Interim and Final Dividends be made out of the profits appropriated to the Interim and Final Dividends as aforesaid by reference to a record date identical to the relevant record dates for the Interim and Final Dividends, and
- 4 4 any and all claims which the Company has or may have against its Directors (whether past, present and future) arising in connection with the payment of the Interim and Final Dividends be released and that a deed of release in favour of the Directors of the Company be entered into by the Company in the form of the deed produced to the meeting and signed by the Chairman for the purposes of identification and thereafter be delivered to the Company Secretary for retention by him on behalf of the said Directors
- 5 That, pursuant to Article 102 6 of the Company's Articles of Association ("the Articles"), any and all restrictions contained in Article 102 1 of the Articles in relation to the ability of any Director of the Company to vote and be counted in the quorum in respect of meetings of the Directors (or any committee of the Directors) or to be eligible to sign any written resolution of the Directors (or any committee of the Directors) be suspended for the purposes of special resolution 4, such that any and all of the arrangements contemplated by special resolution 4, and the decisions of the Directors (or of any committee of the Directors) resulting in the proposals contained or referred to in special resolution 4 being put to the Company in general meeting, be and are hereby ratified

By order of the Board

Denis Mullan, B Sc., FCA

Company Secretary

Zytronic plc

Whiteley Road

Blaydon-on-Tyne

Tyne and Wear NE21 5NJ

19 December 2012



Notice of Annual General Meeting continued

Notes

- 1 Every member entitled to attend and vote at the meeting may appoint a proxy or proxies to attend, speak and vote (whether on a show of hands or on a poll) at the meeting on their behalf. A proxy need not be a member of the Company. A prepaid form of proxy is enclosed.
- 2 Completed forms of proxy must be returned to the Company's Registrars at the address shown on the form of proxy not later than 4.00pm on Tuesday 26 February 2013 or two working days prior to any adjourned meeting or, in the case of a poll taken more than 48 hours after it is demanded, one working day before the time appointed for the taking of the poll. The sending of a completed form of proxy to the Company's Registrars will not preclude members from attending and voting at the meeting, or any adjournment thereof in person, should they so wish.
- 3 The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 (as amended), specifies that only those holders of ordinary shares of 1 Op each of the Company registered in the Register of Members of the Company as at
 - 3.1 4.00pm on 26 February 2013, or
 - 3.2 if this meeting is adjourned, at 4.00pm two working days prior to the adjourned meeting,shall be entitled to attend and vote at the meeting in respect of the number of ordinary shares of 1 Op each in the capital of the Company registered in their name at that time. Changes to entries on the Register of Members after 4.00pm on Tuesday 26 February 2013 shall be disregarded in determining the rights of any person to attend or vote at the meeting.
- 4 Copies of the following documents will be available for inspection during normal business hours by members at the registered office of the Company on each business day from the date of this notice until the date of the Annual General Meeting, and at the place of the Annual General Meeting for at least 15 minutes prior to, and during, that meeting:
 - 4.1 contracts of service between Directors and the Company or any of its subsidiary undertakings, and
 - 4.2 the deeds of release referred to in paragraphs 4.2 and 4.4 of special resolution 4

Corporate information

Websites

www.zytronicplc.com
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Zytronic plc Annual Report and Financial Statements 2012

The touch solution for all environments

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