Design, specification and distribution of specialist electronic components and systems

TECHNOLOGY GROUP PLC

APC Technology Group PLC
Annual Report and Accounts 2017

Welcome to APC Technology Group

APC Technology Group PLC provides design, specification and distribution of specialist electronic components and systems, lighting technologies and connectivity products to the defence, aerospace, industrial, real estate, logistics and healthcare sectors.

Strategic Review

Corporate Governance

Financial Statements

Other Information

www.apcplc.com

APC Technology Group PLC combines 35 years of specialist expertise and innovation with the strength and stability of a London Stock Exchange listed business (AIM market).

APC provides design, specification and distribution of specialist electronic components, products and systems. For three decades it has built long-standing customer relationships in hard-to-penetrate market segments including UK defence, aerospace, and oil and gas. For the last ten years, the Company has also enjoyed growth within financial, commercial real estate and industrial markets.

Acting as a UK marketing, sales and distribution portal for best-in-class US and European component manufacturers, APC creates value for its manufacturing principals and end-customers through its market and product knowledge, engineer-to-engineer technical sales expertise and extensive experience managing import and logistics requirements.

APC operates within the following markets:

Aerospace | Broadcast | Commercial Real Estate | Counter-IED | Data Centres | Defence | Education | Facilities Management | Finance | Healthcare | Manufacturing | Military | Oil and Gas | Retail | Space | Systems Integrators | Telecommunications | Transport

Our technical sales model

Specialist business teams

• Specialist technical expertise •
• In-depth industry and product knowledge •
• Incentivised sales team •

Experienced team leader | Product technical managers | Account managers

Group support for sales, marketing and logistics

Our specialist business teams

HI-REL
• High-reliability electronic components

RF & MICROWAVE
• Microwave and radio frequency components

TIME
• Time and frequency synchronisation systems

SMARTWAVE
• Connectivity, sensing and embedded computing

LIGHTING
• Lighting projects and technologies

eeVs
• Performance management, measurement and verification

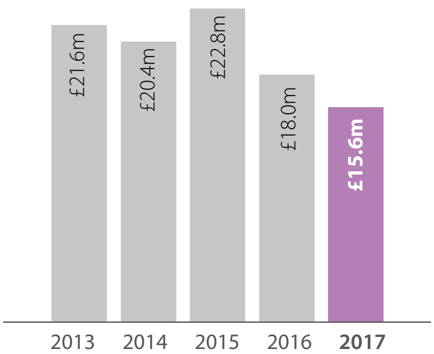
These activities are described in more detail on **page 5**

Financial highlights

- Post-tax result improved to a profit of £0.2m, compared with a loss of £12.9m in 2016 (which was predominantly attributable to exceptional and non-recurring expenses)
- £0.8m operating profit before exceptional and non-recurring expenses, compared to £0.3m in the prior year
- Revenue from continuing operations £15.6m (2016: £18.0m)
- Gross profit, before exceptional and non-recurring expenses £5.4m (2016: £6.4m)
- Gross margin, before exceptional and non-recurring expenses 34.9% (2016: 35.8%).
- Headcount within continuing business reduced from 91 to 65
- Underlying operating overheads reduced by 19% compared with 2016
- Two share subscriptions completed in the period, resulting in £0.5m in new equity for the Group
- Net debt at year-end reduced to £3.1m (2016: £3.2m), of which £2.5m (2016: £2.7m) relates to amount owed under the Group's £6m invoice finance facility with ABN Commercial Finance.

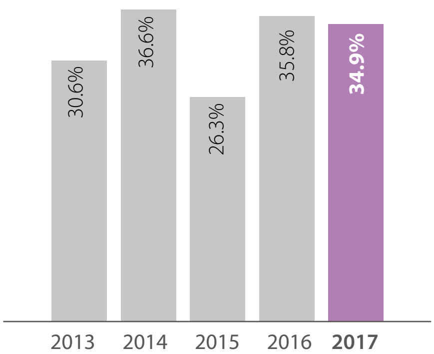
Revenue

£15.6m



Gross margin

34.9%

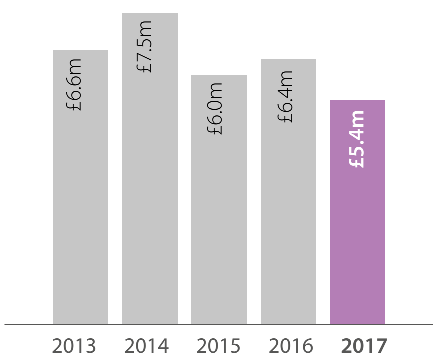


Operational highlights

- Bookings in year of £16m, representing a positive book to bill ratio for future growth:
  - APC Hi-Rel order book at year-end £2.4m, double last year, and bookings during the year £7.1m, up 35% on prior year
  - APC Time bookings during the year £1.2m, up 75% on prior year.
- Order highlights in year include:
  - £1.8m of power supplies for the defence sector
  - £700k repeat order for a civil aviation programme
  - £250k of counter IED technology
  - £500k revenue to date, with quoted work at over £2.5m, under a new preferred supplier agreement for a major facilities management group.
- APC specialist teams generated increased revenue for their partners:
  - Group's top 15 suppliers by revenue in 2017 shared average growth of 16%.
- Business development highlights:
  - APC Lighting re-focused as a bespoke lighting solutions provider to property management companies, with three preferred supplier agreements signed in the period
  - UK distribution deals signed with Datel, Crystek, Signal Microwave, MWT and Oregano
  - Robust pipeline of other opportunities.

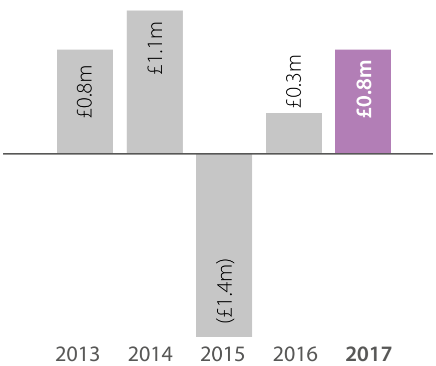
Gross profit

£5.4m



Operating profit

£0.8m



Strategic Report and Operations Review

The Directors are pleased to submit their Statutory Strategic Report for APC Technology Group PLC ("the Company") and its subsidiary undertakings (together "the Group") for the year ended 31 August 2017, together with a review of the Group's operations during the year.

Principal activities

The principal activity of the Group and Company during the year was the design, specification and distribution of specialist electronic components and systems, lighting technologies and connectivity products to the defence, aerospace, industrial, real estate, logistics and healthcare sectors.

Review of the year

Last year we reported that the Board had reviewed the Group's strategy and had determined that we should concentrate on our core strengths, the design, specification and distribution of specialist electronic components and systems. This review had identified a number of activities that did not fit with this strategy and therefore were discontinued during the 2015/6 financial year. In addition the Board reluctantly concluded that the Green Compliance water monitoring business also did not readily align with the strategy and as a result Green Compliance Water Division Limited was sold on 12 October 2016 to Integrated Water Services Limited ("IWS"), a subsidiary of South Staffordshire PLC.

The transaction triggered an exceptional charge to the 2015/6 income statement of £7.6 million, representing a non-cash write down of the intangible asset value of customer lists and goodwill relating to the water hygiene business, which was included in discontinued operations. Exceptional charges relating to other aspects of the restructuring meant that the 2015/6 financial year reported a significant loss.

The year ended 31 August 2017 has seen very considerable progress, as the Group has been able to concentrate on developing the new strategy. In addition the year has seen the benefits of the extensive review of overheads carried out last year. As a result we are pleased to be reporting a pre-tax profit of £166,000 this year, together with an improvement in our cash flow. More details on our improved financial performance are set out in the Financial Results section of this Report.

The Group has benefitted for all or most of the year under review from a number of major changes made in the last fifteen months:

- The Group's sites at 47-48 Riverside, Rochester, and Phoenix Park, St Neots, were closed last year and throughout 2017 all Rochester operations have been concentrated at the Group's offices at Stirling Park.
- A full-time Finance Director was appointed in April; he and a strengthened finance team are now all based in Rochester, which enables a closer relationship with operations and improved working capital management and financial controls.
- The business model for lighting was overhauled in 2016 and the business is enjoying a wider customer base as a result. The key partnerships established with leading European manufacturers have reduced freight costs and supplier lead times, enabling a reduction in inventory levels.
- Group headcount has been reduced from 91 at 31 August 2016 to 65 at 31 August 2017.
- The London office at Borough has been vacated and a smaller serviced office established in central London.
- Legacy costs relating to headcount reductions in recent years had largely ceased by the year-end.

As a result of the above, underlying operating overheads in 2017 were 19% less than last year.

In addition, the Board has strengthened the financing base of the Company in several ways:

- The already supportive relationship with ABN has been further enhanced, as their £6 million invoice discounting facility continues.
- The creditor invoice financing facility with Pay4 Limited has been increased from £300,000 to £400,000 (with a further increase to £500,000 since the year-end).
- Two share placings and share subscriptions raised a total of £0.5 million before expenses.

More details on these financing measures are dealt with in the funding and cash flow section of this Report.

As a result of the above developments, during the year under review the Board was able to embark upon a programme of simplifying the corporate structure and reducing the number of now-dormant subsidiaries within the Group. 17 such subsidiaries were dissolved during the financial year and a further 14 since the year-end.

Review of continuing operations

Since the restructuring that took place last year, the Group has been trading as a design, specification and distribution business, comprising individual sales-led teams with specialist areas of expertise that adopt common marketing, sales and post-sale processing standards. This combination maximises the opportunity for technical sales professionals to be incentivised to grow their focus area in an entrepreneurial way, whilst following a consistent framework.

The teams have specialist expertise, allowing them to monitor technological advancements, major projects, legislation and industry needs. APC predominately designs-in and distributes high reliability, highly durable and long lifespan components and systems for critical applications, with customers often paying a premium for this high performance, high specification technology.

The positive progress made by each of these teams in the year under review is discussed below.

High-Reliability Electronics

(trading as APC Hi-Rel) provides the technical sale of high-reliability, high temperature and high voltage electronic components into the defence and aerospace markets. APC represents a range of manufacturers for the UK market and works on projects that can run for three to five years. With these long projects, future bookings are a good measure of success. In the financial year 2017, bookings were £7.1m, which is a 34.6% uplift to 2016 total bookings.

Design-win success for aerospace-grade power supply units

Resulting from a series of design win successes, APC Hi-Rel is the sole supplier of units to power flight control systems on several major civil and military aircraft production programmes. APC works with the engineering teams of aerospace equipment manufacturers to incorporate industry-leading products (together with advanced products from other manufacturers) into multiple airborne equipment sets including display, weapons and control systems.

Radio Frequency and Microwave

(trading as APC RF & Microwave) distributes high performance connectors, passive and active devices and related electronic components to the defence, telecoms, wireless and broadband markets. 80% of its customer base is within the defence sector and 20% within other markets including aerospace. Addressing the wider market is a growth opportunity for future periods.

Continued involvement in protection of armed forces

In 2017 APC's involvement in advanced counter-improvised explosive device (IED) technology resulted in year-on-year sales growth for APC RF & Microwave. The division has worked with defence customers on this technology since 2008, providing components that generate radio frequency power to block the signals often used to trigger IEDs. As the threat of Remote Controlled IEDs continues to escalate, APC is well placed to provide solutions.

Embedded Computing, Wireless and Internet of Things (IoT)

(trading as APC Smartwave) sells embedded computer boards and memory, gateways, sensors and related components to IT, industrial manufacturing, defence and healthcare sectors. Again, widening the industry penetration of our major technology lines represents a growth opportunity.

Time and Frequency Synchronisation

(trading as APC Time) provides time and frequency synchronisation systems to financial institutions, government bodies, broadcasters, telecoms organisations and rail companies. APC Time has continued to represent one of the top three global manufacturers for nine years, growing the revenue generated for that company within the past year by 53%.

Transaction timing legislation boosts sales within financial sector

New financial legislation, MiFID II, which comes into force in January 2018, has provided a boost in sales for APC Time, providers of time and frequency synchronisation. Under the new requirements, financial institutions and those involved in high frequency trading must comply with stricter limits for the time stamping of transactions. Significant orders have come from the London operation of a major French bank and an American multinational finance company.

Lighting Technologies delivers project-based lighting solutions, from lighting design and specification through to supply and installation. This business has been trading as Minimise Energy but is in the process of re-branding to APC Lighting.

Following a refocus of its business model, APC Lighting predominantly operates through preferred supplier agreements with property/facilities management companies that manage property portfolios across all sectors including education, retail, health, hospitality and leisure. In the financial year APC undertook a strategic realignment of our partnership base to generate a better quality of earnings.

Lighting for facilities management

APC Lighting has delivered £750k of lighting in the last six months to a leading property management company across three of the several thousand facilities that they manage. This has been achieved since signing a new preferred supplier agreement in June 2017. The current quoted pipeline is a further £2.5m across what is still a small percentage of the remaining estate.

Performance Management

(trading as EEVS) provides energy efficiency verification services to businesses that have signed energy performance contracts with service providers, or to public sector organisations that have funded energy saving measures. This specialist advisory and analysis service begins at contract creation and provides on-going, independent validation for projects in which expenditure or finance is linked to supplier performance.

Major telecoms provider

Following the signing of a long-term performance management contract with a major high street bank, EEVS has now also secured a long-term contract with a major telecoms provider for performance management products and analytical capability to support its energy efficiency program. EEVS will supply performance governance and verification products to ensure savings are properly measured and verified.

Financial results

Group revenue from continuing operations for the financial year was £15,564,000 (2016: £17,961,000). Gross profit (excluding exceptional and non-recurring expenses) was £5,431,000 this year (2016: £6,438,000), representing a gross margin of 34.9% compared with 35.8% last year. The operating profit, before amortisation and acquisition costs, of £271,000 in 2016 improved to £756,000 this year, as a result of a significant cost-cutting programme that saw underlying overheads from operations reduce from £6,116,000 to £4,973,000, a reduction of 19%. In addition, the Group's ownership of 15% of the issued share capital of Open Energy Market Limited ("OEM") was valued to a fair value of £307,000, in accordance with fair value hierarchy level 3 under IFRS 13 'Fair Value Measurements', following an upturn in the OEM business. Earnings per share, on operating profit before exceptional costs, amortisation and share based payments improved from 0.3p to 0.4p.

Profit before tax from continuing operations for the year was £166,000, compared with a loss of £3,086,000 in 2016 (which had been incurred through accounting for one-off exceptional costs totalling £3,026,000). The post-tax profit for the year was £192,000 compared with a loss of £12,875,000 in 2016 (which had included a loss of £9,789,000 from operations discontinued in that year).

Funding and cash flow

In the financial year, there was a cash outflow from operating activities of £719,000 which was heavily influenced by a reduction of £2,084,000 in trade and other payables; improved control over working capital also achieved decreases in trade and other receivables and inventory levels. This was a significant improvement on the outflow of £4,245,000 in 2016, most of which had arisen from exceptional costs and discontinued operations. The Group ended the year with a gross cash balance of £377,000 (2016: £444,000).

The Group's net debt at 31 August 2017 was £3,101,000 (2016: £3,161,000). The Group has an invoice discounting facility with ABN of up to £6,000,000, of which £2,502,000 had been drawn down at the year-end (2016: £2,711,000). ABN have demonstrated considerable support for the business since the facility was established in early 2015 and the facility continues with no fixed termination date. In addition, the Group had a trade payment credit facility with Pay4 Limited of £400,000 which was fully utilised at 31 August 2017. Since the year-end the facility has been increased to £500,000.

During the year, the Board authorised two share subscriptions by existing investors and Board members, which raised a total of £479,000. These measures further strengthened the balance sheet, while providing adequate working capital for the Group 0as it emerges from its period of restructuring.

On the basis of current financial projections and available funds and facilities, the Directors are satisfied that the Group and parent company have adequate resources to continue in operation for the foreseeable future. The Directors therefore continue to adopt the going concern basis of accounting when preparing the financial statements, as described more fully in the Directors' Report and the note on accounting policies in the financial statements.

Working capital (excluding net debt)

As at 31 August 2017	**2017 £000**	2016 £000	Cash impact £000
Inventories	**832**	1,080	248
Trade receivables	**2,856**	3,377	521
Other receivables	**5**	146	141
Prepayments	**124**	228	104
	3,817	4,831	1,014
Trade payables	**(2,041)**	(2,931)	(890)
Other payables	**(703)**	(1,163)	(460)
Accruals	**(1,588)**	(2,322)	(734)
	(4,332)	(6,416)	(2,084)
Net working capital, excluding assets held for sale	**(515)**	(1,585)	(1,070)
Net working capital related to assets held for sale	**–**	71	71
Total	**(515)**	(1,514)	(999)

Net debt

As at 31 August 2017	**2017 £000**	2016 £000	Change £000
ABN debtor invoice financing	**2,502**	2,711	209
Pay4 creditor invoice financing *	**405**	294	(111)
Finance leases	**16**	45	29
Convertible loan notes *	**555**	555	–
Cash and cash equivalents	**(377)**	(444)	(67)
Net debt, excluding assets held for sale	**3,101**	3,161	60
Net debt related to assets held for sale	**–**	856	856
Total	**3,101**	4,017	916

* Unsecured debt

Dividend

The Board has again reviewed the Group's dividend policy. Whilst its objective remains to pay dividends in the long term, it continues to believe that it can achieve greater returns in the near term from investing available funds in opportunities for profitable, cash-generative growth. The Board is therefore not recommending a dividend for 2017 (2016: £nil).

Intangible assets

The Board considered the carrying value of goodwill at 31 August 2017 of £7,378,000, related to acquisitions in prior periods, and concluded that carrying value is expected to be fully recoverable. No development expenditure was capitalised in 2017 or 2016.

Capital expenditure

The Group's capital expenditure in the financial year amounted to £13,000, compared with £23,000 in 2016.

Business model, risks and uncertainties

The Group's business model was developed and refined during the last financial year and APC is now focused on its historic strength as an organisation expert in the design, specification and distribution of specialist electronic components and systems in markets with growth opportunities. The emphasis is on cash generative profitability from contracts for blue-chip and other stable businesses, rather than top-line sales growth for its own sake. The Board believes that this model optimises the Group's ability to withstand the risks and uncertainties facing its business; nevertheless, the Directors recognise that risk is inherent in any business and seeks to manage risk in a controlled manner. The key business risks are set out in the panel on page 10, together with the Group's policies to mitigate those risks. In addition, the Board has recognised that, like any public company in the current climate, the Group faces an increasing number of potential organisational risks which it takes very seriously and keeps the relevant protective mechanisms under close review.

Key performance indicators

The Directors set budgets for the year that are reviewed against the management accounts on a monthly basis. In addition to these results, the Directors review a number of key performance indicators to assess the performance of the Group and assist in decision making. The principal indicators monitored are:

- **Gross margin to sales ratio** – The Board recognises the importance of growing the Group's turnover but believes that this should only be done at acceptable margins. To that end, targets are set and monitored. The margin achieved in 2017 on continuing operations was 34.9% (2016: 35.8%). The small decrease was mainly attributable to the mix of products.
- **Overheads to sales ratio** – The Board recognises the importance of controlling administrative expenses in line with the overall level of business. As a technical sales business, sufficient resources are required to provide the differentiation essential to enable the business to offer added value to our customers and to ensure that the business is developed to deliver profit both in the current period and future years. The overheads to sales ratio on continuing operations (excluding exceptional costs and discontinued activities) improved from 34.0% in 2016 to 29.8% in 2017 and also reduced as a percentage of gross profit, from 95% in 2015 to 85.4% this year, following the completion of the cost review started in 2016.
- **Profit before tax ratio** – The Board recognises that delivering a profit before tax (PBT) is fundamental to the health of the business and monitors the PBT, excluding exceptional items and discontinued activities, as a percentage of sales, to ensure that an acceptable return is made. On this basis the Group achieved a profit before tax to sales ratio of 2.7% in 2017 (2016: 0.3% loss). This improvement was attributable to the reduced overheads as described above.

In addition to measures of the profitability of the business, the Board measures working capital efficiency to ensure that the funds invested in the business are effectively managed and ensure that the business has sufficient liquidity to meet its near-term obligations. The key performance indicators used to monitor working capital performance are:

- **Inventory turns** – The Group maintains inventory so that it can meet customer demand for scarce and long lead-time items and to fulfil customer orders where deliveries are scheduled over a number of months or years. During 2017 the inventory turned over 12.2 times (2016: 10.7 times). The improvement is attributable to improved stock control and a full year's effect of the shorter supply chain established in Minimise Energy during 2016 and the consequent reduction in shipment lead times.
- **Trade receivables days** – In line with other companies in the sector the Group extends credit facilities to customers that have a sufficiently good credit rating. As at 31 August 2017, the receivables days calculated on a count-back basis was 67 days (2016: 68 days), a creditable performance given that the credit terms of many of our largest blue-chip customers are 60 days.
- **Trade payables days** – The Group receives credit from a number of suppliers and recognises the importance of paying its suppliers in a timely manner. As at 31 August 2017, the payables days calculated on a count-back basis improved from 68 days in 2016 to 56 this year as the Group's cash flow improved.

Board of Directors and senior management

The Board started the financial year with two Executive and two Non-executive Directors, assisted by the interim Chief Financial Officer.

As reported last year, the Senior Independent Director Ian Davidson and the Chairman Leonard Seelig were both due to retire by rotation at the Annual General Meeting in February 2017 and decided not to seek re-election. Ian Davidson stepped down from the Board on 13 December 2016 and Leonard Seelig at the conclusion of the Annual General Meeting on 24 February 2017. We are most grateful to both Leonard and Ian for their significant contributions during a period of considerable change in the Group's structure and strategy.

Tony Lochery was appointed to the Board on 24 February 2017 and was elected Chairman following the conclusion of the Annual General Meeting on that date. Tony Lochery has been chairing business-to-business service and distribution companies for the last 12 years and has an excellent record of value growth and realisation. He brings significant experience in strategy development and operational execution, for businesses trading in the UK and internationally. Tony has held Board positions for over 30 years including 13 positions as Chairman and other executive roles. Prior to becoming Non-executive, Tony built his own company, which was sold to Kwik Fit PLC, where he became Group Managing Director. After the sale of Kwik Fit PLC to Ford, Tony became Chief Executive of City Holdings, a privately owned facilities management company employing 10,000 people.

A further change occurred in April with the appointment of Michael Thompson as Finance Director, in place of Art Russell who stepped down as Chief Financial Officer. Art had played a significant role, on an interim basis, in helping to steer the Group through the financial effects of the Operational Review and subsequent restructuring. The Board is very grateful to him for his efforts, but considered that the time had now come for a full-time Finance Director to join the Board, based in Rochester where the majority of the Group's operations, including a strengthened finance team, are now concentrated.

Michael Thompson qualified as a Chartered Accountant in 2007 following three years at a London practice. He then spent several years working for Vantis PLC and FRP Advisory LLP, specialising in audit and business recovery. For the past six years Michael has worked in the fresh produce sector, formerly as a senior finance manager for Bakkavor, and since 2014 as Finance Director for Newmafruit Farms Limited, a premier fruit farming and packing business with a turnover of £25m.

Market growth factors

From a market perspective, there are a number of macro factors that are going to affect APC in the next three years.

Defence expenditure: According to HM Treasury data and forecasts, capital and resource departmental expenditure limits (DELs) are anticipated to grow by a total of £4.6 billion between 2016/17 to a total of £39.7 billion in 2020/21. In addition to increased total spend, the UK government has committed to raise the percentage spend that goes to small and medium sized enterprises to 25% by 2020. This could be beneficial to APC, which currently receives 40% of its components revenue from customers operating within military, space, aerospace and defence, not only into the Hi-Rel business but also the RF and Microwave, Smartwave and Time businesses.

US trade: At the present time, the UK exports more to the US than it imports. With HM Revenue and Customs reporting a 1.8% month on month rise in US imports to £3.6bn in May 2017, part of a post-Brexit arrangement may well be a significant increase in US to UK trade, with a Trump administration likely to demand parity. This will be beneficial for APC, for whom 72% of component sales come from US manufacturers.

Brexit: The effect of Brexit, and in particular the impact on trade with Europe, remains unknown. However a distributor such as APC, with an established network of end users in industrial markets, should be able to capitalise on the uncertainty facing manufacturers seeking to penetrate the UK market, not least by helping them navigate the changing clearances and accreditations required to sell and export their products to the UK.

Europe: APC end users are involved in significant collaborations across Europe. The financial performance of the Eurozone, the trade outcome of Brexit, and European elections will all affect APC. We view the uncertainty this brings, for those seeking to sell to the UK, as a major opportunity for APC.

Component shortage: The electronics supply chain has not faced a severe shortage for more than a decade. This has now changed, with leading component suppliers quoting lead times into the first quarter of 2018, and there is a growing emphasis on the importance of cultivating strong relationships with suppliers or distributors.

Outlook

Over the last 18 months, the business has undertaken a significant refocus and restructuring. This has resulted in the first profit since 2014. The Board are pleased that despite this restructuring the order book in the Group's core business has remained strong. The Group has a real focus and structure built around its six product groupings.

The Group will pursue three main growth strategies: growth through increased bookings and billings from its existing and high growth technologies; growth through the signing of new complementary product lines; and growth through targeted bolt-on acquisitions. We are already seeing traction in all of these areas. We are currently trading in line with management's expectation.

The Board consider that, given the progress it is seeing, the business now has a strong platform for profitable growth and a clear vision for the future.

The Board would once again like to take this opportunity to thank our management, staff and advisers for their hard work, dedication, professionalism and commitment to the Group, and to express our appreciation to our suppliers, partners and shareholders for their continued support.

Tony Lochery	Richard Hodgson	Michael Thompson
Non-executive Chairman	Chief Executive	Finance Director

4 December 2017

Risks and uncertainties

Risk	Nature	Mitigation
Economic	The Group is subject to many of the same general economic risks faced by other businesses and especially so during periods of slow growth, as experienced in recent years.	The Group seeks to mitigate this risk by concentrating on defence, aerospace, industrial, logistics and healthcare sectors, which have historically been less susceptible to short-term economic fluctuations. The lighting technologies business in particular has focused on a strategy to diversify its customer base to reflect an increased number of smaller sales across new lighting schemes and retro-fit projects for end clients, commercial real estate companies and facilities management organisations.
Commercial	The Group operates in a competitive marketplace and faces competition from a number of other companies.	The risk is managed by giving primary focus to products where the Group is the sole UK distributor and where the specific designs are registered with the product manufacturer so that the Group is sole sourced for that particular application.
Supply chain	The Group represents and distributes a range of products from a number of different suppliers and a significant proportion of the Group's business is long-term and repeat business. To be able to deliver continuous supply to customers the Group is dependent on continuity of supply over the long term.	To manage this risk, the Group has established close working relationships with its key suppliers and diversified the range of products offered to the market. A major objective of the Operating Review in 2016 shortened the working capital cycle by concentrating the Group's business on contracts where stockholdings can be minimised. Additionally, a new group of key suppliers for its lighting technologies business has been established in the UK and Europe during the past year, thus reducing shipping time.
Financing	During the year the Group's funding requirements were met through short-term invoice discounting facilities and a supplier payment facility, supplemented by share subscriptions.	The Board meets regularly with all its funders to ensure a good working relationship. The ABN invoice discounting facilities were renewed in May 2017 and are continuing, with no contractual end date, and the Pay4 facility has been increased. The share subscriptions during the year have strengthened the balance sheet.
Financial	The Group has a specific exposure to credit risk, interest rate and exchange rate fluctuations, the latter emphasised by the UK's planned exit from the European Union. There is a natural hedge between buying and selling currencies for most of the Group's business units, the main exception being UK sales of APC Lighting products.	The Group has established a number of policies to mitigate the risks presented, further details of which are presented in Note 20 to the financial statements.
Europe	Depending on the outcome of the Brexit negotiations, the departure of the United Kingdom from the European Union may present trading and financial risks to the Group.	The Board has reviewed the potential risks and uncertainties and currently believes that APC's experience in trading and logistics represents a potential opportunity for the Group to add to its portfolio of foreign companies for whom it acts as UK distributor.

In addition to regular Board meetings, the Group holds frequent executive and management meetings at which business risks are reviewed. Any areas that are causing concern are discussed and solutions are identified and actioned to address specific concerns.

The risks outlined above are not an exhaustive list of risks faced by the Group and are not intended to be presented in any order of priority.

Board of Directors

Tony Lochery
(Non-executive Chairman)

Tony has been chairing business-to-business service and distribution companies for the last 12 years and has an excellent record of value growth and realisation. He brings significant experience in strategy development and operational execution, for businesses trading in the UK and internationally. Tony has held Board positions for over 30 years, including 13 as Chairman, and other executive roles. Prior to becoming Non-executive, Tony built his own company, which was sold to Kwik Fit PLC, where he became Group Managing Director. After the sale of Kwik Fit PLC to Ford, Tony became Chief Executive of City Holdings, a privately owned facilities management company employing 10,000 people. Tony was appointed Non-executive Chairman of APC Technology Group PLC in February 2017.

Richard Hodgson
(Chief Executive)

Richard qualified as a chartered accountant whilst working for Deloitte in London. He then spent several years in the music industry, working as Finance Director for Universal Music International and Warner Music International. This was followed by seven years in the business services industry as European Finance Director for Iron Mountain Europe, Chief Financial and Operating Officer for Triplearc PLC, an AIM-listed print management company, and Chief Financial and Operating Officer for Reconomy, a private equity-backed waste management company. He was appointed Chief Financial Officer of Green Compliance PLC in April 2010, becoming Chief Operating Officer in 2013. He was appointed Chief Financial Officer of APC Technology Group PLC on the Company's acquisition of Green Compliance PLC in September 2014 and was appointed Chief Executive in August 2015.

Michael Thompson
(Finance Director)

Michael qualified as a Chartered Accountant in 2007 following three years at a London practice. He then spent several years working for Vantis PLC and FRP Advisory LLP, specialising in audit and business recovery. For the past six years Michael has worked in the fresh produce sector, formerly as a senior finance manager for Bakkavor, and since 2014 as Finance Director for Newmafruit Farms Limited, a premier fruit farming and packing business with a turnover of £25m. Michael was appointed Finance Director of APC Technology Group PLC in April 2017.

Phil Lancaster
(Business Development Director)

Phil joined the Group in 1995 as a Product Manager and in June 2000 was appointed General Manager of APC's distribution business. He was responsible for developing APC's dominant, technically-based sales presence in the UK's military and aerospace markets. Phil was appointed to the Board in September 2003 and then to Operations Director in April 2006. He has been responsible for improving operating efficiencies and for the successful integration of the Company's acquisitions. In 2013 Phil was appointed Managing Director of the Group's Electronic Components Distribution division and in August 2017 he was appointed Business Development Director. In this new role Phil, the longest serving member of the Board, will use his extensive industry knowledge to drive the Company's growth plans by introducing new supplier partnerships to extend the range of products and services offered.

Report of the Directors

The Directors are pleased to present their report and the audited financial statements of APC Technology Group PLC ("the Company") and its subsidiary undertakings (together "the Group") for the year ended 31 August 2017.

Principal activities

The principal activity of the Group and Company in the year under review was the design, specification and distribution of specialist electronic components and systems, lighting technologies and connectivity products.

Results for the year and dividend

The Group's result on ordinary activities after taxation was a profit of £192,000 (2016: £12,875,000 loss) and is dealt with as shown in the consolidated statement of income on page 20. The loss for the previous year included £12,815,000 of exceptional and non-recurring expenses (£3,026,000) and losses relating to discontinued activities (£9,789,000).

No interim dividend was paid and it is proposed that no final dividend will be paid this year (2016: £nil).

Review of the business and future outlook

A review of the Group's activities during the year and future outlook, together with the risks and uncertainties faced by the Group, are set out in the Strategic Report and Operations Review on pages 4 to 10.

Share capital

Details of the Company's share capital are set out in Note 18 to the financial statements. The following shares were issued during the year:

Date	Reason for issue	Shares issued
15 March 2017	Share subscription	3,034,139
23 May 2017	Share subscription	4,074,074
Total shares issued in the year		7,108,213

At 31 August 2017 (the balance sheet date) and 4 December 2017 (the date of this report) the total number of shares in issue was 134,912,990.

Substantial interests

As at 1 December 2017, the last practical date before publication of this report, the Group has been notified of the following interests of 3% or more in its issued capital of 134,912,990 Ordinary Shares.

	Number of shares	Percentage of issued capital
Canaccord Genuity Group Inc (incorporating Hargreave Hale Limited) (note)	22,466,882	16.7%
Rockridge Investments	15,362,963	11.4%
Roger Robinson and related family trusts	10,459,752	7.8%
Octopus Investments	7,872,559	5.8%
Stuart Hawthorne	5,710,000	4.2%
James Weeks	4,288,440	3.2%
Robert Holt	4,100,000	3.0%

Note:

Hargreave Hale's holdings are held in several different funds, of which one has a beneficial holding of more than 3% (11.2%).

Directors

The names of the Directors who served during the year are set out below.

R. G. Hodgson	
P. J. Lancaster	
A. F. Lochery	(appointed 24 February 2017)
M. P. Thompson	(appointed 6 April 2017)
L. R. Seelig	(resigned 24 February 2017)
J. M. Davidson	(resigned 13 December 2016)

Mr R. G. Hodgson retires by rotation and, being eligible, offers himself for re-election. Mr Hodgson's biography is set out in the Board of Directors section on page 11 of this report. Mr Hodgson has a service contract, as described in the Report of the Remuneration Committee on pages 15 and 16. A resolution to reappoint Mr Hodgson will be proposed at the forthcoming Annual General Meeting (Resolution 2).

Mr A. F. Lochery was appointed by the Directors during the year and, being eligible, offers himself for re-election by the members. Mr Lochery's biography is set out in the Board of Directors section on page 11 of this report. Mr Lochery has a letter of appointment, as described in the Report of the Remuneration Committee on pages 15 and 16. A resolution to reappoint Mr Lochery will be proposed at the forthcoming Annual General Meeting (Resolution 3).

Mr M. P. Thompson was appointed by the Directors during the year and, being eligible, offers himself for re-election by the members. Mr Thompson's biography is set out in the Board of Directors section on page 11 of this report. Mr Thompson has a service contract, as described in the Report of the Remuneration Committee on pages 15 and 16. A resolution to reappoint Mr Thompson will be proposed at the forthcoming Annual General Meeting (Resolution 4).

Directors' interests

Details of share options held by the Directors over the Ordinary Shares of the Company are set out in the Report of the Remuneration Committee.

Employment policies

The Directors recognise the important role played by the Group's employees in its past success and future development and are committed to providing an environment which will attract, motivate and reward high quality employees.

Financial participation in the Group's growth and success is encouraged by means of the share option schemes and Long Term Incentive Plan, as set out in the Report of the Remuneration Committee on pages 15 and 16.

It is the policy of the Directors to encourage the employment and training of disabled people wherever appropriate and to evaluate all employees on the basis of merit.

Policy and practice on payment of creditors
Whilst the Group does not have a formal payment code, the Group agrees payment terms with its suppliers when it enters into binding purchase contracts. It is the Group's policy to adhere to the payment terms agreed with its suppliers whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The ratio between the amounts invoiced to the Group by its suppliers during the year ended 31 August 2017 and the amounts owed to its trade creditors at the year-end was 56 days (2016: 68 days).

Going concern
The financial statements have been prepared on a going concern basis, as management believes the Group will be able to meet its liabilities as they fall due.

In the financial year, there was a cash outflow from operating activities of £719,000 which was heavily influenced by a reduction of £2,084,000 in trade and other payables, while improved control over working capital also achieved decreases in trade and other receivables and inventory levels.

The cash requirement of the Group was funded partly by trading, partly by improved working capital management and partly by two share subscriptions by existing shareholders and Board members, which raised a total of £479,000, and £641,000 proceeds from the sale of the water business. These measures enabled a reduction of £96,000 in short-term borrowings and a significant reduction of over £2 million in amounts due to suppliers and other creditors.

Management has examined going concern against a detailed profit, working capital, and cash flow forecast to December 2018, which reflects the matters discussed in the preceding paragraph but does not reflect any additional share placings, new debt facilities, nor sale of any assets other than in the normal course of business. Based upon this review, the continuation of the £6,000,000 invoice discounting facility with ABN, which has no fixed termination date, agreement of extended payment terms with suppliers as necessary, and other prudent working capital management, the Board believes that the Group will continue to be able to meet its liabilities as they fall due. Management also has the ability to raise capital through issuance of additional loan notes, further private share placings, or sale of additional assets if required.

Research and development
During the year under review the Group further developed the technologies utilised across its range of products and services. The Board reviewed its research and development expenditure and concluded that it was not appropriate to capitalise any further such expenditure this year.

Donations
During the period, £600 (2016: £686) was donated to charities. There were no political donations.

Auditor
RSM UK Audit LLP has indicated its willingness to continue as auditor.

As far as the Directors are aware, there is no relevant audit information of which the Group's auditor is unaware. The Directors have taken all the steps that ought to have been taken as Directors in order to make themselves aware of any relevant audit information, and to establish that the Group's auditor is aware of that information.

Annual General Meeting
The Annual General Meeting of the Company will be held on Thursday 22 February 2018 at 11.00 a.m. at the offices of the Company's auditors, RSM UK Audit LLP, 25 Farringdon Street, London EC4A 4AB. The text of all of the proposed Resolutions is set out in the Notice of Annual General Meeting on page 46.

In addition to the normal resolutions approving the accounts and appointing the auditors (Resolutions 1 and 5), the agenda includes resolutions electing or re-electing Richard Hodgson, Anthony Lochery and Michael Thompson as Directors.

The agenda also includes resolutions providing the Board with sufficient headroom to raise additional funds by the issue of share issues on a non-pre-emptive basis (Resolutions 6 and 7), which allow funds to be raised on a non-pre-emptive basis up to a limit of 25% of the existing issued share capital as at the date of this report.

By Order of the Board

H. F. Edmonds
Secretary

4 December 2017

Corporate Governance Statement

The Company's shares have been listed on AIM of the London Stock Exchange since November 2002. The Board is accountable to the Company's shareholders for good governance and this statement describes principles of corporate governance that have been applied by the Company.

The Directors believe that good corporate governance, involving risk appraisal and management, prudent decision-making, open communication and business efficiency, is important for the long-term benefit of the stakeholders in the Group. We aim to comply with the 12 principles contained within the Quoted Companies Alliance Corporate Governance Code for Small and Mid-Size Quoted Companies 2013.

The Board of Directors

The activities of the Group are ultimately controlled by the Board of Directors. All Directors are subject to retirement and re-election by rotation.

Since April 2017 the Board has consisted of a Non-executive Chairman and three Executive Directors. The Chairman represents a strong and independent element and his views carry considerable weight in the Board's decision-making process.

The Group has a formal policy setting out the matters that require approval of the Board. This covers the major areas of decision-making in all aspects of the Group's affairs.

The Group maintains a Directors and Officers liability insurance policy.

Committees of the Board

The Audit Committee meets at least twice a year and considers the appointment of the external auditors as well as discussing with them the findings of the audit and any reports to the management or those charged with governance arising from it. The Committee is also responsible for monitoring compliance with accounting and legal requirements and for reviewing the Interim and Annual Reports before publication. The Audit Committee currently consists of the Chairman, Tony Lochery. Meetings of the Committee are attended by the Chief Financial Officer and other members of senior management when appropriate.

The Remuneration Committee currently consists of the Chairman, Tony Lochery, assisted by the Company Secretary, Hugh Edmonds. The Committee is responsible for setting the remuneration of Directors and senior management, as well as reviewing the remuneration policy throughout the Group. The Report of the Remuneration Committee is set out on pages 15 and 16.

Owing to the small size of the Group's Board, it is not considered necessary to have a formal Nomination Committee for the purpose of making recommendations regarding senior Board appointments. All of the members of the Board are involved in the decision-making process for Board and other senior management appointments.

Internal control

The Directors are responsible for establishing and maintaining the Group's system of internal control. This system of internal control is designed to safeguard the Group's assets and to ensure that proper accounting records are maintained and that financial information produced by the Group is reliable. There are inherent limitations in any system of internal control and such a system can provide only reasonable, but not absolute, assurance against material misstatement or loss.

Report of the Remuneration Committee

The Remuneration Committee currently consists of Tony Lochery (Chairman), assisted by the Company Secretary. It was formed in order to review the remuneration of Executive Directors and senior management, together with remuneration policy for the Group as a whole, and to make recommendations to the Board.

Remuneration policy

Remuneration

In order to safeguard the interests of the Group, the Committee aims to provide Executive Directors and employees of the Group with a remuneration package set to attract, retain and motivate Directors and employees of the appropriate calibre. Bonus schemes are determined for each financial year, based on the Group's financial performance, targets for which are approved by the Remuneration Committee.

Share options

APC Technology Group PLC has operated several share options plans for Directors and employees since its flotation in 1996. On 6 September 2013, the Board approved the establishment of a new plan, the 2013 Employee Share Option Scheme, which superseded a 2003 plan, and all options granted to employees and Executive Directors since then have been subject to the rules of that plan.

The 2003 and 2013 Employee Share Option Schemes require that certain performance conditions must be satisfied before options may be exercised. The performance conditions are based on achievement of budgeted profit before taxation. Non-executive Directors' options are subject to similar performance conditions.

The Remuneration Committee has recognised that the level of the Company's share price has been such that the existing share options schemes do not currently provide a worthwhile incentive. Accordingly, on 25 February 2016, the Board approved a new Long Term Incentive Plan (LTIP), designed to incentivise Executive Directors and senior management. The first award under the LTIP scheme was made to the Chief Executive, Richard Hodgson, on 25 February 2016.

Details of the share options granted to Directors and outstanding as at 31 August 2017 are listed below:

		Date granted	Latest date exercisable	Ordinary Shares of 2p	Exercise price
R. G. Hodgson	2013 Employee Share Option Scheme	26 February 2015	25 February 2025	1,000,000	22.0p
	Long Term Incentive Plan (LTIP)	25 February 2016	25 February 2026	917,431	Nil
P. J. Lancaster	2013 Employee Share Option Scheme	24 September 2013	23 September 2023	500,000	38.75p

The options granted under the 2013 Scheme and the Unapproved Scheme are exercisable in various proportions dependent upon the performance of the Group. The earliest date on which each proportion can be exercised is the date on which the results for the relevant financial year are announced.

The options granted under the LTIP vest on 25 February 2019, dependent upon continuous employment with the Group during that period.

Service contracts

Each of the Executive Directors that served in the year had a service agreement that may be terminated by either party upon giving between three months and one year's written notice to expire at any time. Non-executive Directors have letters of appointment which are terminable at the will of either party.

Pensions

The Group makes contributions to defined contribution pension schemes for the benefit of the Executive Directors. The Group maintains healthcare insurance for the benefit of the Executive Directors and certain employees and their dependants.

Directors' emoluments (audited)

	Salary and fees	Benefits in kind	Total emoluments (excluding pensions)		Pension contributions	
			2017	2016	**2017**	2016
	£000	£000	**£000**	£000	**£000**	£000
R. G. Hodgson	225	11	**236**	211	**23**	–
P. J. Lancaster	120	14	**134**	133	**6**	6
M. P. Thompson (appointed on 6 April 2017)	47	5	**52**	-	**2**	–
L. R. Seelig (resigned on 24 February 2017)	18	–	**18**	36	**–**	–
J. M. Davidson (resigned on 13 December 2016)	5	–	**5**	15	**–**	–
A. P. Shortis (resigned on 23 November 2015)	–	–	**–**	173	**–**	4
M. R. Robinson (resigned on 21 August 2015)	–	–	**–**	160	**–**	3
	415	30	**445**	728	**31**	13

Benefits in kind shown in the table above comprise the provision of a motor car and/or private health insurance.

No bonuses were paid in the current or prior financial year.

No Directors exercised share options during the year.

The whole of the remuneration and pensions shown above for M. R. Robinson in the previous year related to his notice period of one year after the date of his resignation as a Director.

Of the remuneration and pensions shown above for A. P. Shortis in the previous year, £154,000 related to his notice period of one year after the date of his resignation as a Director.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements, in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company financial statements for each financial year. The Directors are required by the AIM Rules of the London Stock Exchange to prepare Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have elected under company law to prepare the Company financial statements in accordance with IFRS as adopted by the EU.

The financial statements are required by law and IFRS adopted by the EU to present fairly the financial position of the Group and the Company and the financial performance of the Group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

In preparing the Group and Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and 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 APC Technology Group PLC website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report

To the Members of APC Technology Group PLC

Opinion

We have audited the financial statements of APC Technology Group PLC (the 'parent company') and its subsidiaries (the 'Group') for the year ended 31 August 2017 which comprise the parent company and consolidated statements of financial position, the consolidated statement of comprehensive income, the parent company and consolidated statements of changes in equity, the parent company and consolidated statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. 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 and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 August 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Goodwill

Refer to page 27 (Accounting policies – Goodwill), page 30 (Critical accounting estimates and judgements) and page 35 (Note 10 to the financial statements – Intangible non-current assets)

The risk – The Group has goodwill totalling £7,378,000 as at 31 August 2017. Management judgement is required in assessing the carrying value of the goodwill. Management have undertaken an impairment review based on the current and anticipated performance of each cash-generating unit.

Our response – We have audited the discounted cash flow forecasts and the assumptions therein prepared by management for each cash generating unit. These indicate that the recoverable amount of the cash generating unit is sufficient.

Investment in Open Energy Market Limited

Refer to page 6 (Strategic Report and Operating Review), page 29 (Accounting policies – Financial instruments), page 30 (Critical accounting estimates and judgements) and page 38 (Note 13 to the financial statements – Associates and other financial assets)

The risk – The Company's investment in Open Energy Market Limited ('OEM') was fully impaired at the end of the prior year; however, management has taken the decision due to an upturn in the OEM business to revalue the investment during 2017. At the end of the current year the valuation of OEM totalled £307k, it has been valued on a fair value hierarchy level 3 basis.

Our response – We have discussed the assumptions with management and audited the new information. Based on this, we concluded that the decision to revalue the investment during 2017 is appropriate.

Going concern

Refer to page 13 (Report of the Directors) and page 26 (Accounting policies – Going concern).

The risk – There is a risk that the going concern status of the Group or individual subsidiaries within the Group may not be appropriately disclosed in the financial statements.

Our response – We have audited the cash flow forecasts and challenged the assumptions used by management. They show that the Group has the ability to continue as a going concern without raising additional capital for at least 12 months from the financial statements being approved.

We have obtained a copy of the extension to the invoice discounting agreement which states that it has been extended, indicating support until mid-2019. We are therefore satisfied with the adequacy of the going concern disclosures within the financial statements.

Our application of materiality
When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures and to evaluate the effects of misstatements, both individually and on the financial statements as a whole. During planning we determined a magnitude of uncorrected misstatements that we judge would be material for the financial statements as a whole (FSM). During planning FSM was calculated as £141,000, which was not changed during the course of our audit. We agreed with the Audit Committee that we would report to them all unadjusted differences in excess of £5,000, as well as differences below those thresholds that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit
The audit was scoped to support our audit opinion on the Company and Group financial statements of APC Technology Group PLC and was based on Group materiality and an assessment of risk at Group level.

Other information
The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of directors
As explained more fully in the Directors' Responsibilities statement set out on page 17, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: http://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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 auditor's 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.

Paul Watts, FCA (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP,
Statutory Auditor
Chartered Accountants,
25 Farringdon Street
London EC4A 4AB

4 December 2017

Consolidated Statement of Income

For the year ended 31 August 2017

	Note	2017 Results from operations £000	2017 Exceptional and non-recurring expenses (Note 4) £000	2017 Total £000	2016 Results from operations £000	2016 Exceptional and non-recurring expenses (Note 4) £000	2016 Total £000
Revenue	2	15,564	–	**15,564**	17,961	–	17,961
Cost of sales		(10,133)	(24)	**(10,157)**	(11,523)	(736)	(12,259)
Gross profit		**5,431**	**(24)**	**5,407**	6,438	(736)	5,702
Administrative expenses		(4,637)	(228)	**(4,865)**	(6,116)	(2,290)	(8,406)
Operating profit/(loss) before amortisation, share based payments and acquisition costs	3	**794**	**(252)**	**542**	322	(3,026)	(2,704)
Share based payments	3	(38)	–	**(38)**	(51)	–	(51)
Operating profit/(loss)	3	**756**	**(252)**	**504**	271	(3,026)	(2,755)
Financing income	5	–	–	**–**	1	–	1
Financing costs	5	(338)	–	**(338)**	(332)	–	(332)
Profit/(loss) before taxation		**418**	**(252)**	**166**	(60)	(3,026)	(3,086)
Taxation credit	7	26	–	**26**	–	–	–
Profit/(loss) for the year from continuing operations		**444**	**(252)**	**192**	(60)	(3,026)	(3,086)
Discontinued operations							
Loss for the year from discontinued operations, net of tax	8	–	–	**–**	–	(9,789)	(9,789)
Profit/(loss) for the year attributable to the equity holders of the parent		**444**	**(252)**	**192**	(60)	(12,815)	(12,875)

Earnings per share from continuing and discontinued operations attributable to the equity holders of the parent during the year.

	Note	2017	2016
Basic earnings per share	9		
From continuing operations		**0.1p**	(3.0p)
From discontinued operations		**–**	(9.4p)
From profit/(loss) for the year		**0.1p**	(12.4p)

There were no other items of comprehensive income. Accordingly, no consolidated statement of comprehensive income has been prepared.

Consolidated Statement of Financial Position
As at 31 August 2017

	Note	2017 £000	2016 £000
Non-current assets			
Intangible assets	10	**7,378**	7,378
Property, plant and equipment	11	**55**	132
Associates and financial assets	13	**307**	–
		7,740	7,510
Current assets			
Inventories	14	**832**	1,080
Trade and other receivables	15	**2,985**	3,751
Cash and cash equivalents	21	**377**	444
		4,194	5,275
Assets held for sale	8	**–**	3,036
		4,194	8,311
Total assets		**11,934**	15,821
Current liabilities			
Trade and other payables	16	**(4,332)**	(6,416)
Borrowings	16	**(3,478)**	(3,027)
		(7,810)	(9,443)
Liabilities directly associated with the assets held for sale	8	**–**	(2,395)
		(7,810)	(11,838)
Total assets less current liabilities		**4,124**	3,983
Non-current liabilities			
Financial liabilities	17	**–**	(578)
Net assets		**4,124**	3,405
Equity attributable to the equity holders of the parent			
Called-up share capital	18	**2,698**	2,556
Share premium account		**13,232**	12,895
Share option reserve		**297**	548
Merger reserve		**4,635**	4,635
Translation reserve		**–**	(10)
Retained earnings		**(16,738)**	(17,219)
Total equity		**4,124**	3,405

The financial statements on pages 20 to 45 were approved and authorised for issue by the Board of Directors on 4 December 2017 and were signed on its behalf by:

R. G. Hodgson
Director

APC Technology Group PLC
Registered No: 01635609

Company Statement of Financial Position

As at 31 August 2017

	Note	2017 £000	2016 £000
Non-current assets			
Intangible assets	10	**2,583**	2,583
Property, plant and equipment	11	**9**	32
Investment in subsidiaries	12	**5,883**	6,176
Associates and financial assets	13	**307**	–
		8,782	8,791
Current assets			
Inventories	14	**320**	441
Trade and other receivables	15	**3,251**	3,086
Cash and cash equivalents	21	**304**	342
		3,875	3,869
Assets held for sale	8	**–**	641
		3,875	4,510
Total assets		**12,657**	13,301
Current liabilities			
Trade and other payables	16	**(3,030)**	(4,235)
Borrowings	16	**(2,862)**	(2,235)
		(5,892)	(6,470)
Total assets less current liabilities		**6,765**	6,831
Non-current liabilities			
Borrowings	17	**–**	(555)
Net assets		**6,765**	6,276
Equity attributable to equity holders of the Company			
Called-up share capital	18	**2,698**	2,556
Share premium account		**13,232**	12,895
Share option reserve		**328**	543
Merger reserve		**4,635**	4,635
Retained earnings		**(14,128)**	(14,353)
Total equity		**6,765**	6,276

The Company's loss for the financial year was £22,000 (2016: £15,192,000).

The financial statements on pages 20 to 45 were approved and authorised for issue by the Board of Directors on 4 December 2017 and were signed on its behalf by:

R. G. Hodgson
Director

Consolidated Statement of Changes In Equity
For the year ended 31 August 2017

	Attributable to the equity holders of the parent							Non-controlling interests	
	Share capital £000	Share premium account £000	Share option valuation reserve £000	Merger reserve £000	Translation reserve £000	Retained earnings £000	Total £000	Retained earnings £000	Total £000
At 31 August 2015	1,831	11,302	497	4,635	(10)	(4,344)	13,911	(220)	13,691
Loss for the year	–	–	–	–	–	(12,875)	(12,875)	–	(12,875)
Other comprehensive income	–	–	–	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	–	(12,875)	(12,875)	–	(12,875)
Transactions with equity holders of the parent									
Issue of new shares	725	1,756	–	–	–	–	2,481	–	2,481
Disposal of non-controlling interest	–	–	–	–	–	–	–	220	220
Costs associated with share issue	–	(163)	–	–	–	–	(163)	–	(163)
Share option charge	–	–	51	–	–	–	51	–	51
	725	1,593	51	–	–	–	2,369	220	2,589
At 31 August 2016	**2,556**	**12,895**	**548**	**4,635**	**(10)**	**(17,219)**	**3,405**	**–**	**3,405**
Profit for the year	–	–	–	–	–	192	192	–	192
Other comprehensive income	–	–	–	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	–	192	192	–	192
Transactions with equity holders of the parent									
Issue of new shares	142	337	–	–	–	–	479	–	479
Share option charge	–	–	(251)	–	–	289	38	–	38
Non-controlling interest disposed	–	–	–	–	10	–	10	–	10
	142	337	(251)	–	10	289	527	–	527
At 31 August 2017	**2,698**	**13,232**	**297**	**4,635**	**–**	**(16,738)**	**4,124**	**–**	**4,124**

Company Statement of Changes In Equity
For the year ended 31 August 2017

	Share capital £000	Share premium account £000	Share option valuation reserve £000	Merger reserve £000	Retained earnings £000	Total £000
Company						
At 31 August 2015	1,831	11,302	497	4,635	839	19,104
Loss for the year	–	–	–	–	(15,192)	(15,192)
Total comprehensive income for the year	–	–	–	–	(15,192)	(15,192)
Transactions with owners						
Issue of new shares	725	1,756	–	–	–	2,481
Costs associated with share issue	–	(163)	–	–	–	(163)
Share option charge	–	–	46	–	–	46
	725	1,593	46	–	–	2,364
At 31 August 2016	**2,556**	**12,895**	**543**	**4,635**	**(14,353)**	**6,276**
Loss for the year	–	–	–	–	(22)	(22)
Total comprehensive income for the year	–	–	–	–	(22)	(22)
Transactions with owners						
Issue of new shares	142	337	–	–	–	479
Share option charge	–	–	(215)	–	247	32
	142	337	(215)	–	247	511
At 31 August 2017	**2,698**	**13,232**	**328**	**4,635**	**(14,128)**	**6,765**

Notes to the Consolidated and Company Statements of Changes in Equity

Share capital and premium
When shares are issued, the nominal value of the shares is credited to the share capital reserve. Any premium paid above the nominal value is taken to the share premium reserve. APC Technology Group PLC shares have a nominal value of 2p per share.

Share option valuation reserve
The share option valuation reserve arises as the expense of issuing share-based payments is recognised over time. The reserve will fall as share options vest and are exercised, and the impact of the subsequent dilution of earnings crystallises, but the reserve may equally rise or see any reduction offset, as new potentially dilutive share options are issued.

Merger reserve
The merger reserve arises where more than 90% of the shares in a subsidiary are acquired and the consideration includes the issue of new shares by the Company, thereby attracting merger relief under the Companies Act 2006.

Retained earnings
The retained earnings reserve records the accumulated profits and losses of the Group since inception of the business. Where subsidiary undertakings are acquired, only profits arising from the date of acquisition are included. Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Consolidated and Company Statement of Cash Flows
For the year ended 31 August 2017

	Note	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Reconciliation of cash flows from operating activities					
Profit/(loss) before taxation including discontinued operations for the financial year		**166**	(12,875)	**(22)**	(15,192)
Impairment loss on assets held for sale		**–**	6,704	**–**	8,330
Loss on write-off of investment in associates		**–**	788	**293**	809
(Gain)/loss on revaluation of investment in associate		**(307)**	307	**(307)**	307
Loss on discontinued subsidiary interests		**–**	1,120	**–**	2,350
Finance costs		**338**	401	**286**	261
Finance income		**–**	(1)	**–**	(1)
Taxation receipts		**26**	29	**–**	–
Depreciation of property, plant and equipment		**90**	95	**34**	27
Decrease in inventories		**248**	846	**121**	140
Decrease/(increase) in trade and other receivables		**766**	(1,025)	**(165)**	(1,944)
(Decrease)/increase in trade and other payables		**(2,084)**	(685)	**(1,205)**	1,583
Share-based payments charge		**38**	51	**32**	46
Net cash used in operating activities		**(719)**	(4,245)	**(933)**	(3,284)
Cash flows from investing activities					
Acquisition of property, plant and equipment		**(13)**	(23)	**(11)**	(9)
Sale of subsidiary undertakings		**641**	–	**641**	–
Sale of investment in associates		**–**	319	**–**	319
Net cash from investing activities		**628**	296	**630**	310
Cash flows from financing activities					
Finance income		**–**	1	**–**	1
Finance costs		**(338)**	(401)	**(286)**	(261)
Proceeds of share issue		**479**	2,318	**479**	2,318
Finance leases		**(21)**	(22)	**–**	–
(Decrease)/Increase in short-term borrowings		**(96)**	1,340	**72**	1,013
Repayment of loan notes		**–**	(60)	**–**	(60)
Net cash from financing activities		**24**	3,176	**265**	3,011
(Decrease)/increase in net cash		**(67)**	(773)	**(38)**	37
Cash and cash equivalents as at 1 September	21	**444**	1,239	**342**	305
(Decrease)/increase in net cash		**(67)**	(773)	**(38)**	37
Cash in assets held for sale		**–**	(22)		–
Cash and cash equivalents as at 31 August	21	**377**	444	**304**	342

1. Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated.

General

APC Technology Group PLC is a public limited company ("the Company") incorporated in the United Kingdom under the Companies Act 2006 (registration number 01635609).

The Company is domiciled in the United Kingdom and its registered address is 6 Stirling Park, Laker Road, Rochester, Kent ME1 3QR. The Company's Ordinary Shares are traded on AIM of the London Stock Exchange. The Group's principal activity is the design, specification, and distribution of specialist electronic components and systems.

Basis of preparation

Statement of compliance

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets at fair value, as required by IAS 39 'Financial Instruments: Recognition and Measurement'. The basis of consolidation is set out below. These financial statements have been prepared in accordance with IFRS as adopted by the European Union, and with those parts of the Companies Acts applicable to companies reporting under IFRS.

A separate statement of comprehensive income for the parent company has not been presented as permitted by section 408(3) of the Companies Act 2006. The parent company incurred a loss after tax of £22,000 (2016: loss £15,192,000).

Functional and presentational currency

These consolidated financial statements are presented in UK sterling, which is the Company's functional currency. All financial information presented in UK sterling has been rounded to the nearest thousand unless otherwise stated.

Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts in the financial statements. The areas involving a higher degree of judgement or complexity, or areas where assumptions or estimates are significant to the financial statements, are disclosed below.

Going concern basis of accounting

The financial statements have been prepared on a going concern basis, as management believes the Group will be able to meet its liabilities as they fall due.

In the financial year, there was a cash outflow from operating activities of £719,000 which was heavily influenced by a reduction of £2,084,000 in trade and other payables, while improved control over working capital also achieved decreases in trade and other receivables and inventory levels.

The cash requirement of the Group was funded partly by trading, partly by improved working capital management and partly by two share subscriptions by existing shareholders and Board members, which raised a total of £479,000, and £641,000 proceeds from the sale of the water business. These measures enabled a reduction of £96,000 in short-term borrowings and a significant reduction of over £2 million in amounts due to suppliers and other creditors.

Management has examined going concern against a detailed profit, working capital, and cash flow forecast to December 2018, which reflects the matters discussed in the preceding paragraph but does not reflect any additional share placings, new debt facilities, nor sale of any assets other than in the normal course of business. Based upon this review, the continuation of the £6,000,000 invoice discounting facility with ABN, which has no fixed termination date, agreement of extended payment terms with suppliers as necessary, and other prudent working capital management, the Board believes that the Group will continue to be able to meet its liabilities as they fall due. Management also has the ability to raise capital through issuance of additional loan notes, further private share placings, or sale of additional assets if required.

Accounting developments

During the current year, the Group adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board ("IASB") and the IFRS Interpretations Committee of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 September 2016. There is no impact on the financial statements of these adoptions.

At the date of approval of these financial statements the following Standards and Interpretations relevant to the Group were in issue but not yet effective and therefore have not been applied in these financial statements:

- IFRS 9: 'Financial Instruments' – effective for annual periods on or after 1 January 2018
- IFRS 15: 'Revenue from Contracts with Customers' – effective for annual periods on or after 1 January 2018
- IFRS 16: 'Leases' – effective for annual periods on or after 1 January 2019

- IFRS 2 'Amendments: Classification and Measurement of Share-based payment transactions' – effective for annual periods on or after 1 January 2018
- IFRIC 23: 'Uncertainty over Income Tax Treatments' – effective for annual periods on or after 1 January 2019.

The Directors do not anticipate that the adoption of these Standards and Interpretations will have a significant impact on the financial statements of the Group. The Directors have particularly considered the impact of IFRS 15 to the Group's revenue recognition policies. The accounting policy for recognising the revenue is not expected to change when the rules under IFRS 15 are applied. A further detailed review of the policy for recognising revenue will be required when IFRS 15 is adopted. The Directors do not expect a material impact on the Group financial statements in the period of initial application.

There were no other Standards or Interpretations, which were in issue but not yet effective at the date of authorisation of these financial statements, that the Directors anticipate will have a material impact on the financial statements of the Group.

Revenue

Revenue represents income for the sales of goods and services, net of discounts, returns and rebates, to external customers at invoice value less value added tax. Revenue is recognised when the services have been provided or goods are despatched and the risks and rewards of ownership have been transferred to the customer, there is no continuing management involvement and the amount of revenue can be measured reliably. Commission income is recognised when payment has been received from the principal.

Contracts for which progress billings exceed costs incurred plus recognised profits are presented as deferred income/revenue.

Basis of consolidation

The consolidated statement of comprehensive income and statement of financial position include the accounts of the Company and all its subsidiaries made up to 31 August 2017. The results of subsidiaries acquired are included in the consolidated statement of comprehensive income from the date control passes. Intra-group revenues and profits are eliminated fully on consolidation.

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date.

Goodwill

Goodwill represents the excess of the cost of a business combination over, in the case of business combinations completed prior to 1 January 2010, the Group's interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired and, in the case of business combinations completed on or after 1 January 2010, the total acquisition date fair value of the identifiable assets, liabilities and contingent liabilities acquired.

For business combinations completed prior to 1 January 2010, cost comprises the fair value of assets given, liabilities assumed and equity instruments issued, plus any direct costs of acquisition. Changes in the estimated value of contingent consideration arising on business combinations completed by this date are treated as an adjustment to cost and, in consequence, result in a change in the carrying value of goodwill.

For business combinations completed on or after 1 January 2010, cost comprises the fair value of assets given, liabilities assumed and equity instruments issued, plus the amount of any non-controlling interests in the acquiree plus, if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree. Contingent consideration is included in cost at its acquisition date fair value and, in the case of contingent consideration classified as a financial liability, re-measured subsequently through profit or loss. For business combinations completed on or after 1 January 2010, direct costs of acquisition are recognised immediately as an expense.

Goodwill is capitalised as an intangible asset. Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the consolidated statement of comprehensive income on the acquisition date.

Goodwill is reviewed for impairment at least every six months. The recoverable amount is estimated at each statement of financial position date. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Any impairment is recognised immediately in the statement of comprehensive income and is not subsequently reversed.

1. Accounting policies continued

Intangible assets
The fair value of acquired customer contracts is capitalised and, subject to impairment reviews, amortised over the estimated life of the customer contracts acquired of seven years. The amortisation is calculated so as to write off the fair value of the customer contracts less their estimated residual values. An impairment review of customer contracts is undertaken when events or circumstances indicate the carrying amount may not be recoverable.

Research and development
In accordance with IAS 38 'Intangible Assets', expenditure incurred on research and development, is distinguished as relating to a research phase or to a development phase. All research phase expenditure is charged to the statement of income. Development expenditure is capitalised as an internally generated intangible asset only if it meets strict criteria, relating in particular to technical feasibility and generation of future economic benefits. Expenditure that cannot be classified into these two categories is treated as being incurred in the research phase.

Expenditure capitalised is amortised over its useful economic life, up to a maximum of 15 years from entry into service of the product. Amortisation is included within administrative expenses in the consolidated statement of income.

Property, plant and equipment
Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life:

Short leaseholds	Over the remaining period of the lease – straight line
Plant and machinery	Straight line between 3 and 5 years
Fixtures, fittings, tools and equipment	Straight line between 3 and 5 years
Motor vehicles	Straight line between 3 and 5 years

Property, plant and equipment are measured at historical cost less accumulated depreciation.

Impairment reviews of fixed assets are undertaken if there are indications that the asset's recoverable amount may be less than the carrying values.

Investments
Investments in subsidiary undertakings held as non-current assets are stated at cost less any provision for impairment. Investment in assets available for sale are carried at fair value and any movement in fair value is recognised in the statement of comprehensive income.

Where financial assets are stated at fair value, any gains or losses arising in the re-measurement are recognised in the profit or loss. Fair value is determined in the manner described in Note 13.

Inventories
Inventories are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow moving items, on a first in first out basis.

Taxation
The taxation expense represents the sum of the tax currently payable and deferred tax. Tax currently payable is based on taxable profits or losses for the period and is calculated using enacted tax rates.

Deferred taxation is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The Group has chosen not to adopt a policy of discounting the deferred tax provision. Deferred tax assets are recognised only to the extent that the Directors consider it more likely than not that there will be suitable profits from which the future reversal of the temporary differences can be deducted.

Foreign currencies
Assets and liabilities in foreign currencies are translated into sterling at the rate of exchange ruling at the statement of financial position date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transactions. Resulting exchange differences are taken into account in arriving at the operating result.

Leases

Property, plant and equipment

Leases where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased asset and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The remaining future rental obligations, net of finance charges, are included in finance lease liabilities in current or non-current liabilities. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

Other

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Pension

The Group operates a stakeholder defined contribution scheme for Directors and staff and also contributes to personal pension schemes of other Directors and staff. The assets of the scheme are held separately from those of the Group in an independently administered fund. Contributions are charged to the statement of comprehensive income when they fall due for payment or when the employee provides the services giving rise to the pension contribution.

Financial instruments

The Group classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial assets are recognised when the Group has rights or other access to economic benefits. Such assets consist of cash, a contractual right to receive cash or other financial assets, or a contractual right to exchange financial instruments with another entity on potentially favourable terms. Financial liabilities are recognised when there is an obligation and that obligation is a contractual liability to deliver cash or another financial asset or exchange financial instruments with another entity on potentially unfavourable terms. When these criteria no longer apply, a financial asset or liability is no longer recognised.

Financial assets and liabilities are recognised at fair value, which in the case of trade receivables and trade payables is similar to cost, and are detailed in Note 21.

Where the fair value of an asset falls below the asset's carrying value, any difference is, in the case of non-current assets, provided for, if it is regarded that the impairment is permanent. In the case of current assets, provision is made only to the extent that it is considered as resulting in a lower net realisable value.

Invoice discounting

The Group has an agreement with ABN Amro Commercial Finance whereby its trade receivables are invoice discounted, with recourse after 120 days. On the basis that the benefits and risks attaching to the debts remain with the Company, the gross debts are included as an asset within trade receivables and the proceeds received are included within current liabilities as short-term borrowings under invoice discounting facilities.

Share options

The Group issues equity-settled share-based payments to certain employees in the form of share options over shares in the parent company. Equity-settled share-based payments are measured at fair value at the date of the grant, calculated using an independent valuation model, taking into account the terms and conditions upon which the options were granted. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each statement of financial position date. The fair value is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest, with the corresponding credit to equity.

1. Accounting policies continued

Critical accounting estimates and judgements

The preparation of these consolidated financial statements requires the Directors to make judgements and estimates that affect the reported amounts of assets and liabilities at each reporting date and the reported amounts of revenue and profits during the reporting periods. Actual results could differ from these estimates. Information about such judgements and estimations are contained in individual accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting judgements will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

- Goodwill has been tested for impairment by comparing the amount of goodwill against a multiple of forecast profit and/or revenue expected to be generated in the future by the appropriate cash-generating unit. The basis of review of the carrying value of goodwill is detailed in Note 10. Management do not consider that any reasonably foreseeable changes in the key assumptions would result in an impairment of the goodwill allocated.
- The recoverability of investment in subsidiaries, associated and other financial assets has been tested for impairment by comparing the cost of the asset against a multiple of forecast profit and/or revenue expected to be generated in the future by the appropriate cash-generating unit, and discounted at a rate of 10%.
- The fair value of share-based payments is measured using an option pricing model which inherently makes use of significant estimates and assumptions concerning the future applied by the Directors. Further detail can be found in Note 18.
- The valuation of the investment in Open Energy Market Limited ("OEM") has been valued on a fair value hierarchy level 3 basis. Given the upturn in the OEM business and the lack of observable inputs the investment was revalued at cost which as at 31 August 2017 was £307,000. Further detail can be found in Note 13.

2. Revenue and segmental information

Operating segments

IFRS 8 'Operating Segments', requires consideration of the chief operating decision maker ("CODM") within the Group. In line with the Group's internal reporting framework and management structure, the key strategic and operating decisions are made by the CEO, who reviews internal monthly management reports, budget and forecast information as part of this process.

Accordingly, the CEO is deemed to be the CODM.

As a result of the sale of Green Compliance Water Division Limited in the previous year, the Company determined that it now has only a single reportable segment, being the design, specification and distribution of specialist electronic components and systems.

The Group had no customers representing over 10% of revenue (2016: £2,168,000).

Revenue by product and service

	2017 £000	2016 £000
Electronic Components	**11,214**	10,894
LED Lighting	**3,504**	6,114
Consulting	**846**	953
	15,564	17,961

Revenue by geographic location

	2017 £000	2016 £000
UK	**15,216**	16,996
North America	**82**	235
Europe and Asia	**266**	730
	15,564	17,961

3. Operating profit

The operating profit is stated after charging/(crediting):

	2017 £000	2016 £000
Operating leases – land and buildings	**145**	176
Operating leases – motor vehicles	**145**	195
Operating leases – plant and machinery	**–**	14
Depreciation – owned assets	**72**	67
Depreciation of assets held under hire purchase agreements	**18**	28
Loss on foreign exchange	**38**	293
Auditors' remuneration – audit of parent company and consolidated accounts	**45**	80
Auditors' remuneration – audit of subsidiary company	**30**	60
Directors' emoluments	**476**	741
Gain on disposal of fixed assets	**(8)**	–
Share based payments	**38**	51

4. Exceptional and non-recurring expenses

	2017 £000	2016 £000
Corporate re-organisation – compromise agreements and redundancy costs	**399**	1,543
Corporate re-organisation – professional fees	**68**	200
Corporate re-organisation – dilapidations and onerous lease provisions	**57**	254
Corporate re-organisation – third party creditors	**(335)**	–
Costs associated with aborted contract	**24**	736
Foreign exchange loss arising from unprecedented market volatility	**39**	293
	252	3,026

Exceptional items are items that, by virtue of their nature and incidence, have been disclosed separately in order to draw them to the attention of the reader of the financial information. These costs are deemed as exceptional as they do not represent normal trading activities of the business.

5. Net financing

	2017 £000	2016 £000
Financing income		
Other interest receivable	**–**	1
Financing costs		
Other interest payable	**174**	158
Other finance costs	**164**	174
	338	332

6. Employee information

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Wages and salaries	**2,922**	3,606	**1,850**	2,032
Social security costs	**388**	441	**237**	252
Private health costs	**36**	43	**32**	35
Defined contribution pension costs	**107**	67	**757**	46
Share option charge	**37**	51	**32**	45
	3,490	4,208	**2,908**	2,410

The remuneration of the highest paid Director is shown in the report of the Remuneration Committee on page 16.

The average monthly number of employees (including Directors) comprised:

	Group 2017 Number	Group 2016 Number	Company 2017 Number	Company 2016 Number
Sales and distribution	**28**	42	**22**	32
Operations and administration	**48**	56	**30**	31
	76	98	**52**	63

7. Taxation

(a) Analysis of charge in period

	2017 £000	2016 £000
Current tax:		
UK corporation tax on profits for the current year	**–**	–
Adjustments in respect of prior years	**(26)**	–
Total current tax	**(26)**	–
Deferred tax	**–**	–
Tax credit on profit on continuing operations	**(26)**	–

(b) Factors affecting the tax charge for the period

The tax charge for the period is different to the standard rate of corporation tax in the UK. The composite rate of corporation tax for this purpose has been taken as 19.58% for 2017 (2016: 20.00%).

The differences are explained below:

	2017 £000	2016 £000
Profit/(loss) on continuing operations before tax	**166**	(3,086)
Rate of corporation tax	**19.58%**	20.00%
Tax on profit based on standard rate	**32**	(617)
Effects of:		
Expenses not deductible for tax purposes	**(106)**	25
Deferred tax not recognised	**74**	592
Prior period adjustments	**(26)**	–
Total tax credit for the period	**(26)**	–

Deferred income tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related benefit through future taxable profits is probable. At 31 August 2017, the Group/Company had tax losses carried forward of £5,759,000/£1,891,000 for which no deferred income tax asset has been recognised due to uncertain future profits.

8. Discontinued operations and assets held for sale

The following lines of business were discontinued during the previous year, or were sold subsequent to 31 August 2016 and accordingly were classified as an asset held for sale in that year.

Green Compliance Water Division Limited was sold subsequent to 31 August 2016 and was classified as an asset held for sale in that year. The assets and related liabilities were separately disclosed on the balance sheet and were valued at net realisable value.

Discontinued operations are comprised of the following:

	Ownership	2016 £000
Discontinued in 2015		
Green Compliance Limited and subsidiaries	100%	354
Minimise Generation Limited	100%	(275)
		79
Discontinued in 2016		
Minimise Energy Solutions Limited	100%	(5)
Minimise Energy Canada Limited	60%	(738)
Minimise Energy America LLC	60%	(328)
Invisible Systems Holdings Limited	25%	(788)
Open Energy Market Limited	15%	(307)
Isotera distributed product line of business	–	(87)
		(2,253)
Asset held for resale		
Green Compliance Water Division Limited	100%	(7,615)
		(9,789)

Summarised results of discontinued operations are as follows:

Year ended 31 August 2017
There were no results from discontinued operations in the current year.

Year ended 31 August 2016	Revenue £000	Expense £000	Pre-tax profit/(loss) £000	Gain/(loss) on disposal £000	Total £000
Discontinued in 2015					
Green Compliance Limited and subsidiaries	–	354	354	–	354
Minimise Generation Limited	–	(275)	(275)	–	(275)
	–	79	79	–	79
Discontinued in 2016					
Minimise Energy Solutions Limited	9	(14)	(5)	–	(5)
Minimise Energy Canada Limited	286	(431)	(145)	(593)	(738)
Minimise Energy America LLC	15	(24)	(9)	(319)	(328)
Invisible Systems Holdings Limited	–	–	–	(788)	(788)
Open Energy Market Limited	–	–	–	(307)	(307)
Isotera distributed product line of business	–	(87)	(87)	–	(87)
	310	(556)	(246)	(2,007)	(2,253)
Discontinued in 2016					
Green Compliance Water Division Limited	6,662	(7,550)	(888)	(6,727)	(7,615)
	6,972	(8,027)	(1,055)	(8,734)	(9,789)

8. Discontinued operations and assets held for sale continued

Cash flows from/(used in) discontinued operations are as follows:

	2016 £000
Discontinued in 2015	
Operating activities	(408)
Financing activities	–
	(408)
Discontinued in 2016	
Operating activities	(302)
Investing activities	319
	17
Asset held for resale	
Operating activities	(1,238)
Financing activities	(115)
	(1,353)
	(1,744)

The assets and liabilities held for sale at 31 August 2016 were comprised of the following and were stated at net realisable value:

	2016 £000
Assets held for sale	
Intangible assets	1,426
Inventories	119
Trade and other receivables	1,469
Cash and cash equivalents	22
	3,036
Liabilities related to assets held for sale	
Trade and other payables	1,517
Borrowings	878
	2,395
Net assets held for sale	641

9. Earnings per share

The calculation of basic earnings per share is based on the profit after taxation attributable to equity holders of the parent company for the period and the weighted average number of shares in issue during the period.

Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding by the dilutive effect of Ordinary Shares that the Company may potentially issue relating to its share option scheme.

Earnings per share on operating profit, before exceptional costs, share based payments and loss on discontinued operations, are considered to be the most realistic measure of earnings and the calculation is based on the weighted average number of shares.

The result for the year and the weighted average number of shares used in the calculations are set out below:

	2017 £000	2016 £000
Continuing earnings/(loss) attributable to equity holders of the parent	**192**	(3,086)
Discontinuing earnings/(loss) attributable to equity holders of the parent	**–**	(9,789)
From profit/(loss) for the year	**192**	(12,875)
Earnings: operating profit before exceptional and non-recurring expenses, share based payments, amortisation and loss on discontinued operations	**794**	322
Weighted average number of shares (thousands)	**130,326**	103,678
Dilutive/free shares	**917**	28
Diluted number of shares	**131,243**	103,706

10. Intangible non-current assets

The goodwill balance brought forward arose partly on the acquisition of Silver Birch Marketing Limited and Go! Technology Limited in 2003, partly on the acquisition of Hero Electronics Limited in 2006, partly through the acquisition of Novacom Microwaves Limited and Contech Electronics Limited in 2008 and partly through the acquisition of the business assets and trade of Quo Vadis Limited in 2011. The Company's goodwill arises on the transfer to the Company of the net assets of wholly-owned subsidiaries and represents the excess of the consideration for the transfer over book value of the assets transferred.

The Directors have undertaken an impairment review of the carrying value of the Group's and Company's goodwill as at 31 August 2017, based on the current and anticipated performance of each cash-generating unit. The impairment review of goodwill was based on forecast income for each business segment and reflects past experience where appropriate. Forecasts cover a 12-year period (cash flow projections for five years plus a terminal value), reflecting the long-term nature of the businesses. The calculations are based on future operating cash flows derived using management's latest forecasts and can be summarised as follows:

Cash-generating unit	Carrying value of goodwill £000	Period over which cash flows have projected	Growth rate beyond management approved forecasts	Discount rate for cash flow projections
Electronic Components	2,583	5 years	0% – 3%	10.2%
LED Lighting	4,539	5 years	0% – 3%	10.2%
Consulting	256	5 years	0% – 3%	10.2%

The cash-generating unit is equivalent to the business segment.

The Directors are satisfied that any reasonable changes made to the underlying assumptions made in the impairment review would not result in a change to the carrying value of the goodwill.

The movement in intangible assets during the year arose as follows:

Group	Note	Development costs £000	Customer list £000	Goodwill £000	Total £000
Cost					
Balance at 31 August 2015		116	4,832	12,325	17,273
Disposal/transfer to asset held for sale		–	(4,832)	(4,817)	(9,649)
Balance at 31 August 2016 and 2017		**116**	**–**	**7,508**	**7,624**
Amortisation					
Balance at 31 August 2015		100	690	130	920
Impairment		17	–	–	17
Disposal/transfer to asset held for sale	8	(1)	(690)	–	(691)
Balance at 31 August 2016 and 2017		**116**	**–**	**130**	**246**
Net book value					
as at 31 August 2016		–	–	7,378	7,378
as at 31 August 2017		**–**	**–**	**7,378**	**7,378**

Company	Goodwill £000	Total £000
Cost		
Balance at 31 August 2016	2,583	2,583
Balance at 31 August 2017	**2,583**	**2,583**
Amortisation		
Balance at 31 August 2016	–	–
Balance at 31 August 2017	**–**	**–**
Net book value		
as at 31 August 2016	2,583	2,583
as at 31 August 2017	**2,583**	**2,583**

11. Property, plant and equipment

Group	Short leaseholds £000	Plant and machinery £000	Fixtures, fittings, tools and equipment £000	Motor vehicles £000	Total £000
Cost					
As at 31 August 2015	252	80	160	106	598
Additions	–	–	23	–	23
Disposals	–	(37)	(4)	–	(41)
As at 31 August 2016	252	43	179	106	580
Additions	2	–	11	–	13
Disposals	–	–	–	(64)	(64)
As at 31 August 2017	**254**	**43**	**190**	**42**	**529**
Depreciation					
As at 31 August 2015	188	50	79	54	371
Charge for the year[1]	24	3	40	28	95
Disposals	–	(18)	–	–	(18)
As at 31 August 2016	212	35	119	82	448
Charge for the year[1]	24	3	45	18	90
Disposals	–	–	–	(64)	(64)
As at 31 August 2017	**236**	**38**	**164**	**36**	**474**
Net book value					
As at 31 August 2015	64	30	81	52	227
As at 31 August 2016	40	8	60	24	132
As at 31 August 2017	**18**	**5**	**26**	**6**	**55**

1 Depreciation charged during the year is presented in administrative expenses in the consolidated statement of income.

Company	Short leaseholds £000	Plant and machinery £000	Fixtures, fittings, tools and equipment £000	Total £000
Cost				
As at 31 August 2015	161	3	79	243
Additions	–	–	9	9
As at 31 August 2016	161	3	88	252
Additions	–	–	11	11
As at 31 August 2017	**161**	**3**	**99**	**263**
Depreciation				
As at 31 August 2015	143	1	49	193
Charge for the year	9	–	18	27
As at 31 August 2016	152	1	67	220
Charge for the year	8	1	25	34
As at 31 August 2017	**160**	**2**	**92**	**254**
Net book value				
As at 31 August 2015	18	2	30	50
As at 31 August 2016	9	2	21	32
As at 31 August 2017	**1**	**1**	**7**	**9**

12. Investment in subsidiary undertakings

	2017 £000	2016 £000
Company		
Cost as at beginning of year	**6,176**	10,935
Impairment of subsidiary investment held for resale	**–**	(4,118)
Impairment of subsidiary investment dissolved	**(293)**	–
Transfer to asset held for sale	**–**	(641)
Cost as at end of year	**5,883**	6,176

Further detail on the impairment of the subsidiary investment and the transfer to asset held for sale can be found in Note 8.

Details of the Company's subsidiaries, associates and other investments at 31 August 2017 were as follows:

Name	Place of incorporation	Proportion of ownership	Principal activity
Active subsidiaries			
Minimise Energy Limited*	England and Wales (A)	100%	Supply of LED lights
Minimise Solutions Limited*	England and Wales (A)	100%	Energy savings solutions
EEVS Insight Limited*	England and Wales (A)	100%	Energy savings solutions
Dormant subsidiaries			
Advanced Power Components Limited*	England and Wales	100%	
Novacom Microwaves Limited *	England and Wales	100%	
Contech Electronics Limited*	England and Wales	100%	
Hero Electronics Limited*	England and Wales	100%	
Minimise Water Limited**	England and Wales	100%	
Minimise Group Limited*	England and Wales	100%	
Minimise Energy Canada Limited***	Canada	60%	
Minimise Controls Limited**	England and Wales (D)	100%	
Minimise Energy Solutions Limited*	England and Wales (D)	100%	
Minimise Generation Limited**	England and Wales (D)	100%	
Green Compliance Limited*	England and Wales (D)	100%	
Simon West Limited****	England and Wales (D)	100%	
Green Compliance Energy Consultancy Limited****	England and Wales (D)	100%	
Innovative HIP Limited****	England and Wales (D)	100%	
Pure Group Management Limited****	England and Wales (D)	100%	
Pure Commissioning Limited*****	England and Wales (D)	100%	
Water Pure Systems Limited*****	England and Wales (D)	100%	
Green Compliance Fire Services Limited****	England and Wales (D)	100%	
Green Compliance Fire 4 Limited****	England and Wales (D)	100%	
Ridgegate Limited****	England and Wales (D)	100%	
Green Compliance Pest and Environmental Services Limited****	England and Wales (D)	100%	
Other investments			
Open Energy Market Limited	England and Wales	15%	Energy procurement

* Subsidiary of APC Technology Group PLC
** Subsidiary of Minimise Group Limited
*** Subsidiary of Minimise Holdings USA Inc
**** Direct subsidiary of Green Compliance Limited
***** Indirect subsidiary of Green Compliance Limited

(D) Company in course of dissolution at 31 August 2017.
(A) Company has been audited, all other subsidiaries are exempt from audit at 31 August 2017.

All UK subsidiaries are registered at 6 Stirling Park, Laker Road, Rochester, Kent ME1 3QR.

13. Associates and other financial assets

	Note	Associates £000	Other investments £000	Total £000
As at 31 August 2015		1,224	300	1,524
Acquisition of shares in Open Energy Market Limited		–	7	7
Revaluation		–	(307)	(307)
Disposal of associates		(1,224)	–	(1,224)
As at 31 August 2016		–	–	–
Revaluation		–	307	307
As at 31 August 2017		–	307	307

Other investments relate to the Group's purchase of shares in Open Energy Market Limited ("OEM"), a company incorporated in England and Wales. OEM's principal activity consists of energy procurement. At the year-end the Group owns 15% of the issued share capital. The valuation of the investment in OEM has been valued on a fair value hierarchy level 3 basis. Given the upturn in the OEM business and the lack of observable inputs, the investment was revalued as at 31 August 2017 to £307,000.

14. Inventories

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Finished goods	**832**	1,080	**320**	441

The cost of inventories recognised as expense and included in cost of sales amounted to £9,450,000 (2016: £9,774,000). The Directors have reassessed the level of stock provisioning required in the light of stock utilised during the year and potential sales opportunities available in the foreseeable future. This has resulted in a net reduction in provisions of £67,000 (2016: increase £43,000).

15. Trade and other receivables

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Trade receivables	**2,856**	3,377	**2,144**	2,246
Amounts owed by subsidiary undertakings	**–**	–	**1,068**	668
Other receivables	**5**	146	**5**	66
Prepayments	**124**	228	**34**	106
	2,985	3,751	**3,251**	3,086

The aged analysis of trade receivables is shown in Note 21 Financial instruments.

The amounts owed by subsidiary undertakings are without interest.

During the year the Group had a flexible debt finance facility with ABN Amro Commercial Finance through which the majority of its trade receivables were eligible to be discounted, with recourse after 120 days. The gross amount of these trade receivables is shown above. At 31 August 2017, the Group had drawn down advances totalling £2,502,000 (2016: £2,711,000) which are shown in Note 16 under short term bank borrowings under invoice discounting facility. The facility was renewed in May 2017 and is a rolling facility with no contractual end date. It is secured by a fixed charge over the debtors book and floating charge over all other assets.

16. Current liabilities

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Trade payables	**2,041**	2,931	**1,782**	2,281
Other taxes and social security	**300**	734	**229**	575
VAT payable	**403**	429	**329**	290
Borrowings under invoice discounting facility	**2,502**	2,711	**1,902**	1,942
Other short-term borrowings – unsecured	**405**	294	**405**	293
Loan notes	**555**	–	**555**	–
Finance leases	**16**	22	**–**	–
Accruals and other payables	**1,588**	2,322	**690**	1,089
	7,810	9,443	**5,892**	6,470

17. Non-current liabilities

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Loan notes	–	555	–	555
Finance leases	–	23	–	–
	–	578	–	555

Loan notes

The Group has a convertible loan note instrument, of which £555,000 was drawn at the year-end, which bears interest at 10% with a 31 July 2018 maturity date, shown under current liabilities. These interest rates are fixed and the Group is therefore not exposed to changes in interest rates in respect of these liabilities.

The conversion option on the loan notes constitutes an embedded derivative and is measured at fair value on an annual basis, with movements taken to the income statement. The Directors have assessed the fair value of the embedded derivative to be £nil.

Finance leases

The Group has entered into a number of finance leases with Volkswagen Finance. Each lease is based on a 48-month contract. The non-current portion of the lease was £nil at 31 August 2017 (2016: £23,000). Motor vehicles disclosed in property, plant and equipment with a net book value of £15,000 (2016: £25,000) are secured under this lease.

18. Share capital

Group and Company	**No. of shares**	**2017 £000**	No. of shares	2016 £000
Allotted, issued and fully paid:				
At 31 August 2017	**134,912,990**	**2,698**	127,804,777	2,556

The holders of Ordinary Shares are entitled to receive dividends, if declared, and are entitled to vote at general meetings of the Company. All shares have been admitted to trading on AIM.

During the year under review the following Ordinary Shares of 2p each were issued by the Company:

Reason for issue	Date	Shares	Price
Share subscription	15/03/2017	3,034,139	6.75p
Share subscription	23/05/2017	4,074,074	6.75p
Total shares issued in year		7,108,213	
Shares in issue at 31 August 2016		127,804,777	
Shares in issue at 31 August 2017		**134,912,990**	

18. Share capital continued

Share options

The following options over the Company's Ordinary Shares were outstanding at 31 August 2017:

	Date granted	Earliest date exercisable	Latest date exercisable	Ordinary Shares of 2p	Exercise price
2003 Employee Share Option Scheme	23/01/2008	see note b	22/01/2018	25,000	14.75p
	23/04/2008	see note b	22/04/2018	57,500	18.50p
	10/07/2008	see note b	09/07/2018	100,000	17.00p
	22/01/2010	see note b	21/01/2020	55,000	10.00p
	29/09/2010	see note b	28/09/2020	50,000	11.25p
	25/02/2011	see note b	24/02/2021	500,000	12.75p
	30/05/2012	see note b	29/05/2022	28,000	7.50p
	20/09/2012	see note b	19/09/2022	88,750	10.00p
	20/12/2012	see note b	19/12/2022	100,000	15.25p
2013 Employee Share Option Scheme	05/09/2013	see note c	04/09/2023	250,000	32.50p
	24/09/2013	see note c	23/09/2023	500,000	38.75p
	27/03/2014	see note c	26/03/2024	120,000	53.25p
	18/07/2014	see note c	17/07/2024	300,000	32.50p
	26/02/2015	see note d	25/02/2025	1,000,000	22.00p
Long Term Incentive Plan	25/02/2016	See note f	25/02/2026	917,431	No cost
				4,091,681	

No unapproved options were outstanding at 31 August 2017.

No options were exercisable at 31 August 2017. The weighted average remaining contractual life of share options outstanding at 31 August 2017 was 5 years and 9 months.

Reconciliation of movement in share options outstanding

	Weighted average exercise price	Ordinary Shares of 2p
Share options outstanding as at 31 August 2015	**25.28p**	**7,981,355**
Issued	0.00p	917,431
Lapsed	29.30p	(1,809,643)
Exercised (weighted average share price at exercise 9.63p)	10.00p	(30,000)
Share options outstanding as at 31 August 2016	**24.72p[1]**	**7,059,143**
Lapsed	30.87p	(2,967,462)
Share options outstanding as at 31 August 2017	**25.67p**	**4,091,681**

1 Calculation excludes no-cost options.

Notes:

a. On 17 June 2003 the Board of Directors approved a share option scheme, the 2003 Employee Option Scheme ("the 2003 Scheme"). The scheme, which operates under the guidelines of the Government's Enterprise Management Incentive (EMI), provides for options to be exercisable at a pre-determined exercise price, subject to attainment of performance conditions over a three-year period. Options are exercisable in tranches depending on the Group's cumulative growth in pre-tax earnings over a three-year period. This process operates on a sliding scale for growth levels between RPI and RPI plus 16%.

b. On 19 April 2011 the Board of Directors amended the performance criteria of the options granted under the 2003 Scheme so that shares would vest over a five-year period following grant, depending on achievement of the Group's budgeted profit before tax. Previously performance conditions were linked to the growth in the Company's earnings per share in the financial years following the grant of the option. The change was made to ensure that the performance criteria were more easily understood by employees and were more directly related to employee performance.

c. On 6 September 2013 the Board approved a new share option scheme, the 2013 Employee Option Scheme ("the 2013 Scheme"). This scheme replaces the 2003 scheme for any options granted from 1 September 2013 onwards and also operates under EMI rules. Under the 2013 Scheme shares vest over a six-year period following the grant depending on achievement of the Group's budgeted profit before tax.

d. The options granted to Executive Directors on 26 February 2015 under the 2013 Scheme are subject to separate performance conditions linked to increases in the Company's share price.

e. The options to Non-executive Directors were granted with exercise prices equal to or greater than the market price ruling on the respective dates of the grant. These options were not granted under the 2003 or 2013 Schemes, but were subject to the same performance conditions as the options granted under those schemes and were exercisable in tranches, as described in note a to c above. No such options remained outstanding at 31 August 2017.

f. On 25 February 2016 the Board approved the APC Technology Group PLC Long Term Incentive Plan, in order to provide an appropriate incentive for Executive Directors and senior management. The first award under this plan, also on 25 February 2016, was the grant of nil cost options over 917,431 shares. These options vest on 25 February 2019, subject to continuous employment in the Company, and are exercisable at any time from that vesting date until 25 February 2026.

The middle market price of the Company's shares at 31 August 2017 was 6.75p. During the year under review the middle market price range was 5.625p to 8.75p.

In accordance with IFRS 2 a share option charge of £38,000 (2016: £51,000) has been made to the consolidated statement of income.

The following additional information is relevant to the determination of the fair value of the options:

	2017	2016
Option pricing model used	**Monte-Carlo**	Monte-Carlo
Share price	**At date of grant : 25.5p**	At date of grant : 25.5p
	Exercise price : 22.0p	Exercise price : 22.0p
Expected annualised volatility	**70.47%**	70.47%
Expected life of option	**2 years 11 months**	2 years 11 months
Expected dividend yield	**Nil**	Nil
Risk free interest rate	**0.72%**	0.72%

Expected annualised volatility has been based on an evaluation of the historical volatility of the Company's share price for the five years prior to the issuance of the option.

On 24 September 2013, the Company granted a warrant to its former Nominated Adviser, Strand Hanson Limited, to subscribe for up to 576,670 shares at an exercise price of 17.75p per share, expiring on 25 September 2018. 190,000 warrants were exercised in December 2013 and 386,670 warrants remain outstanding.

On 5 August 2016, the Company issued warrants to all participants in the share placing on that date, on the basis of two warrants for every five placing shares. Each warrant gives the holder the right to subscribe for one Ordinary Share in the Company at an exercise price of 10p per share, at any time up to 5.00 p.m. on 4 August 2018. The total number of warrants issued was 5,500,000 and these all remained outstanding at 31 August 2017.

19. Operating lease obligations

As at 31 August 2017 the Group had future aggregate minimum commitments under non-cancellable leases expiring as shown below:

	Group 2017 £000	Group 2016 £000	**Company 2017 £000**	Company 2016 £000
Land and buildings				
Payable in less than one year	**115**	211	**40**	136
Payable between one and five years	**21**	190	**2**	46
Payable in five years or more	**–**	–	**–**	–
	136	401	**42**	182
Motor vehicles				
Payable in less than one year	**76**	100	**40**	50
Payable between one and five years	**32**	80	**26**	37
	108	180	**66**	87
Other				
Payable in less than one year	**–**	14	**–**	14
Payable between one and five years	**–**	32	**–**	32
	–	46	**–**	46

20. Financial instruments (Group and Company) – risk management

The Group's overall risk management programme seeks to minimise potential adverse effects on the Group's financial performance.

The Group's financial instruments comprise cash and liquid resources and various items such as trade payables and receivables that arise directly from its operations. The Group is exposed to the following risks:

- Credit risk
- Foreign currency risk
- Liquidity risk
- Fair value interest rate risk

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risk management policies. The objective of the Board is to set policies that seek to reduce the risk as far as possible without unduly affecting the Group's competitiveness and effectiveness.

Further details of these policies are set out below:

Credit risk
The Group is exposed to credit risk primarily on its trade receivables, which are spread over a range of customers. There are no specific concentrations of credit risk. The maximum credit risk exposure relating to financial assets is represented by their carrying value at the statement of financial position date.

The Group assesses the risk associated with each customer based on independent credit rating agency reports and on its own experience with the customer before entering into binding contracts. Each customer account is reviewed on an on-going basis based on available information and payment history.

The maximum exposure to credit risk is represented by the carrying values of trade receivables in the consolidated and Company statement of financial position as shown in Note 15.

The credit risk on liquid funds is limited as the funds are held at banks with high credit ratings assigned by international credit rating agencies.

Foreign currency risk
The Group has exposure to transactional and translational currency exposures.

Transactional currency exposure risk arises when the Group enters into contracts in currencies other than the Group functional currency. Transactional risk is mitigated by a) the creation of a natural hedge between buying and selling currencies, b) use of currency hedging contracts and c) the inclusion of a foreign currency price escalation clause in sales contracts.

Translational currency exposure risk arises when financial instruments valued in the consolidated and Company statement of financial position are denominated in a currency other than the Group's functional currency. Translation risk is mitigated by the Group entering into currency option contracts. There were no open currency option contracts at the year-end (2016: £nil).

Liquidity risk
The Group has established borrowing facilities with ABN Amro Commercial Finance for working capital finance through an invoice discounting facility and a loan note facility. The Group maintains near-term cash flow forecasts that enable it to identify its near-term borrowings requirement so that remedial action can be taken if necessary.

Fair value interest rate risk
All borrowing is approved by the Board of Directors to ensure that it is conducted at the most competitive rates available to it.

21. Financial instruments

Capital risk management

The Group defines the capital that it manages as the Group's total equity. The Group's objectives when managing capital are to:

- Safeguard the Group's ability to continue as a going concern.
- Have available the necessary financial resources to allow the Group to deliver benefits from its operational activities and investments.
- Optimise the return to investors based on the level of risk undertaken.

In order to maintain or adjust the capital structure, the Group may issue new shares or sell assets, pay dividends or return capital to shareholders.

Financial assets

Details of financial assets are included in Notes 13 and 15, but financial assets exclude prepayments and VAT recoverable. The currency profiles of the Group's financial assets comprising cash at bank and in hand at 31 August 2017 were:

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Currency				
Denominated in UK sterling	**149**	156	**76**	53
Denominated in US dollars	**142**	285	**142**	285
Denominated in Euros	**86**	3	**86**	4
	377	444	**304**	342

Cash at banks, included in cash and cash equivalents, are with institutions with credit ratings of A or better. It is the Company's policy to maintain cash at a level to meet liabilities immediately due for payment so that the amount drawn from the invoice discounting facility is kept to a minimum.

The maximum exposure to credit risk from trade receivables at 31 August 2017 is disclosed in Note 15. The following table shows an aged analysis of trade receivables for the Group.

	2017 £000	2017 %	2016 £000	2016 %
0 – 30 days	**1,655**	**58.0%**	2,350	69.6%
31 – 60 days	**891**	**31.2%**	523	15.5%
61 – 90 days	**80**	**2.8%**	216	6.4%
91 – 120 days	**38**	**1.3%**	46	1.4%
Over 120 days	**192**	**6.7%**	242	7.1%
	2,856	**100.0%**	3,377	100.0%

The Group reviews trade receivables balances on a routine basis and makes provision for any amounts where it believes the receivable is likely to be uncollectable. In 2017, bad debt expense was £27,000 (2016: £25,000) and the year-end bad debt provision was £60,000 (2016: £81,000).

Financial assets	Assets at FVPL £000	Financial assets at amortised cost £000	Total £000
2017			
Trade and other receivables	–	2,861	2,861
Financial assets at fair value through the statement of income	307	–	307
Cash and cash equivalents	–	377	377
	307	**3,238**	**3,545**
2016			
Trade and other receivables	–	3,523	3,523
Cash and cash equivalents	–	444	444
	–	**3,967**	**3,967**

21. Financial instruments continued

Financial liabilities

The following is an analysis of the maturities of the financial liabilities excluding amounts owed in relation to corporation tax, payroll taxes and VAT in the consolidated statement of financial position:

	Carrying amount £000	6 months or less £000	6 – 12 months £000	1 or more years £000
2017				
Invoice discounting finance facility	2,502	2,502	–	–
Other short-term borrowings	405	405	–	–
Finance leases	16	8	8	–
Trade and other payables	3,629	3,629	–	–
Loan notes	555	–	555	–
	7,107	**6,544**	**563**	**–**
2016				
Invoice discounting finance facility	2,711	2,711	–	–
Other short-term borrowings	294	294	–	–
Finance leases	45	11	11	23
Trade and other payables	5,253	5,253	–	–
Loan notes	555	–	–	555
	8,858	**8,269**	**11**	**578**

Financial liabilities	Assets at FVPL £000	Financial assets at amortised cost £000	Total £000
2017			
Trade and other payables	–	3,629	3,629
Borrowings	–	3,478	3,478
	–	**7,107**	**7,107**
2016			
Trade and other payables	–	5,253	5,253
Borrowings	–	3,605	3,605
	–	8,858	8,858

Fair values of financial assets and liabilities

The Group has revalued its investment in OEM using the fair value hierarchy, details of which can be found in Note 13.

The fair value of the Group's other financial assets and liabilities are not materially different from their book values, and therefore the Directors consider no hierarchical analysis is necessary.

Net foreign currency monetary assets and (liabilities)

Net foreign currency monetary assets and (liabilities) comprise the monetary assets and (liabilities) of the Group that are not denominated in sterling, the Group's functional currency. Net foreign currency monetary assets and (liabilities) (including short-term debtors and creditors) were as follows:

	2017 £000	2016 £000
Denominated in US dollars	**(251)**	(765)
Denominated in Euros	**(397)**	(245)
	(648)	(1,010)

Borrowing facilities
During the year the Group has had a flexible debt finance facility with ABN Commercial Finance with a cap of £6 million across the Group; these facilities are secured by way of a fixed and floating charge over the whole assets of the Group and the Company. Borrowing against this facility amounted to £2,502,000 at 31 August 2017 (2016: £2,711,000), undrawn funds available on the invoice discounting facilities were £nil at 31 August 2017 (2016: £336,000). The facility has no fixed termination date.

Derivative financial instruments
The Group maintains a natural hedge between buying and selling currencies and from time to time enters into foreign exchange hedge transactions to protect it against adverse currency movements. In addition, from time to time, the Company enters into currency options to protect it against translation risk of the net foreign currency assets and liabilities. There were no such options open at the year-end.

22. Related party transactions

Key management personnel compensation comprised the following:

	2017 £000	2016 £000
Short-term employee benefits	**445**	728
Post-employment benefits	**31**	13
Share based payments	**28**	14
	504	755

Transactions with related parties and the resulting balances for the year ended 31 August 2017 are summarised below:

a) Transactions with Idea Business Solutions Limited
During the previous year, in the ordinary course of business, the Group entered into transactions with Idea Business Solutions Limited, a company controlled by Mr John Davidson, a Director of APC Technology Group PLC at the time. Idea Business Solutions Limited provided consulting services to the Group.

	Group 2017 £000	Group 2016 £000	**Company 2017 £000**	Company 2016 £000
Purchases	–	21	–	21
Amounts owed to Idea Business Solutions Limited	–	48	–	48

b) Transactions with Joule Funding Limited
During the previous year, in the ordinary course of business, the Group entered into transactions with Joule Funding Limited, a company in which Andrew Shortis, a Director of the Company during part of that year, is a Director.

	Group 2017 £000	Group 2016 £000	**Company 2017 £000**	Company 2016 £000
Amounts owed to Joule Funding Limited	–	21	–	21

c) Loans from Directors
Richard Hodgson, a Director of the Company, held a convertible loan note of £10,000. The loan note accrued interest at 10% and had a maturity date of 31 July 2017. On 22 August 2016, this loan note was converted to 125,000 Ordinary Shares of 2p each in the capital of the Company at a conversion price of 8p per Ordinary Share.

Transactions with wholly-owned subsidiaries have not been disclosed.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of APC Technology Group PLC ("the Company") will be held at the offices of the Company's auditors, RSM UK Audit LLP, 25 Farringdon Street, London EC4A 4AB on Thursday 22 February 2018 at 11.00 a.m., for the purpose of considering and, if thought fit, passing the following Resolutions:

Ordinary Resolutions

1. To receive and, if thought fit, adopt the Report of the Directors and the financial statements for the year ended 31 August 2017, with the auditor's report thereon.
2. To re-elect Richard George Hodgson as a Director of the Company.
3. To elect Anthony Francis Lochery as a Director of the Company.
4. To elect Michael Peter Thompson as a Director of the Company.
5. To re-appoint RSM UK Audit LLP as auditors of the Company and to authorise the Directors to fix their remuneration.
6. That the Board be and it is hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (within the meaning of Section 551 of the Companies Act 2006) up to an aggregate nominal amount of £899,420 (i.e. approximately one-third of the issued shares at the date of this report) provided that this authority shall expire on the date of the next Annual General Meeting of the Company, or on 22 May 2019 (whichever is the earlier), save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Board may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

Special Resolution

7. That subject to the passing of Resolution 6 above, the Board be and it is hereby empowered pursuant to Section 570 of the Companies Act 2006 to allot equity securities (within the meaning of Section 560 of the said Act) for cash pursuant to the authority conferred by the previous resolution as if sub-section (1) of Section 561 of the said Act did not apply to any such allotment provided that this power shall be limited:

   (a) to the allotment of equity securities in connection with a rights issue in favour of Ordinary Shareholders where the equity securities respectively attributable to the interests of all Ordinary Shareholders are proportionate (as near as may be) to the respective numbers of Ordinary Shares held by them: and

   (b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal value of £674,565 (i.e. approximately 25% of the issued shares at the date of this report).

By Order of the Board

H. F. Edmonds
Secretary

4 December 2017

Registered Office:
6 Stirling Park
Laker Road
Rochester
Kent
ME1 3QR

Notes

1. Only holders of Ordinary Shares, or their duly authorised representatives, are entitled to attend and vote at this meeting. A member so entitled may appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company. Forms of proxy need to be deposited with the Company's registrars, Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, B63 3DA, not later than 48 hours before the time of the meeting. Completion of a form of proxy will not preclude a member attending and voting in person at the meeting.
2. A pre-paid Form of Proxy is enclosed for holders of Ordinary Shares.
3. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that, in order to have the right to attend and vote at the meeting (and also for the purpose of calculating how many votes a person entitled to vote and attend may cast), a person must be entered on the register of holders of the Ordinary Shares of the Company by no later than 11.00 a.m. on Tuesday 20 February 2018, being 48 hours before the time fixed for the meeting. Changes to entries on the register after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

Company Information

Secretary and Registered Office
Hugh Edmonds, FCA
APC Technology Group PLC
6 Stirling Park,
Laker Road,
Rochester,
Kent,
ME1 3QR

Company Registration Number
01635609

Nominated Adviser and Stockbroker
Stockdale Securities Limited
Beaufort House,
15 St Botolph Street,
London,
EC3A 7BB

Registrars
Neville Registrars Limited
Neville House,
18 Laurel Lane,
Halesowen,
B63 3DA

Independent Auditor
RSM UK Audit LLP
25 Farringdon Street,
London,
EC4A 4AB

Solicitors
BPE Solicitors LLP
St James' House
St James' Square
Cheltenham,
GL50 3PR

Designed and produced by Emperor
emperor.works +44 (0)121 262 3830

APC Technology Group PLC
Head office:
6 Stirling Park
Laker Road
Rochester
Kent
ME1 3QR
United Kingdom

0330 313 3220

www.apcplc.com