Design, specification and distribution of specialist electronic components and systems

TECHNOLOGY GROUP PLC

APC Technology Group PLC
Annual Report and Accounts 2018

APC Technology Group PLC provides the design, specification and distribution of specialist electronic components and systems, lighting technologies and connectivity products.

We work across core market sectors including:

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

www.apcplc.com

Established in 1982, APC is a specialist, technical distributor supplying customers in hard-to-penetrate market sectors with electronic components, products and systems from world-leading manufacturers.

About us

Everything we do comes from a deep understanding of our customers and the products we supply. Operating as authorised UK distributors for more than 100 global manufacturers, we provide the high level of technical, product and logistics expertise needed to match complex customer requirements with the optimum component, product or project solution.

Our structure

Typically our components, products and systems require an engineer-to-engineer technical sale. Our sales and product specialists have in-depth knowledge of their technologies and markets and are supported by a core APC Group structure of logistics, distribution, internal sales, marketing and finance.

Specialist business teams

- **APC HI-REL** – High reliability electronic components
- **APC RF & MICROWAVE** – Microwave and radio frequency components
- **APC EMBEDDED** – Embedded computing and displays
- **APC LOCATOR** – Component sourcing and testing
- **APC TIME** – Time and frequency synchronisation systems
- **APC LIGHTING** – Lighting technologies and projects
- **APC SMARTWAVE** – Connectivity and sensing
- **eeVs** – Performance management, measurement and verification

Experienced team leaders | **Product technical managers** | **Account managers**

Supported by Group functions: sales, marketing, logistics and finance

The activities of our business teams are described in more detail on **page 5**

Financial highlights

- Post-tax profit £0.6m (2017:£0.2m), significantly higher than prior year
- Earnings per share 0.5p, up from 0.1p in 2017
- EBITDA £1.15m, up from £0.8m in 2017
- Operating profit £0.9m, up from £0.5m in the prior year
- Revenue from continuing operations £17.1m (2017: £15.6m)
- Gross profit, before exceptional and non-recurring expenses £5.7m (2017: £5.4m)
- Gross margin, before exceptional and non-recurring expenses 33.1% (2017: 34.9%)
- Share placing and subscription in July 2018 to fund acquisitions, raising £2.9m (net of expenses) in new equity for the Group
- Year-end cash balances increased from £0.4m to £0.8m and net debt decreased to £2.7m (2017: £3.1m).

Earnings per share
0.5p (+400%)

Annualised bookings run rate
£22.5m

Cash balance at year-end
£0.8m (+100%)

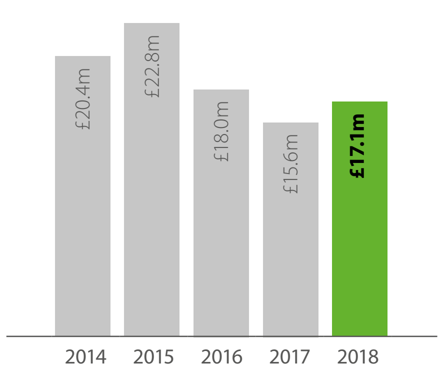
Operational highlights

- Acquisition of First Byte Micro Limited ("FBM") in January 2018, to enhance Locator offering
- Acquisition of Aspen Electronics Limited ("Aspen") in July 2018, to enhance RF and Microwave business
- Sale of investment in Open Energy Market in January 2018, to concentrate on core activities
- Orders taken in the year ("bookings") £16.5m (excluding Aspen), an increase of 3.1%
- Annualised bookings run rate in 2018 for the enlarged Group £22.5m, representing a healthy book to bill ratio for future growth.

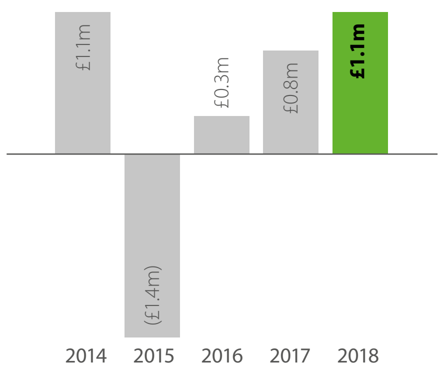
- Order highlights include:
  - USD 1.0m repeat order for components for a defence aviation radar system
  - £1.0m new order for counter-IED technology components
  - £4.1m of lighting orders in the year, up from £2.6m in 2017
  - First order (£0.2m) of a series for smart buildings technology.

- Business development highlights:
  - Minimise Energy re-branded APC Lighting
  - APC Lighting and APC Smartwave IoT technology combined to offer integrated property technology services to property and facility management companies
  - Year-on-year APC Locator orders increased tenfold with FBM acquisition
  - Radio Frequency (RF) team augmented and refocused following Aspen acquisition
  - UK and Ireland distribution deal for 3D PLUS microelectronics products for space applications
  - UK distribution deals signed with Oregano Systems and Seven Solutions (White Rabbit systems) to boost APC's time synchronisation business
  - APC salesforce increased to leverage wider market opportunities.

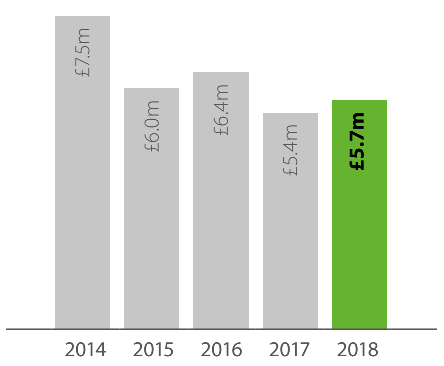
Revenue
£17.1m



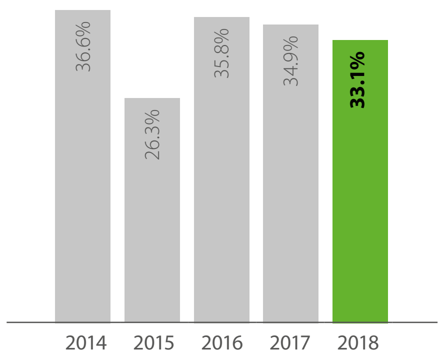
Operating profit
£1.1m



Gross profit
£5.7m



Gross margin
33.1%



The Directors are pleased to present their Statutory Strategic Report for APC Technology Group PLC ("the Company") and its subsidiary undertakings (together "the Group") for the year ended 31 August 2018, 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

The year ended 31 August 2018 has seen further progress in developing the Group's strategy of concentrating on our core strengths, the design, specification and distribution of specialist electronic products, components and systems. The Group has also seen a full year's benefit from the restructuring in 2016 and 2017, including the consolidation of the Finance and other Group functions in Rochester, resulting in a reduction in overheads.

The benefits of this strategy are reflected in our results for the year and we are pleased to be reporting an increased pre-tax profit of £555,000 (2017: £166,000) together with a further improvement in our cash flow. More details on our improved financial performance are set out in the Financial Results section of this Report.

In addition, the Board has strengthened the financial position of the Group in several ways:

- The supportive relationship with ABN has been further enhanced, as their continuing £6 million invoice discounting facility has been augmented by an Enterprise Finance Guarantee loan of £500,000.
- The creditor invoice financing facility with Pay4 Limited has been increased from £400,000 to £600,000.
- A share placing and subscription raised a total of £3.0 million before expenses in July 2018, at a price of 6.75p per Ordinary Share, a premium of approximately 2% over the mid-market price prevailing at the time.

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

The Group has continued with the three core elements of its growth strategy:

- Increased revenue through our established and growth technologies: our sales teams have been reorganised and incentivised to operate more proactively in hunting down orders.
- Growth by signing new proven technology partners matching our core competencies.
- Sales growth through bolt-on acquisitions in complementary technologies, to provide additional revenue, an additional bank of existing customers and to leverage the Group central functions.

During the year the Group made two acquisitions in furtherance of this strategy:

In January 2018 the Group completed the acquisition of First Byte Micro Limited ("FBM") for a net consideration of £0.5m, details of which are set out in Note 21 to the financial statements. FBM sources and supplies a wide range of electronic components from major blue chip manufacturers such as Altera, Seiko Instruments, Texas Instruments, and Cypress, and from others either directly under franchise or from authorised open market and worldwide sources. This acquisition provides a platform for a significant boost for APC Locator's business and FBM has now been rebranded APC Locator.

In July 2018 the Group acquired Aspen Electronics Limited ("Aspen") for a net consideration of £2.2 million, details of which are set out in Note 21 to the financial statements, funded by a combination of part of the proceeds of a share placing and subscription and the issue of 7,407,407 Ordinary Shares that are subject to a lock-in. Aspen is a premium distributor of electronic components, specialising in a wide range of radio frequency (RF) and microwave components and test and measurement equipment. The RF and Microwave business is complementary to APC's existing business, which the Board expects will lead to top-line synergy opportunities. In addition, Aspen has in-house component testing facilities, which allow it to provide enhanced value-added services to customers and suppliers. It also distributes own brand products and has an online sourcing business for lower value RF and microwave components.

As part of the realignment of the Group's activities, the Board also made the decision in January 2018 to sell the Group's 15% stake in Open Energy Market Limited ("OEM"), a company specialising in energy procurement. The Board had concluded that this activity was not core to the Group's business and a new equity partner was coming into OEM on terms that would have created a significant risk of APC not being able to achieve a successful exit from this investment. The proceeds of sale amounted to £307,000.

Review of continuing operations

Following the restructuring that took place in 2016, the Group continues to trade 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 UK electronic components market is currently worth €1.6bn per annum and growing (*Source: IDEA/ECSN/AFDEC*). APC is focused on growth market sectors.

During the year under review the Group made two acquisitions and added further authorised manufacturer distribution relationships, in order to strengthen the technology offering and gain access to wider markets to enable the teams to leverage their skills and expertise.

The activities of each of the teams, together with their progress in the year, is discussed below:

HI-REL

High Reliability Electronic Components

APC's Hi-Rel team specialises in the design-in of high reliability, high temperature and high voltage components into projects within the defence, aerospace, space and high-end industrial sectors. Operating to AS9120B aerospace quality standards for component distribution, APC is an authorised UK distributor for market-leading global manufacturers. Its engineer-led, technical sales team secures the design-in of electronic components within a finished system, aircraft or vehicle, often resulting in long-term recurring revenue from continued production.

In January 2018 it expanded its product portfolio to address the UK's growing space market (worth £13.7 billion in 2015 and forecast to reach £40 billion in 2030 (*Source: UK Space*)) with the appointment by 3D PLUS S.A., a premium manufacturer of space qualified advanced high density microelectronics products, including cameras. In the nine months since signing, APC has secured orders of €130,000, with 2019 orders forecast at €600,000. The turnaround of the oil and gas market has resulted in orders in excess of USD 100,000 for high temperature capacitors for a downhole application.

RF & MICROWAVE

RF and Microwave Components

Sales of APC's radio frequency (RF) and microwave components remain buoyant, with orders placed within the financial year up 13% in comparison to 2017. Major orders were secured for an international aircraft project and the Group's counter-IED business remains strong with contracts totalling in excess of £1m. In July 2018, APC acquired Aspen Electronics Limited, a leading distributor of RF and microwave components into the military, telecoms, wireless and broadband markets. Aspen brings an additional 50 authorised product lines and 10 customer facing sales staff, with significant opportunity for synergy and cross-selling across APC and Aspen's client base. Defence orders remain strong with a USD 1m order for components for counter-IED equipment.

EMBEDDED

Embedded Computing and Displays

APC is a Premier Channel Partner for the number one global manufacturer of embedded computer boards, industrial PCs and displays used in applications within defence, oil and gas, medical, transport, kiosks and industrial machinery. In addition APC has a range of complementary embedded and asset tracking products and components. The embedded product team has achieved project design wins for a wind turbine application and an above ground oil project with revenues expected in 2019, in addition to ongoing billings from existing design projects within equipment manufacturing, intrinsically safe computing equipment and military communication systems.

LOCATOR

Component Sourcing Solutions

APC's component buyers and engineers have historically supported customers by sourcing obsolete or hard-to-find components and providing component level testing and processes. In January 2018, APC acquired First Byte Micro Ltd, an authorised and independent distributor of electronic components with a strong customer base of industrial equipment manufacturers and two decades of expertise. Leveraging its network of authorised open market sources for components, APC Locator delivers quick turn business within APC's client base, providing components from multiple high profile global manufacturers in addition to APC's portfolio of authorised distribution product lines. Within the first six months of trading it delivered £1m of bookings compared to a run rate of £1.5m per annum prior to acquisition.

TIME

Time and Frequency Synchronisation

APC Time provides systems to synchronise time and frequency across critical IT networks within financial trading institutions, broadcast, telecoms, power and data centres. As the UK and Ireland representative for one of the top three global timing system manufacturers, APC Time has experienced 30% compound annual growth since 2016, driven by technology changes and compliance requirements in key markets.

APC Time has continued its expansion, both through a focus on the growth markets of finance and broadcast and the signing of proven, complementary switching and antenna technology partners, enabling them to provide customers with a more complete solution.

Following the implementation of MiFID II regulations in January 2018, the financial trading sector continues to drive APC Time orders as institutions seek to improve their technology solutions and demonstrate ongoing compliance. Within the broadcast sector, technology changes are driving growth. The BBC has chosen APC's technology as the preferred time synchronisation technology across its major IP infrastructure upgrades. As a well-known industry innovator, the BBC's endorsement may well drive further adoption of APC's product portfolio within the sector.

Lighting Technologies

APC's lighting team delivers project-based lighting solutions, from lighting design and product specification through to supply, installation and lighting commissioning. APC Lighting predominately operates through preferred supplier agreements with property and facilities management (FM) companies that manage property portfolios including commercial real estate, education, public sector, retail and leisure. Currently the team has four preferred supplier relationships worth circa £1m per annum and are in discussion with a further ten FM providers.

Working with global FM CBRE, APC Lighting has completed lighting upgrades at the Genting Arena events and exhibition venue in the Midlands, Morgan Stanley offices at Canary Wharf, Spitalfields Market, Birmingham NEC and at the Tower 42 skyscraper in London. Within the retail sector, working with both a retail real estate and a car park facilities company, they have upgraded lighting within retail venues in Maidstone, Paisley, Morecambe and Bexley.

Sensors and Connectivity

As part of APC's property technologies offering, APC Smartwave specialises in providing the property and facilities management sector with the sensors, controls and technologies to create connected workspaces, improve employee wellbeing and drive cost savings through energy management and predictive maintenance. In 2018 APC Smartwave has supplied a range of smart building sensors that detect desk occupancy, temperature, humidity and other environmental conditions into offices within The Shard, the Deloitte building and most recently for use in a leading supermarket's London headquarters. In addition to operating through FM providers, APC has undertaken a major project with Network Rail Wales to provide a legionella compliance system to 76 remote trackside buildings, negating the need for manual monitoring by Network Rail staff.

Performance Management

Trading as EEVS, APC provides advisory and performance analysis services for clients undertaking energy efficiency projects within public sector, government, healthcare, education and the private sector. EEVS provides consultancy services to prove the financial return on energy efficiency investments, manage the risk of funded projects and set in place strong governance and supplier accountability structures between their customer and its suppliers.

This year, EEVS continued work on the Scottish Government's public sector energy performance contracting framework, developing performance measurement plans and reporting, with further public sector work with RF:FIT Cymru and the European Commission funded QualitEE project. EEVS continues to deliver quarterly assurance services for major facilities management based energy performance contracts for Lloyds Banking Group and Vodafone.

Financial results

Group revenue from continuing operations for the financial year was £17,149,000 (2017: £15,564,000). Gross profit (excluding exceptional and non-recurring expenses) was £5,681,000 this year (2017: £5,431,000), representing a gross margin of 33.1% compared with 34.9% last year. The small decrease was mainly attributable to the mix of products, but the effect of this was offset by the lower overhead base achieved by the restructuring in 2016 and 2017. The operating profit, before exceptional and other non-recurring costs, of £1,078,000 was up 43% on the £756,000 achieved in 2017.

This reflected a full year's benefit from last year's significant cost-cutting programme, as a result of which underlying operating overheads in 2018 were 7.5% less than in 2017 (after taking account of last year's £307,000 write-back of the investment in Open Energy Market Limited) despite the two acquisitions made in the year.

Profit before tax from continuing operations for the year improved from £166,000 in 2017 to £555,000 this year. The post-tax profit for the year improved from £192,000 in 2017 to £633,000 this year and earnings per share improved from 0.1p to 0.5p.

Funding and cash flow

In the financial year, there was a cash outflow from operating activities of £288,000, a significant improvement on the outflow of £719,000 in 2017. The Group ended the year with a gross cash balance of £777,000 (2017: £377,000). Like-for-like trade and other payables (excluding acquisitions in the year) reduced by £748,000.

The Group's net debt at 31 August 2018 was £2,688,000 (2017: £3,101,000), excluding the loan notes that had matured before the year-end and had been repaid by the date of this Report. The Group has an invoice discounting facility with ABN Amro of up to £6,000,000, of which £2,261,000 had been drawn down at the year-end (2017: £2,502,000). ABN has demonstrated considerable support for the business since the facility was established in early 2015. The facility itself continues with no fixed termination date and during the year was augmented by an additional loan of £500,000 under the Enterprise Finance Guarantee scheme. In addition, the Group had a trade payment credit facility with Pay4 Limited of £600,000, which was fully utilised at 31 August 2018.

In July 2018, the Board authorised a share placing and subscription by existing and new investors and Board members, for a total of 44,970,998 Ordinary Shares, as follows:

(a) 37,563,591 Ordinary Shares, at 6.75 pence per share, to raise approximately £2.54 million before expenses. These measures further strengthened the balance sheet, while enabling the Group's loan notes to be repaid either immediately or over several months, with all matured loan notes paid off by the end of November 2018.

(b) 7,407,407 shares were issued to the vendors of Aspen Electronics Limited. These shares, combined with part of the proceeds of the above placing, formed the net consideration of £2.2 million paid to the vendors of Aspen Electronics Limited.

Working capital (excluding net debt)

	2018 £000	2017 £000	Cash impact £000
Inventories	**1,330**	832	(498)
Trade receivables	**3,722**	2,856	(866)
Other receivables	**83**	5	(78)
Prepayments	**328**	124	(204)
	5,463	3,817	(1,646)
Trade payables	**(2,381)**	(2,041)	340
Other payables*	**(998)**	(703)	295
Accruals	**(1,351)**	(1,588)	(237)
	(4,730)	(4,332)	398
Total	**733**	(515)	(1,248)

* Other payables includes matured loan notes repaid post year end

Net debt

	2018 £000	2017 £000	Change £000
ABN debtor invoice financing	**2,261**	2,502	241
ABN Enterprise Finance Guarantee Loan	**500**	–	(500)
Pay4 creditor invoice financing*	**595**	405	(190)
Finance leases	**9**	16	7
Convertible loan notes*	**100**	555	455
Cash and cash equivalents	**(777)**	(377)	400
Total	**2,688**	3,101	413

* Loan notes exclude matured loan notes treated as other payables

The placing price of 6.75 pence per share represents a premium of approximately 2% above the mid-market price of the shares prevailing at the time.

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.

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 2018 (2017: £nil).

Intangible assets

During the financial year the Group's goodwill increased by £1,748,000 as a result of the acquisitions of First Byte Micro Limited and Aspen Electronics Limited. The Board has considered the carrying value of goodwill at 31 August 2018 of £9,126,000, including that related to acquisitions in prior periods, and has concluded that the carrying value is expected to be fully recoverable. No development expenditure was capitalised in 2018 or 2017.

Capital expenditure

The Group's capital expenditure in the financial year amounted to £5,000, compared with £13,000 in 2017.

Business model, risks and uncertainties

The Group's business model was developed and refined during 2016, since when APC has been 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 continues to be on cash-generative profitability from contracts for blue-chip and other stable businesses. As a development of this model the Group determined the three-strand strategy outlined under Review of the Year, above. 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 seek 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.

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 2018 on continuing operations was 33.1% (2017: 34.9%). The small decrease was mainly attributable to the mix of products. The Board has recognised that the changing nature of the Group's portfolio of products results in a slight reduction in margins, but the effect of this is being offset by the lower overhead base achieved by the restructuring in 2016 and 2017, as demonstrated by the overheads to sales ratio described below.

- **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 further, from 31.8% in 2017 to 26.7% in 2018, and also reduced as a percentage of gross profit, from 91.0% in 2017 to 80.5% this year. In both cases the 2017 comparative figure has been adjusted to exclude the effect of the write-back of £307,000 in the Group's investment in Open Energy Market Limited. These positive trends reflect a full financial year's benefit 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 4.0% in 2018 (2017: 2.7%). The further improvement this year was attributable to the increased gross profit figure generated by higher turnover, combined with the reduction in 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 2018 the inventory turned over 12.1 times (2017: 12.2 times) on a like-for-like basis, excluding the Aspen acquisition in July 2018 (which increased the year-end inventory level but contributed only one month of turnover).

- **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 2018, the receivables days calculated on a count-back basis was 69 days (2017: 67 days), excluding the effect of Aspen's year-end trade receivables versus one month's post acquisition trading. This is still 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 2018, the payables days calculated on a count-back basis improved from 56 days in 2017 to 51 this year, excluding the effect of Aspen's year-end trade payables versus one month's post acquisition trading, as the Group's cash flow improved.

Board of Directors and senior management

Throughout the year under review the composition of the Board remained unchanged, consisting of the Non-executive Chairman and three Executive Directors. The Group was therefore able to benefit from a full year of continuity.

Outlook

Last year we reported that the Group would 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.

The past year has been one of overlaying this growth strategy over the base achieved through the restructuring carried out in 2016 and 2017. This has resulted in an increase in the Group's profit for the year.

The year has already seen satisfying progress in these areas, with a restructuring and investment in the new sales team, with two acquisitions completed and with additional franchises added to broaden our offering. The Board is confident that the Group is on track to deliver on its medium-term growth strategy and to continue to realise further profitable growth.

Given that the Group essentially connects rest of world, including European, suppliers with UK manufacturers, the Board is cognisant of the wider macro-economic factors which may impact the business model in the short term, as a result of the Brexit negotiations. Whilst the Group is not currently experiencing any such issues, the Board is keeping the situation under continuous review and will update the market in the event of any significant changes.

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

Tony Lochery
Non-executive Chairman

Richard Hodgson
Chief Executive

Michael Thompson
Finance Director

Phil Lancaster
Business Development Director

14 December 2018

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 retrofit 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.	This 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 was established in the UK and Europe in 2017, 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 acquired companies' trade debtors have been included within that facility. The share issue during the year has 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 19 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 created a Group-wide working party to review the potential risks and uncertainties on an ongoing basis. It continues to believe 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. A detailed register of risks and opportunities is maintained and updated regularly in accordance with the Group's accreditation under ISO9001:2015 and the aeronautical standard AS9120:2016.

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 13 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. He brings wide-ranging Chairmanship and Board expertise and his experience of developing corporate strategy has been particularly valuable in leading the Group's review of its strategic objectives.

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. Richard brings significant financial and operations leadership experience and expertise to the Board.

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 six years prior to joining the Group Michael worked in the fresh produce sector, formerly as a senior finance manager for Bakkavor, and from 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. His qualification as a Chartered Accountant and wide-ranging financial management experience combine to ensure that the Group benefits from a full-time dedicated finance professional.

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 role Phil, the longest serving member of the Board, is using 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.

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 2018. The Corporate Governance Statement set out on page 14 forms part of this report.

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 £633,000 (2017: £192,000) and is dealt with as shown in the consolidated statement of income on page 20.

No interim dividend was paid and it is proposed that no final dividend will be paid this year (2017: £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 17 to the financial statements. The following shares were issued during the year:

Date	Reason for issue	Shares issued
26 July 2018	Share placing and subscription	37,563,591
26 July 2018	Shares issued to the vendors of Aspen Electronics Limited	7,407,407
Total shares issued in the year		44,970,998

At 31 August 2018 (the balance sheet date) and 14 December 2018 (the date of this report) the total number of shares in issue was 179,883,988.

Substantial interests
As at 12 December 2018, 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 179,883,988 Ordinary Shares.

	Number of shares	Percentage of issued capital
Canaccord Genuity Group Inc (note)	30,967,714	17.2%
Rockridge Investments	19,962,962	11.1%
Octopus Investments	12,246,992	6.8%
Roger Robinson and related family trusts	10,793,136	6.0%
Harwood Capital	9,000,000	5.0%
Howard Venning	7,407,407	4.1%
Stuart Hawthorne	5,710,000	3.2%

Note:
Canaccord Genuity Group Inc holdings are held in several different funds, of which one has a beneficial holding of more than 3% (14.8%).

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

A. F. Lochery
R. G. Hodgson
M. P. Thompson
P. J. Lancaster

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

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 2018 and the amounts owed to its trade creditors at the year-end was 51 days (2017: 56 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 £288,000, a significant improvement on the outflow of £719,000 in the previous year. Following last year's improvement in the Group's speed of discharging its liabilities, the current period saw a smaller further reduction in trade and other payables. Operating cash flow was also influenced positively by the Group's increased profitability and working capital cycle. The cash requirement of the Group was funded partly by trading, partly by improved working capital management and partly by a share issue to new and existing shareholders and Board members in July 2018. This raised a total of £2,909,000, of which £2,433,000 represented the consideration for the acquisition of Aspen Electronics Limited, leaving net proceeds of £476,000 to strengthen the balance sheet.

These factors enabled a further reduction of £1.2 million in amounts due to suppliers and other creditors, while the Group's cash balances increased from £377,000 in 2017 to £778,000 this year. The Group's matured loan notes have also been paid off in full since the financial year-end.

Management has examined going concern against a detailed profit, working capital, and cash flow forecast to 31 December 2019, which reflects the matters discussed in the preceding paragraph but does not reflect any additional share placings, new debt facilities, or 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, £1,886 (2017: £600) 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 Friday 22 February 2019 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 3), the agenda includes a resolution re-electing Phillip Lancaster as a Director.

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 4 and 5), 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

14 December 2018

This statement forms part of the Report of the Directors on pages 12 and 13.

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. As reported last year, our policy has been compliance with the twelve principles contained within the Quoted Companies Alliance Corporate Governance Code for Small and Mid-Size Quoted Companies 2013. During the year the Board took the decision to adopt the New QCA Corporate Governance Code published in 2018 ("the QCA code"), which contains ten revised principles of corporate governance. The Group has published a document setting out these ten principles and explaining how we comply with them; this is available on the Investor Relations section of our website: www.apcplc.com.

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.

Throughout the financial year ended 31 August 2018, and to the date of this report, 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. He also leads a process of continuous improvement in the effectiveness of the Board, its members and committees. The Board is supported by the Company Secretary, who performs an advisory role on Corporate Governance and related matters.

All of the Executive Directors are full-time. The Non-executive Chairman is able to devote a significant portion of his time to Group matters.

The Board is aware that the balance between Executive and Non-executive Directors falls short of the QCA principles, as the Company has only one Non-executive Director. The Board believes that its current composition is appropriate, given the present size of the Group and the fact that the Chairman does represent a strong and independent influence. However, the position is being kept under review and the Board will consider appointing a second Non-executive Director in due course, once a candidate is identified who can add real value to the Group's skill set and expertise.

During the year under review there were nine Board Meetings to monitor and review the Group's operational and financial performance, risk management and corporate governance, and a further five by delegated committees to approve specific transactions and banking and other financial matters. The attendance at the fourteen Meetings was as follows: Tony Lochery 12, Richard Hodgson 12, Michael Thompson 14 and Phil Lancaster 9.

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 and is available on our website: www.apcplc.com.

The Group maintains a Directors and Officers liability insurance policy.

Committees of the Board

The Audit Committee normally meets 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, the Company Secretary and other members of senior management when appropriate. The Committee met with the Group's auditors RSM UK Audit LLP prior to completion of the audit for the financial year under review. The main topics for discussion were those matters highlighted in the Independent Auditors' Report on pages 18 and 19.

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.

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 option 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 option 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. Further awards under the LTIP scheme were made to Mr Hodgson and to the Finance Director, Michael Thompson, on 17 October 2017.

Details of the share options granted to Directors and outstanding as at 31 August 2018 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	25 February 2016	25 February 2026	917,431	Nil
	Long Term Incentive Plan	17 October 2017	17 October 2027	See below	Nil
P. J. Lancaster	2013 Employee Share Option Scheme	24 September 2013	23 September 2023	500,000	38.75p
M. P. Thompson	Long Term Incentive Plan	17 October 2017	17 October 2027	See below	Nil

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 on 25 February 2016 vest on 25 February 2019, dependent upon continuous employment with the Group during that period. Those granted on 17 October 2017 vest in three tranches on 31 August 2020 (50%), 2021 (25%) and 2022 (25%), each at various levels dependent upon the increase in the Group's market capitalisation, as described more fully in Note 17 to the financial statements.

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	
			2018	2017	**2018**	2017
	£000	£000	**£000**	£000	**£000**	£000
R. G. Hodgson	225	11	**236**	236	**23**	23
P. J. Lancaster	120	14	**134**	134	**6**	6
M. P. Thompson (appointed on 6 April 2017)	100	10	**110**	52	**5**	2
L. R. Seelig (resigned on 24 February 2017)	–	–	**–**	18	**–**	–
J. M. Davidson (resigned on 13 December 2016)	–	–	**–**	5	**–**	–
	445	35	**480**	445	**34**	31

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.

A. F. Lochery was appointed on 24 February 2017. He received no remuneration in the year to 31 August 2018 (2017: £nil).

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 2018 which comprise the consolidated statement of comprehensive income, the consolidated and parent company statements of financial position, the consolidated and parent company statements of changes in equity, the consolidated and parent company 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 2018 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 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 and parent company 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 SME 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 28 (Accounting policies - Goodwill), page 30 (Critical accounting estimates and judgements) and page 34 (Note 9 to the financial statements – Intangible non-current assets).

The risk - The Group has goodwill totalling £9,126,000 as at 31 August 2018. 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 prepared by management for each cash generating unit and challenged the assumptions therein. We have considered management's conclusion that no impairment is required to the carrying value of goodwill. We have also reviewed the disclosures within the accounting policies and Note 9.

Business combinations

Refer to page 28 (Accounting policies - Consolidation), page 30 (Critical accounting estimates and judgements) and page 43 (Note 21 to the financial statements – Acquisitions in the year).

The risk – the Group has made two acquisitions during the year which have a material impact on the Group financial statements as at 31 August 2018. Management judgement is required in assessing the fair value of assets and liabilities acquired and the fair value of deferred or contingent consideration payable.

Our response – we have audited the acquisition accounting treatment applied including the following:

- We obtained and reviewed the Share Purchase Agreements for each acquisition confirming key terms of the transactions.
- We reviewed management's judgements in respect of the assessment of the fair value of assets and liabilities acquired and the fact that at the reporting date, no separately identifiable intangible assets have been identified that meet the recognition criteria, as disclosed in the accounting policies within critical accounting estimates and judgements.
- We reviewed the terms of the consideration payable and management's estimate of the fair value of any deferred or contingent consideration as disclosed in Note 21.
- We noted that at the reporting date, the acquisition accounting and assessment of the fair value of assets and liabilities acquired remain under review and are subject to change under the terms of the share purchase agreements, as disclosed in Note 21.
- We reviewed the disclosures made in accordance with the requirements of IFRS 3 – Business Combinations.

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 £179,000, which was updated during the course of our audit resulting in a final FSM of £195,500.

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 ensure that we obtain sufficient and appropriate audit evidence in respect of the Group financial statements of APC Technology Group PLC, including a full statutory audit of the Group, parent company and all active subsidiaries. Our audit 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 their 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.

Use of our 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

14 December 2018

Consolidated Statement of Income

For the year ended 31 August 2018

	Note	2018 Results from operations £000	2018 Exceptional and non-recurring expenses (Note 4) £000	2018 Total £000	2017 Results from operations £000	2017 Exceptional and non-recurring expenses (Note 4) £000	2017 Total £000
Revenue	2	17,149	–	**17,149**	15,564	–	15,564
Cost of sales		(11,468)	–	**(11,468)**	(10,133)	(24)	(10,157)
Gross profit		**5,681**	**–**	**5,681**	5,431	(24)	5,407
Administrative expenses		(4,571)	(128)	**(4,699)**	(4,637)	(228)	(4,865)
Operating profit before share based payments and acquisition costs	3	**1,110**	**(128)**	**982**	794	(252)	542
Share based payments	3	(32)	–	**(32)**	(38)	–	(38)
Operating profit	3	**1,078**	**(128)**	**950**	756	(252)	504
Financing costs	5	(395)	–	**(395)**	(338)	–	(338)
Profit before taxation		**683**	**(128)**	**555**	418	(252)	166
Taxation credit	7	78	–	**78**	26	–	26
Profit for the year attributable to the equity holders of the parent		**761**	**(128)**	**633**	444	(252)	192

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

	Note	2018	2017
Basic earnings per share	8		
From profit for the year		**0.5p**	0.1p

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 2018

	Note	2018 £000	2017 £000
Non-current assets			
Intangible assets	9	**9,126**	7,378
Property, plant and equipment	10	**564**	55
Associates and financial assets	12	**–**	307
		9,690	7,740
Current assets			
Inventories	13	**1,330**	832
Trade and other receivables	14	**4,133**	2,985
Current tax asset		**73**	–
Cash and cash equivalents	20	**777**	377
		6,313	4,194
Total assets		**16,003**	11,934
Current liabilities			
Trade and other payables	15	**(4,375)**	(4,332)
Borrowings	15	**(3,820)**	(3,478)
		(8,195)	(7,810)
Total assets less current liabilities		**7,808**	4,124
Non-current liabilities			
Deferred tax	16	**(110)**	–
Net assets		**7,698**	4,124
Equity attributable to the equity holders of the parent			
Called-up share capital	17	**3,597**	2,698
Share premium account		**14,890**	13,232
Share option reserve		**308**	297
Merger reserve		**4,987**	4,635
Retained earnings		**(16,084)**	(16,738)
Total equity		**7,698**	4,124

The financial statements on pages 20 to 45 were approved and authorised for issue by the Board of Directors on 14 December 2018 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 2018

	Note	2018 £000	2017 £000
Non-current assets			
Intangible assets	9	**2,583**	2,583
Property, plant and equipment	10	**7**	9
Investment in subsidiaries	11	**10,290**	5,883
Associates and financial assets	12	**–**	307
		12,880	8,782
Current assets			
Inventories	13	**330**	320
Trade and other receivables	14	**4,479**	3,251
Cash and cash equivalents	20	**357**	304
		5,166	3,875
Total assets		**18,046**	12,657
Current liabilities			
Trade and other payables	15	**(4,659)**	(3,030)
Borrowings	15	**(3,348)**	(2,862)
		(8,007)	(5,892)
Total assets less current liabilities		**10,039**	6,765
Non-current liabilities		**–**	–
Net assets		**10,039**	6,765
Equity attributable to equity holders of the Company			
Called-up share capital	17	**3,597**	2,698
Share premium account		**14,890**	13,232
Share option reserve		**339**	328
Merger reserve		**4,987**	4,635
Retained earnings		**(13,774)**	(14,128)
Total equity		**10,039**	6,765

The Company's profit for the financial year was £334,000 (2017: Loss £22,000).

The financial statements on pages 20 to 45 were approved and authorised for issue by the Board of Directors on 14 December 2018 and were signed on its behalf by:

R. G. Hodgson
Director

Consolidated Statement of Changes In Equity
For the year ended 31 August 2018

	Attributable to the equity holders of the parent						
	Share capital £000	Share premium account £000	Share option valuation reserve £000	Merger reserve £000	Translation reserve £000	Retained earnings £000	Total £000
At 31 August 2016	2,556	12,895	548	4,635	(10)	(17,219)	3,405
Profit for the year	–	–	–	–	–	192	192
Other comprehensive income	–	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	–	192	192
Transactions with equity holders of the parent							
Issue of new shares	142	337	–	–	–	–	479
Share option charge	–	–	(251)	–	–	289	38
Non-controlling interest disposed	–	–	–	–	10	–	10
	142	337	(251)	–	10	289	527
At 31 August 2017	**2,698**	**13,232**	**297**	**4,635**	**–**	**(16,738)**	**4,124**
Profit for the year	–	–	–	–	–	633	633
Other comprehensive income	–	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	–	633	633
Transactions with equity holders of the parent							
Issue of new shares	899	1,784	–	352	–	–	3,035
Costs associated with share issue	–	(126)	–	–	–	–	(126)
Share option charge	–	–	11	–	–	21	32
	899	1,658	11	352	–	21	2,941
At 31 August 2018	**3,597**	**14,890**	**308**	**4,987**	**–**	**(16,084)**	**7,698**

Company Statement of Changes In Equity

For the year ended 31 August 2018

	Share capital £000	Share premium account £000	Share option valuation reserve £000	Merger reserve £000	Retained earnings £000	Total £000
Company						
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**
Profit for the year	–	–	–	–	334	334
Total comprehensive income for the year	–	–	–	–	334	334
Transactions with owners						
Issue of new shares	899	1,784	–	352	–	3,035
Costs associated with share issue	–	(126)	–	–	–	(126)
Share option charge	–	–	11	–	20	31
	899	1,658	11	352	20	2,940
At 31 August 2018	**3,597**	**14,890**	**339**	**4,987**	**(13,774)**	**10,039**

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 2018

	Note	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Reconciliation of cash flows from operating activities					
Profit/(loss) before taxation including discontinued operations for the financial year		**554**	166	**335**	(22)
Loss on write-off of investment in associates		**–**	–	**–**	293
Gain on revaluation of other investment		**–**	(307)	**–**	(307)
Finance costs		**395**	338	**332**	286
Taxation receipts		**111**	26	**–**	–
Depreciation of property, plant and equipment		**43**	90	**7**	34
(Increase)/decrease in inventories		**(76)**	248	**(10)**	121
(Increase)/decrease in trade and other receivables		**(136)**	766	**(1,228)**	(165)
(Decrease)/Increase in trade and other payables		**(1,211)**	(2,084)	**(283)**	(1,205)
Share-based payments charge		**32**	38	**31**	32
Net cash used in operating activities		**(288)**	(719)	**(816)**	(933)
Cash flows from investing activities					
Acquisition of property, plant and equipment		**(5)**	(13)	**(5)**	(11)
(Acquisition)/sale of subsidiary undertakings; net of cash acquired		**(1,971)**	641	**(1,996)**	641
Sale of other investment		**307**	–	**307**	–
Net cash from investing activities		**(1,669)**	628	**(1,694)**	630
Cash flows from financing activities					
Finance costs		**(395)**	(338)	**(332)**	(286)
Proceeds of share issue (net of associated costs)		**2,409**	479	**2,409**	479
Finance leases		**(4)**	(21)	**–**	–
Increase/(decrease) in short-term borrowings		**447**	(96)	**586**	72
Decrease in loan notes		**(100)**	–	**(100)**	–
Net cash from financing activities		**2,357**	24	**2,563**	265
Increase/(decrease) in net cash		**400**	(67)	**53**	(38)
Cash and cash equivalents as at 1 September	20	**377**	444	**304**	342
Increase/(decrease) in net cash		**400**	(67)	**53**	(38)
Cash and cash equivalents as at 31 August	20	**777**	377	**357**	304

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 the Alternative Investment Market ("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 profit after tax of £334,000 (2017: loss £22,000).

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 £288,000, a significant improvement on the outflow of £719,000 in the previous year. Following last year's improvement in the Group's speed of discharging its liabilities, the current period saw a smaller further reduction in trade and other payables. Operating cash flow was also influenced positively by the Group's increased profitability and working capital cycle. The cash requirement of the Group was funded partly by trading, partly by improved working capital management and partly by a share issue to new and existing shareholders and Board members in July 2018. This raised a total of £2,909,000, of which £2,433,000 represented the consideration for the acquisition of Aspen Electronics Limited, leaving net proceeds of £476,000 to strengthen the balance sheet.

These factors enabled a further reduction of £1.2 million in amounts due to suppliers and other creditors, while the Group's cash balances increased from £377,000 in 2017 to £777,000 this year. The Group's matured loan notes have also been paid off in full since the financial year-end.

Management has examined going concern against a detailed profit, working capital, and cash flow forecast to 31 December 2019, 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 2017. 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.

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' was issued in July 2014, is effective for accounting periods beginning on or after 1 January 2018, was adopted by the Group on 1 September 2018 and therefore will impact the Group's financial statements for the year ending 31 August 2019.

IFRS 9 introduces changes to the classification of financial assets and a new impairment model for financial assets, which will result in earlier recognition of impairment losses. Under the expected credit loss model, loss allowances equal to either the 12-month or lifetime expected credit losses are recognised on initial recognition of financial assets, depending on assessed credit risk. The latter is applied where there has been a significant deterioration in credit quality of the asset, although a simplified approach for calculating expected credit losses on trade receivables and contract assets is available, which looks only at lifetime expected credit losses.

Additional disclosure requirements include both quantitative and qualitative disclosures supporting the basis and recognition of loss allowances, and the recognition of the loss allowance within provisions.

The Group has assessed the impact of accounting changes that will arise under IFRS 9:

- provisions for impairment losses against financial assets, which will be recognised sooner as lifetime expected credit losses are recognised on initial recognition of those financial assets
- the Group's trade receivables and accrued income ('contract assets' under IFRS 15) are generally short term and do not include a financing component. As a result, the Group expects to apply the simplified approach and reflect lifetime expected credit losses.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 'Revenue from Contracts with Customers' was issued in May 2014 and is effective for accounting periods beginning on or after 1 January 2018. it was adopted by the Group on 1 September 2018 and therefore impacts the Group's financial statements for the year ending 31 August 2019.

IFRS 15 changes the way revenue from some customer contracts is recognised, impacting both the timing at which revenue may be recognised and the value of revenue recognised. Customer contracts are broken down into separate performance obligations, with contractual revenues being allocated to each performance obligation and revenue recognised on a basis consistent with the transfer of control of goods or services. Additional disclosure requirements include the reporting of disaggregated revenues, and the recognition of contract assets and contract liabilities on the face of the statement of financial position.

The Group has assessed the impact of accounting changes that will arise under IFRS 15:

- timing of recognition of some non-recurring revenues may be deferred where contract performance conditions are deemed not to have been met at the reporting date
- contract balances will be reclassified in the statement of financial position, but this is not expected to impact the value of net current assets reported
- additional disclosures will be included in the annual report to disclose revenues from customer contracts on a disaggregated basis.

IFRS 16 'Leases'

IFRS 16 'Leases' was issued in January 2016 and is effective for accounting periods beginning on or after 1 January 2019, will be adopted by the Group on 1 September 2019 and therefore will impact the Group's financial statements for the year ending 31 August 2020.

IFRS 16 will primarily change lease accounting for lessees. Lease agreements will give rise to the recognition of an asset representing the right to use the leased item and a loan obligation for future lease payables. Lease costs will be recognised in the form of depreciation of the right-of-use asset and interest on the lease liability. Lessee accounting under IFRS 16 will be similar in many respects to existing IAS 17 accounting for finance leases, but will be substantially different to existing accounting for operating leases where rental charges are currently recognised on a straight-line basis and no lease asset or lease loan obligation is recognised.

Lessor accounting under IFRS 16 is similar to existing IAS 17 accounting and is not expected to have a material impact for the Group.

1. Accounting policies continued

The Group is assessing the impact of the following accounting changes that will arise under IFRS 16:

- right-of-use assets will be recorded for assets that are leased by the Group; currently no lease assets are included on the Group's consolidated statement of financial position for operating leases
- liabilities will be recorded for discounted future lease payments in the Group's consolidated statement of financial position for the 'reasonably certain' period of the lease, which may include future lease periods for which the Group has extension options. Currently liabilities are generally not recorded for future operating lease payments, which are disclosed as commitments unless they are considered onerous. The amount of lease liabilities will not equal the lease commitments reported on 31 August 2018, but may not be dissimilar
- lease expenses will be recognised as depreciation of right-of-use assets and interest on lease liabilities: interest will typically be higher in the early stages of a lease and reduce over the term. Currently operating lease rentals are expensed on a straight-line basis over the lease term within operating expenses
- operating lease cash flows are currently included within operating cash flows in the consolidated statement of cash flows: under IFRS 16 these will be recorded as cash flows from financing activities reflecting the repayment of lease liabilities (borrowings) and related interest.

The Group is continuing to assess the impact of these and other accounting changes that will arise under IFRS 16 and expects the changes highlighted to have a potentially material impact on the consolidated income statement, consolidated statement of financial position and consolidated statement of cash flows after adoption on 1 September 2019:

- EBITDA is likely to rise because the lease expense under IAS 17 for operating leases will be removed and replaced with additional depreciation and finance costs. The profit profile of the business will also change as more expense is recognised in earlier periods and less in later periods compared to the straight-line amount recognised under IAS 17
- for leases classified as operating leases under IAS 17, there will be a significant impact on the statement of financial position as these assets and corresponding liabilities have to be recognised. This will impact on gearing levels and potentially on covenants provided to prospective lenders and others.

The Directors do not anticipate that the adoption of any of the above Standards and Interpretations will have a significant impact on the financial statements of the Group for the period ending 31 August 2019.

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.

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 2018. 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
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.

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 12.

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.

1. Accounting policies continued

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 20.

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. Prepayments and other receivables are normally settled monthly throughout the financial year.

Trade and other payables are recognised at cost due to their short-term nature. Accruals and deferred income are normally settled monthly throughout the financial year with the exception of bonus accruals, which are typically paid annually.

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.

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The statement of comprehensive income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

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

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (further details are given in Note 8).

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 9. 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 10.2%.
- 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 17.
- recognition and measurement of intangibles acquired in business combinations has been considered by the Board and, due to the nature of the industry and customer relationships, the Board has concluded that based on the provisional assessment there are no material intangible assets that can be recognised separately from goodwill.

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.

The Company has determined that it has only a single reportable segment, being the design, specification and distribution of specialist electronic components and systems.

The Group had one customer representing over 10% of revenue (2017: none).

Revenue by product and service

	2018 £000	2017 £000
Electronic Components	**12,603**	11,214
LED Lighting	**3,765**	3,504
Consulting	**781**	846
	17,149	15,564

Revenue by geographic location

	2018 £000	2017 £000
UK	**16,685**	15,216
North America	**140**	82
Europe and Asia	**324**	266
	17,149	15,564

3. Operating profit

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

	2018 £000	2017 £000
Operating leases – land and buildings	**181**	145
Operating leases – motor vehicles	**154**	145
Depreciation – owned assets	**40**	72
Depreciation of assets held under hire purchase agreements	**3**	18
(Profit)/Loss on foreign exchange	**(36)**	38
Auditors' remuneration – audit of parent company and consolidated accounts	**64**	45
Auditors' remuneration – audit of subsidiary company	**30**	30
Directors' emoluments	**514**	476
Gain on disposal of fixed assets	**–**	(8)
Share based payments	**32**	38

4. Exceptional and non-recurring expenses

	2018 £000	2017 £000
Corporate re-organisation – compromise agreements and redundancy costs	**37**	399
Corporate re-organisation – professional fees	**91**	68
Corporate re-organisation – dilapidations and onerous lease provisions	**–**	57
Corporate re-organisation – third party creditors	**–**	(335)
Costs associated with aborted contract	**–**	24
Foreign exchange loss arising from unprecedented market volatility	**–**	39
	128	252

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. Finance costs

	2018 £000	2017 £000
Financing costs		
Other interest payable	**265**	174
Other finance costs	**130**	164
	395	338

6. Employee information

	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Wages and salaries	**3,005**	2,922	**1,845**	1,850
Social security costs	**342**	388	**206**	237
Private health costs	**32**	36	**28**	32
Defined contribution pension costs	**110**	107	**84**	75
Share option charge	**32**	37	**31**	32
	3,521	3,490	**2,194**	2,226

The breakdown of individual Director's remuneration is shown in the Report of the Remuneration Committee on page 16.

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

	Group 2018 Number	Group 2017 Number	Company 2018 Number	Company 2017 Number
Sales and distribution	**34**	28	**24**	22
Operations and administration	**55**	48	**29**	30
	89	76	**53**	52

7. Taxation

(a) Analysis of charge in period

	2018 £000	2017 £000
Current tax:		
UK corporation tax on profits for the current year	**41**	–
Adjustments in respect of prior years	**(119)**	(26)
Total current tax	**(78)**	(26)
Deferred tax	**–**	–
Tax credit on profit on continuing operations	**(78)**	(26)

(b) Factors affecting the tax credit for the period

The tax credit 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% for 2018 (2017: 19.58%).

The differences are explained below:

	2018 £000	2017 £000
Profit on continuing operations before tax	**555**	166
Rate of corporation tax	**19%**	19.58%
Tax on profit based on standard rate	**105**	32
Effects of:		
Expenses not deductible for tax purposes	**24**	(106)
Share based payments	**6**	–
Deferred tax not recognised	**(59)**	74
Prior period adjustments	**(119)**	(26)
Other adjustments	**(35)**	–
Total tax credit for the period	**(78)**	(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.

At 31 August 2018, the Group/Company had tax losses carried forward of £6,023,000 / £5,759,000.

8. 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.

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

	2018 £000	2017 £000
Earnings attributable to equity holders of the parent	**633**	192
Weighted average number of shares (thousands)	**139,472**	130,326
Dilutive/free shares	**917**	917
Diluted number of shares	**140,389**	131,243
Earnings per share	**0.5p**	0.1p

9. 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.

Goodwill of £1,748,000 added during the financial year arose through the acquisitions of First Byte Micro Limited in January 2018 and Aspen Electronics Limited in July 2018, as described more fully in Note 21.

The Directors have undertaken an impairment review of the carrying value of the Group's and Company's goodwill as at 31 August 2018, based on the current and anticipated performance of each cash-generating unit. The impairment review of goodwill was based on forecast income for each cash generating unit 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	4,350	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 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	Development costs £000	Goodwill £000	Total £000
Cost			
Balance at 31 August 2017	116	7,508	7,624
Acquired through business combinations	–	1,748	1,748
Balance at 31 August 2018	**116**	**9,256**	**9,372**
Amortisation/impairment			
Balance at 31 August 2017	116	130	246
Impairment	–	–	–
Balance at 31 August 2018	**116**	**130**	**246**
Net book value			
as at 31 August 2017	–	7,378	7,378
as at 31 August 2018	**–**	**9,126**	**9,126**

Company	Goodwill £000	Total £000
Cost		
Balance at 31 August 2017	2,583	2,583
Balance at 31 August 2018	**2,583**	**2,583**
Amortisation		
Balance at 31 August 2017	–	–
Balance at 31 August 2018	**–**	**–**
Net book value		
as at 31 August 2017	2,583	2,583
as at 31 August 2018	**2,583**	**2,583**

10. 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 2016	252	43	179	106	580
Additions	2	–	11	–	13
Disposals	–	–	–	(64)	(64)
As at 31 August 2017	254	43	190	42	529
Acquired through business combinations	29	695	71	105	900
Additions	–	–	5	–	5
Disposals	–	–	–	(50)	(50)
As at 31 August 2018	**283**	**738**	**266**	**97**	**1,384**
Depreciation					
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
Acquired through business combinations	29	219	66	39	353
Charge for the year[1]	16	3	19	5	43
Disposals	–	–	–	(50)	(50)
As at 31 August 2018	**281**	**260**	**249**	**30**	**820**
Net book value					
As at 31 August 2016	40	8	60	24	132
As at 31 August 2017	18	5	26	6	55
As at 31 August 2018	**2**	**478**	**17**	**67**	**564**

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 2016	161	3	88	252
Additions	–	–	11	11
As at 31 August 2017	161	3	99	263
Additions	–	–	5	5
As at 31 August 2018	**161**	**3**	**104**	**268**
Depreciation				
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
Charge for the year	1	–	6	7
As at 31 August 2018	**161**	**2**	**98**	**261**
Net book value				
As at 31 August 2016	9	2	21	32
As at 31 August 2017	1	1	7	9
As at 31 August 2018	**–**	**1**	**6**	**7**

11. Investment in subsidiary undertakings

	2018 £000	2017 £000
Company		
Cost as at beginning of year	**5,883**	6,176
Impairment of subsidiary investment dissolved	**–**	(293)
Acquisition	**4,407**	–
Cost as at end of year	**10,290**	5,883

Details of the Company's subsidiaries, associates and other investments at 31 August 2018 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
First Byte Micro Limited *	England and Wales	100%	Component sourcing
Aspen Electronics Limited *	England and Wales (A)	100%	Component distribution and testing
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%	
Admiral Microwaves Limited ***	England and Wales	100%	
Aaren Technology Limited ****	England and Wales	100%	
Minimise Energy Canada Limited	Canada	60%	

* Subsidiary of APC Technology Group PLC
** Subsidiary of Minimise Group Limited
*** Subsidiary of Aspen Electronics Limited
**** Subsidiary of Admiral Microwaves Limited

(A) Company has been audited; all other subsidiaries are exempt from audit at 31 August 2018 under s479A of the Companies Act 2016.

All UK subsidiaries are registered at 6 Stirling Park, Laker Road, Rochester, Kent ME1 3QR.
Minimise Energy Canada Limited is registered at 30 Duke Street West, 5th Floor, Kitchener ON N2H 3W5.

12. Associates and other financial assets

	Associates £000	Other investments £000	Total £000
As at 31 August 2016	–	–	–
Revaluation	–	307	307
As at 31 August 2017	–	307	307
Sale of asset	–	(307)	(307)
As at 31 August 2018	–	–	–

Other investments relate to the Group's investment in 15% of the issued share capital of Open Energy Market Limited ("OEM"), a company incorporated in England and Wales. OEM's principal activity consists of energy procurement. The valuation of the investment in OEM had 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. It was subsequently sold for that amount during the financial year under review.

13. Inventories

	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Finished goods	**1,330**	832	**330**	320

The cost of inventories recognised as expense and included in cost of sales amounted to £10,527,000 (2017: £9,450,000). 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 increase in provisions of £221,000 (2017: reduction £67,000).

14. Trade and other receivables

	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Trade receivables	**3,722**	2,856	**2,365**	2,144
Amounts owed by subsidiary undertakings	**–**	–	**2,001**	1,068
Other receivables	**83**	5	**17**	5
Prepayments	**328**	124	**96**	34
	4,133	2,985	**4,479**	3,251

The aged analysis of trade receivables is shown in Note 20 Financial instruments.

The amounts owed by subsidiary undertakings are without interest and are repayable on demand.

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 2018, the Group had drawn down advances totalling £2,261,000 (2017: £2,502,000) which are shown in Note 15 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.

15. Current liabilities

	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Trade payables	**2,381**	2,041	**1,861**	1,782
Amounts owed to subsidiary undertakings	**–**	–	**1,833**	–
Other taxes and social security	**325**	300	**217**	229
VAT payable	**318**	403	**201**	329
Borrowings under invoice discounting facility	**2,261**	2,502	**1,798**	1,902
Other short-term borrowings – unsecured	**1,095**	405	**1,095**	405
Loan notes	**455**	555	**455**	555
Finance leases	**9**	16	**–**	–
Accruals and other payables	**1,351**	1,588	**547**	690
	8,195	7,810	**8,007**	5,892

The Group had a convertible loan note instrument, which bears interest at 10% with a 31 July 2018 maturity date. Matured loan notes outstanding amounted to £355,000 at 31 August 2018 and they have since been discharged within three months after the year-end.

The Group also has a loan note of £100,000, which bears interest at 10% with a 31 January 2019 maturity date.

These interest rates are fixed and the Group is therefore not exposed to changes in interest rates in respect of these liabilities.

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 2018 (2017: £nil). Motor vehicles disclosed in property, plant and equipment with a net book value of £3,000 (2017: £15,000) are secured under this lease.

16. Non-current liabilities

	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Deferred tax	110	–	–	–
	110	–	–	–

The deferred tax liability has arisen following the acquisition of Aspen Electronics Limited. There has been no movement during the period since acquisition. The balance relates to capital allowances on acquired property, plant and equipment.

17. Share capital

Group and Company	No. of shares	2018 £000	No. of shares	2017 £000
Ordinary Shares of 2p				
Allotted, issued and fully paid:				
At 31 August 2018	**179,883,988**	**3,597**	134,912,990	2,698

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 Ordinary Shares of 2p each were issued by the Company as shown below:

Reason for issue	Date	Shares	Price
Share placing and subscription	26/07/2018	37,563,591	6.75p
Shares issued to the vendors of Aspen Electronics Limited	26/07/2018	7,407,407	6.75p
Shares in issue at 31 August 2017		134,912,990	
Shares in issue at 31 August 2018		**179,883, 988**	

Share options

The following options over the Company's Ordinary Shares were outstanding at 31 August 2018:

	Date granted	Earliest date exercisable	Latest date exercisable	Ordinary Shares of 2p	Exercise price
2003 Employee Share Option Scheme	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
2013 Employee Share Option Scheme	05/09/2013	see note c	04/09/2023	150,000	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 e	25/02/2026	917,431	No cost
	17/10/2017	see note f	17/10/2027	see note f	No cost
				3,654,181	

No unapproved options were outstanding at 31 August 2018.

No options were exercisable at 31 August 2018. The weighted average remaining contractual life of share options outstanding at 31 August 2018 was 5 years and 1 month.

Reconciliation of movement in share options outstanding

	Weighted average exercise price	Ordinary Shares of 2p
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[1]**	**4,091,681**
Lapsed	19.33p[1]	(437,500)
Share options outstanding as at 31 August 2018	**25.73p[1]**	**3,654,181**

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. On 25 February 2016 the Board approved the APC Technology Group PLC Long Term Incentive Plan (LTIP), 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.

f. Further grants of nil cost options under the LTIP were made on 17 October 2017, with a new performance condition. This performance condition is linked to the Group's market capitalisation prevailing in August 2020 and provides for nil cost options to vest at varying levels, depending on the level of market capitalisation between £9.1m and £40m (as adjusted for the cash value of shares issued since the grant date), but subject to the attainment of a minimum financial result for the year ending 31 August 2020. The maximum value of shares to be granted on this basis (i.e. attaining a market capitalisation of £40m) is approximately £3.4m, vesting in three tranches, on 31 August 2020 (50%), 2021 (25%) and 2022 (25%), subject to continuous employment in each case. These options all expire on 17 October 2027. Following a fair valuation calculation exercise, no charge has been ascribed to these LTIPs at this early stage in the Group's strategic growth plans.

The middle market price of the Company's shares at 31 August 2018 was 6.75p. During the year under review the middle market price range was 5.875p to 8.25p.

In accordance with IFRS 2 a share option charge of £32,000 (2017: £38,000) 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:

	2018	2017
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%

*with the exception of the LTIPs as described in note f above

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 remained outstanding at 31 August 2018. No further warrants have been exercised since that date and the warrants have now expired.

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 gave 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, no warrants were exercised, and they expired on 4 August 2018.

18. Operating lease obligations

As at 31 August 2018 the Group had future aggregate minimum commitments under non-cancellable leases expiring as shown below:

	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Land and buildings				
Payable in less than one year	**66**	115	**44**	40
Payable between one and five years	**29**	21	**–**	2
	95	136	**44**	42
Motor vehicles				
Payable in less than one year	**76**	76	**65**	40
Payable between one and five years	**76**	32	**72**	26
	152	108	**137**	66

19. 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 and other receivables in the consolidated and Company statement of financial position as shown in Note 14.

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 (2017: £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.

20. 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 12 and 14, 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 2018 were:

	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Currency				
Denominated in UK sterling	**425**	149	**162**	76
Denominated in US dollars	**308**	142	**167**	142
Denominated in Euros	**44**	86	**28**	86
	777	377	**357**	304

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 2018 is disclosed in Note 14. The following table shows an aged analysis of trade receivables for the Group.

	2018 £000	2018 %	2017 £000	2017 %
0 – 30 days	**1,952**	**52.4%**	1,655	58.0%
31 – 60 days	**1,048**	**28.2%**	891	31.2%
61 – 90 days	**247**	**6.6%**	80	2.8%
91 – 120 days	**165**	**4.4%**	38	1.3%
Over 120 days	**310**	**8.4%**	192	6.7%
	3,722	**100.0%**	2,856	100.0%

The Group reviews trade receivable balances on a routine basis and makes provision for any amounts where it believes the receivable is likely to be uncollectable. In 2018, bad debt expense was £92,000 (2017: £27,000) and the year-end bad debt provision was £122,000 (2017: £60,000).

At the year-end £158,000 (2017: £183,000) was outside credit terms but had not been impaired. This balance has been collected post year-end in both years.

20. Financial instruments continued

Financial assets	Assets at FVPL £000	Financial assets at amortised cost £000	Total £000
2018			
Trade and other receivables	–	4,206	4,206
Cash and cash equivalents	–	777	777
	–	**4,983**	**4,983**
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**

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
2018				
Invoice discounting finance facility	2,261	2,261	–	–
Other short-term borrowings	1,095	887	208	–
Finance leases	9	9	–	–
Trade and other payables	3,732	3,732	–	–
Loan notes	455	455	–	–
	7,552	**7,344**	**208**	**–**
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**	**–**

Financial liabilities	Financial assets at amortised cost £000	Total £000
2018		
Trade and other payables	3,745	3,745
Borrowings	3,820	3,820
	7,565	**7,565**
2017		
Trade and other payables	3,629	3,629
Borrowings	3,478	3,478
	7,107	7,107

Fair values of financial assets and liabilities

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:

	2018 £000	2017 £000
Denominated in US dollars	**(308)**	(251)
Denominated in Euros	**(44)**	(397)
	(352)	(648)

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 £2,261,000 at 31 August 2018 (2017: £2,502,000); undrawn funds available on the invoice discounting facilities were £226,000 at 31 August 2018 (2017: £nil). 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.

21. Acquisitions in the year

Business combinations are accounted for using the acquisition accounting method as at the acquisition date, which is the date at which control is transferred to the Group. Goodwill is measured at the acquisition date as the fair value of consideration, less the recognised amount of the identifiable assets and liabilities assumed, in accordance with the accounting policy definition set out in the Accounting Policy notes.

Acquisition of First Byte Micro Limited

On 10 January 2018 the Group acquired 100% of the share capital of First Byte Micro Limited ("FBM") a company incorporated in England, whose principal activity is acting as a franchised and independent distributor of electronic components. The purchase consideration consists of £1.2 million, of which £0.7 million represents cash at completion in FBM. Of the remaining £0.5 million, £0.27 million was paid in cash on completion and the residual £0.23 million will be paid 12 months after completion. Contingent consideration is payable to the previous owner remaining with the business for growth in profitability over and above that acquired. At the year-end no contingent consideration has been provided for as determination of such requires a full year trading to be completed.

As a result of the acquisition, the Group will have gained a significant capability in the sourcing of hard to find, obsolete and end-of life components, products and systems.

Eight months' trading has been included in the consolidation, contributing £251,000 revenue and £140,000 profit before tax. Full period results show revenue of £251,000 and a loss before tax of £21,000.

Acquisition of Aspen Electronics Limited

On 26 July 2018 the Group acquired 100% of the share capital of Aspen Electronics Limited, whose principal activity is acting as a premium distributor of electronic components, specialising in radio frequency (RF) and microwave components and test and measurement equipment. The net consideration consisted of £2.4 million, satisfied partly in Ordinary Shares in APC and partly in cash.

The RF and Microwave business is complementary to APC's existing business, which the Board expects will lead to top-line synergy opportunities. In addition, Aspen has in-house component testing facilities, which allow it to provide enhanced value-added services to key customers and suppliers.

One month's trading has been included within the consolidated Group results. Revenue of £466,000 and a profit before tax of £53,000 has been recognised. Full year results show revenue of £5.3 million and a profit before tax of £106,000.

21. Acquisitions in the year continued

Recognised amounts of identifiable assets acquired and liabilities assumed.

	First Byte Micro Limited £000	Aspen Electronics Limited £000
Cash and cash equivalents	718	986
Tangible fixed assets	–	550
Inventory	36	387
Trade and other receivables	130	881
Trade and other payables	(213)	(707)
Deferred taxes	–	(110)
	671	1,987
Goodwill	553	1,195
Total purchase consideration	1,224	3,182

Analysed as follows:

	First Byte Micro Limited £000	Aspen Electronics Limited £000
Initial cash consideration	276	1,460
Cash acquired	718	963
Vendor Ordinary Shares	–	259
New shares in APC Technology Group PLC	–	500
Deferred consideration	230	–
Total acquisition cost	1,224	3,182

New shares in APC Technology Group PLC were issued to the vendor at the placing price of 6.75p per share.

The fair value of the financial assets includes receivables with a fair value of £856,000. The best estimate at the acquisition date of the contractual cash flows potentially not collectible is £85,000.

Acquisition related costs of £69,000 have been charged to exceptional costs in the consolidated income.

The assessment of the fair value of assets and liabilities acquired remains under review and subject to change under the completion mechanism of the Sale and Purchase Agreement.

22. Related party transactions

Key management personnel compensation comprised the following:

	2018 £000	2017 £000
Short-term employee benefits	**480**	445
Post-employment benefits	**34**	31
Share based payments	**23**	28
Employer national insurance contributions	**61**	50
	598	554

There were no other transactions with related parties in the year ended 31 August 2017 or 2018.

Transactions with wholly-owned subsidiaries have not been disclosed.

23. Post balance sheet events

On 22 November 2018 the Group acquired 100% of the share capital of Wavelength Electronics Limited, whose principal activity is acting as a premium distributor and representative of electronic components. This acquisition adds further complementary product lines to the Group offering.

The net consideration consisted of £0.5 million, satisfied in cash, payable one third on completion, one third in 12 monthly instalments and the balance 12 months from completion. Full IFRS3 disclosure has not been presented as the Directors are still reviewing acquisition accounting and the completion accounts.

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 Friday 22 February 2019 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 2018, with the auditor's report thereon.

2. To re-elect Phillip James Lancaster as a Director of the Company.

3. To re-appoint RSM UK Audit LLP as auditors of the Company and to authorise the Directors to fix their remuneration.

4. 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 £1,199,227 (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 2020 (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

5. That subject to the passing of Resolution 4 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 £899,420 (i.e. approximately 25% of the issued shares at the date of this report).

H. F. Edmonds
Secretary

14 December 2018

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, Steelpark Road, Halesowen, B62 8HD, 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 Wednesday 20 February 2019, 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

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