

# SUMMARY

## A YEAR OF CONSOLIDATION

“In the period under review our core investee companies have maintained good growth momentum. The Group is well positioned to build further value in these businesses, both organically and by acquisition.

Our recently announced joint venture with Liberty Global marks an important step change in the MXC model, as co-investing in and advising third party funds brings us access to greater opportunities as well as returns. The Board continues to believe that MXC is well positioned to deliver good returns to its shareholders.”

**PETER RIGG**  
CHAIRMAN

- Strong balance sheet, net assets of £68.8 million as at 31 August 2017 (31 August 2016: £80.7 million)
- Net asset value per share as at 31 August 2017 of 2.05 pence with the underlying portfolio and liquid assets valued at 1.75\* pence per share
- Adjusted EBITDA\*\* of £1.7 million (2016: £1.2 million)
- Fall in the fair value of the investment portfolio in the year of £11.2 million (2016: gain of £6.7 million), £9.0 million of which related to the diminution in value of options held in an exited investment
- Good progress made in portfolio investments in second half of the year
- Further tender offer made to shareholders of £3.0 million in September 2016, representing 6% of the Company’s market capitalisation as at 31 August 2017
- Share buyback programme commenced in December 2016: 39.1 million shares (1.15% of the Company pre-commencement of the buyback programme) purchased at an aggregate cost of £0.6 million
- Post period end announcement of Joint Venture with Liberty Global plc

→ **£68.8M**  
NET ASSETS

→ **2.05P**  
NET ASSET VALUE PER SHARE

→ **£1.7M**  
ADJUSTED EBITDA\*\*

→ **£3.0M**  
RETURNED TO SHAREHOLDERS

\*underlying portfolio and liquid asset value represents cash balances plus audited valuation of the Company’s portfolio based on closing mid-market prices at 31 August 2017 with privately held assets valued at input cost, the latest fundraising valuation or average market multiples

\*\*earnings from trading activities before interest, tax, depreciation, amortisation, restructuring and non-recurring items, share-based payments and unrealised movements in fair value of investments

# OUR MANAGEMENT

## MXC CAPITAL LIMITED BOARD

MXC Capital Limited is a Guernsey based and incorporated permanent capital vehicle (“PCV”) quoted on AIM with a Board of experienced independent directors setting strategy. The Board is responsible for capital raising, making investment decisions, dividend policy and supervision of the Company’s capital markets business and the company’s Advisory Board.

### **PETER RIGG** **NON-EXECUTIVE CHAIRMAN**

Peter Rigg is an experienced chairman with a background in investment banking. Currently serving as chairman of Polarcus Limited, an Oslo listed marine seismic survey company, Peter is also an independent non-executive director of Schroder Oriental Income Fund Ltd. Peter was formerly Head of Asian Equity Capital Markets and Head of Investment Banking North Asia at Credit Suisse First Boston.

### **IAN SMITH** **CHIEF EXECUTIVE**

Ian has an extensive track record of investing in and managing tech companies. He co-founded MXC Capital and has sat on numerous boards and either led or been involved in a large number of transactions in the TMT sector. Ian has recently led strategic change and value accretion at Redstone plc and Accumuli plc and until recently was deputy executive chairman of Castleton Technology plc, having formerly been CEO, a role he held since the company’s inception.

### **PAUL GUILBERT** **INDEPENDENT NON-EXECUTIVE DIRECTOR**

Paul is an experienced non-executive Director with specific long term expertise serving on the boards of both quoted and unquoted investment companies, and private equity fund businesses including Permira, Apollo, Alchemy and Schrodgers. Through his previous executive role of SVP/Global Head of Private Equity Fund Administration at Northern Trust he was exposed to over 60 separate investment groups. Paul is therefore well placed to both sit on the board of MXC and head the Audit and Remuneration committees.

### **MERIEL LENFESTEY** **INDEPENDENT NON-EXECUTIVE DIRECTOR**

Meriel has significant experience in both technology and investment with more than 17 years’ experience at Board level. She worked at Microsoft and the BBC before becoming a successful entrepreneur. Meriel is currently a strategic adviser to Jersey Telecom and a non-executive director of JVM PCC, a Microsoft Ventures backed, early stage technology fund.

## MXC ADVISORY BOARD

MXC Advisory is the advisory and consultancy division of the company responsible for originating investment opportunities, making recommendations on them and providing operational and strategic guidance to our investee companies. It comprises the Advisory Board which reports to its parent, MXC Capital Limited in Guernsey.

### **ALEX SANDBERG** **CHAIRMAN**

Alex has spent his career advising businesses on building their reputation within the capital markets as well as their value during growth by acquisition, joint venture and geographic expansion, often with a view to attracting fresh investors or an IPO. Alex founded and was executive Chairman of international business communications consultancy College Group prior to its sale to private equity. Alex has advised a number of companies in the TMT sector.

### **TONY WEAVER** **CO-FOUNDER**

Tony has significant experience of sales, operations and management in the TMT sector. He co-founded the advisory subgroup of MXC Capital with Ian Smith. Tony has founded and managed a number of successful private technology companies and Tony has served on the boards of a number of publically quoted companies, including Xploite plc and Redstone plc. Tony is also an operational partner of MXC.

### **MARC YOUNG**

Marc is a corporate financier and corporate broker with a decade of experience leading numerous M&A mandates, IPOs and secondary fundraisings for quoted companies, following experience at both specialist brokerages and an investment bank. Latterly, Marc was a Director and Head of Technology at finnCap Limited. Marc is a chartered accountant, having trained in the Information, Communication and Entertainment division at KPMG.

### **MARTIN CHAPMAN**

Martin was previously head of corporate banking in London for HSBC Bank plc. Martin provides MXC with a wealth of experience in debt advisory and structuring in support of working capital, leverage and acquisition finance. Martin also serves as a non-executive director of Weston Group plc, The Erith Group and Fulham Shore plc.

### **CHARLES VIVIAN**

Charles is also a Partner of MXC Capital Markets LLP (biography page 03).

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## **MXC CAPITAL MARKETS LLP**

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MXC Capital Markets LLP is the FCA regulated corporate advisory business providing corporate advisory services to investee and other companies.

### **MARC YOUNG**

Marc sits on MXC's Advisory Board (biography on page 02) and is Managing Partner of MXC Capital Markets LLP.

### **CHARLES VIVIAN**

Charles has worked as an Investment Executive at EPIC Private Equity and Marwyn Capital. Charles specialises in listed, buy-and-build investment strategies and has led numerous acquisitions and disposals as well as managing the investments in portfolio companies. Charles worked for over six years at international law firm Freshfields Bruckhaus Deringer, where he specialised in public and private M&A. Charles is a partner of MXC Capital Markets LLP and also sits on MXC's Advisory Board.

### **CHARLOTTE STRANNER**

Charlotte joined MXC Capital Markets LLP as a partner from finnCap Limited where she was a director of corporate finance. Charlotte is a chartered accountant with over nine years' experience in equity capital markets and M&A advisory roles, the last six years having focussed on the technology sector.

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## **OPERATIONAL PARTNERS**

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### **JILL COLLIGHAN**

Jill is the finance director of the Group and is currently executive director of Adept4 plc. A chartered certified accountant, Jill has over 13 years of operational experience at plc board level, specialising in finance, human resources, investor relations and corporate finance.

### **PAUL GIBSON**

Paul is currently a non-executive director of Castleton Technology plc and Tax Systems plc. He has had a highly successful career in the TMT sector, most recently as Chief Operating Officer of Advanced Computer Software plc ("ACS") prior to its acquisition by Vista Equity Partners for £725 million. In his five years at ACS Paul oversaw a period of exceptional value creation and transformation, with responsibility for driving both organic and acquisitive growth. Prior to ACS, Paul held a number of senior roles in both financial and operational capacities, latterly as Finance Director of Redac Limited, the Alchemy backed turnaround that was subsequently sold to ACS for £100 million. Paul is focusing on developing and expanding MXC's portfolio of software focused businesses.

# CHAIRMAN'S STATEMENT

**The year has been one of consolidation following an intense period of investment and transactional activity during the previous financial year. Our existing investments have performed in line with our expectations and we remain confident they will deliver good returns for our shareholders.**

During the year, we have continued to support the growth of our portfolio companies which included the completion of two further acquisitions for them, whilst consolidating the benefits of the acquisitions made in the previous period. Our portfolio businesses continue to demonstrate strong rates of growth in both revenues and trading profits.

In an announcement on 3 November 2017, the Board noted the recent weakness in the Company's share price. There is no material reason for this and the Board remains confident in the performance of our underlying investments and of the Company's potential. At year end, the Company had a Net Asset Value ("NAV") of 2.05p per share. The board is aware that throughout the year the Company has traded at a discount to NAV. The depth of this discount is disappointing to all shareholders, including the Company's management and concert party who own approximately 52% of the Company and who are determined to see the discount close.

## BALANCE SHEET

Our balance sheet remains healthy with net assets at 31 August 2017 of £68.8 million (2016: £80.7 million) including £5.1 million of cash without borrowings, giving us the flexibility to make further investments while avoiding the inefficiency of carrying too much capital. The major movement in the year was a £9 million diminution in the value of warrants held in an exited investment.

## TENDER OFFER AND SHARE BUYBACKS

The Company made its second tender offer to shareholders in September 2016 of £3.0 million representing 6% of the Company's market capitalisation as at 31 August 2017. The Company has now returned £3.8 million to shareholders in the past two years.

Commencing in December 2016, the Company conducted a share buyback programme. By year end, 39.1 million shares (1.15% of the Company pre commencement of the buyback programme) have been purchased at an aggregate cost of £0.6 million. The Board will continue to assess whether to extend this programme.

## INVESTMENT PORTFOLIO

£7.1 million of further equity and loan capital investments were made during the year as we continued to support the growth of our portfolio companies.

Highlights from the year included:

- Tax Systems plc ("Tax Systems") continued to trade in line with expectations, having completed its first acquisition and delivered 7% organic revenue growth in the six months to 30 June 2017
- Castleton Technology plc ("Castleton") also continued to trade in line with expectations with both revenue and profitability growing by over 10% organically in the six months to 30 September 2017
- IDE Group Holdings plc\* ("IDE") continued to develop its offering having acquired 365ITMS while delivering revenue growth of 19% and adjusted EBITDA growth of 16% in the six months to 30 June 2017 (on a pro forma basis)
- Other investments, including Sagacity Solutions Limited ("Sagacity") and Adept4 plc ("Adept4") also continued to make good progress in achieving their strategic and financial goals

On 20 November 2017 we announced the formation of a joint venture with Liberty Global Europe 2 Limited, a wholly owned subsidiary of Liberty Global plc ("Liberty Global"), the world's largest international TV and broadband company, with a view to building an IT services provider focused on small and medium sized business customers within the UK. We shall be a 50% shareholder in the joint venture to be known as MXLG Acquisitions Limited. MXC will receive management fees, transaction fees and a profit share over the lifetime of this joint venture.

\*Formerly known as CORETX Holdings plc, name change effective as from 1 December 2017

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## **CORPORATE FINANCE AND ADVISORY**

The year to 31 August 2017 was a quieter year for our corporate finance activities as the Group focused on developing its existing portfolio businesses. We advised Tax Systems on its acquisition of OSMO Data Technology Limited and IDE on its acquisition of 365 ITMS Limited. We continue to evaluate potential opportunities for our investee businesses whilst at the same time maintaining a healthy pipeline of investment possibilities for the Company.

During the year we reduced our costs, without compromising either our advisory or our corporate finance capabilities. Our cost base at year end was £1.2 million lower than the previous year (excluding one off restructuring costs of £0.4 million in the year to 31 August 2016) and the Board will continue to ensure the Group's cost base is right-sized to best support growth in shareholder value.

## **BOARD AND MANAGEMENT CHANGES**

On 1 December 2017 Ian Smith, co-founder of MXC, joined the Board as Chief Executive and will lead the strategic development of the Company going forward. Marc Young has stepped down from the Board to take responsibility for launching a new MXC investment strategy focusing on privately owned growth technology businesses. Marc played a central role in bringing MXC to the AIM market and its subsequent funding. Marc will join the Company's Advisory Board as well as remaining Managing Partner of MXC Capital Markets LLP. The Board welcomes Ian Smith to the role and would like to thank Marc Young for his contribution to the Board during the past three years.

Gavin Lyons and Andy Ross left the MXC partnership to become the CEOs of Tax Systems and IDE respectively. Those businesses will benefit from their experienced, hands on management and I wish them well. During the year, Paul Gibson, who joined the MXC partnership at the end of the previous financial year, was appointed to the Board of Castleton as a non-executive director, bringing his experience to that Board as Castleton commences a period of rapid growth. Paul has also joined the Board of Tax Systems as a non-executive director, bringing them his considerable experience of developing software companies. We shall continue to strengthen our MXC team in due course.

In addition, Martin Bolland is retiring from our Advisory Board as he reduces his commitments to public companies in order to focus on his private investments. Alex Sandberg, who already sits on our Advisory Board will succeed Martin as its Chairman. Martin remains a supportive and significant investor in our company and I would like to thank him and all of our partners and staff for their contribution in the year.

## **OUTLOOK**

In the period under review our core investee companies have maintained good growth momentum. With a portfolio currently focused on five investments, the Group is well positioned to build further value in these businesses both organically and by acquisition.

The Company is continuing to progress a number of promising opportunities, an example of which is our recently announced joint venture with Liberty Global. This transaction marks an important step change in the MXC model, as co-investing in and advising third party funds brings us access to greater opportunities as well as returns. The Board continues to believe that MXC is well positioned to deliver good returns to its shareholders.

## **PETER RIGG CHAIRMAN**

# MARKET OVERVIEW FROM THE INVESTMENT ADVISOR, IAN SMITH

When I look across the technology sector, it is noticeable that the predominant source of capital is from private equity. Meanwhile, technology companies attempting to fulfil their growth plans on AIM have mixed experiences of the market's patience with young, fast growth businesses that by definition, have their trading ups and downs.

At the smaller end, technology companies find public market capital expensive and the reporting onerous. Private equity remains hungry for opportunity in the sector and has the funds to deploy. MXC is well placed to thrive at the cross roads of these dynamics. Ours is an operator led model of co-investment, preparing growth companies to appeal to private equity and public market investors. This partnering for growth remains at the core of our model.

I have said repeatedly that the greatest value in our company is the visibility of and access to deal flow in our sector. With over 90 deals completed over the past 15 years, we have acquired a depth of experience which is second to none. That advantage is hard to replicate and the Board is determined to continue to leverage it to the benefit of our shareholders. In short, whilst the past financial year was not an easy one for us, we all remain absolutely focussed on the opportunity that we see for the Company.

As well as being a year of consolidation, bedding down the previous year's intense pattern of investments and acquisitions for our investee companies, the Company was adversely affected by events at Redcentric plc ("Redcentric"). Redcentric was a business created by MXC as one of its cornerstone investors. The announcement of accounting misstatements at the company in November last year was hugely disappointing. The fall in value of our options in Redcentric has had a material impact on our results for the year reducing the value of our investment portfolio as at 1 September 2016 by some £9 million or 14%.

On a more positive note, in the previous financial year the Company was involved in 12 transactions, applying £31.5 million of funds. During the year under review we focussed on working with the management of our investee companies to review or reset strategy, to strengthen management where necessary and to generally support our investee companies to realise their potential. In this regard, we are pleased with the progress we have made.

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But let me characterise our portfolio. In **TAX SYSTEMS** we have the country's leading provider of corporation tax software and services to a blue-chip corporate and accountancy client base, with an exceptional level of recurring revenue. **CASTLETON** is a prominent one stop provider of an integrated suite of software solutions and services to the social housing sector. **IDE** is fast positioning itself as a key supplier to the mid-market in the managed services, cloud and connectivity space. In **SAGACITY** we have one of the country's leading big data management offerings, providing major utilities, telecoms and financial services companies with solutions born of decades of experience. **ADEPT4** continues to build its 'IT as a Service' offering to SMEs. There is a recurring theme here: high quality service offerings, growing profitability, strong cash flows and the potential to step-change growth by acquisition. We are proud of these investments which are well positioned to build further value for us both organically and by acquisition.

On 20 November 2017 we announced the formation of a joint venture with Liberty Global Europe 2 Limited, a wholly owned subsidiary of Liberty Global, the world's largest international TV and broadband company, with a view to building an IT services provider focused on small and medium sized business customers within the UK. We shall be a 50% shareholder in the joint venture to be known as MXLG Acquisitions Limited. My long-standing business partner and co-founder of MXC, Tony Weaver, will focus on this joint venture with Liberty Global. Tony is already identifying investment opportunities in the managed services sector.

Going forward, I have joined the Board of MXC Capital Limited in the newly created role of Chief Executive. Accordingly, Marc Young has stepped down from that Board but will join our Advisory Board and remains a partner in MXC. I should like to thank Marc for his contribution.

This joint venture with Liberty Global marks an important step change for MXC. Investing in and advising third party funds gives us access to a sufficient level of capital to grow a greater number of assets. Across our own directly held investments and our joint venture with Liberty Global, we believe that we have visibility on around £100 million of assets. To create optimal deal flow, we do not think we need much more than £150 million to maintain a self-sustaining cycle of investment, growth, disposal and distributions to shareholders along the way. Ultimately, with a pool of assets of this quantum, the contribution to MXC should grow significantly, at the same time powering our NAV and returns to shareholders.

We take a three-year view on this "engine" we are developing to be fully firing, as it becomes increasingly self-funding through realisations and self-fuelling through accelerated deal flow, throwing off greater returns in the process. MXC is setting out on the next leg of its journey and I believe it will be a rewarding one for all of us shareholders.

**IAN SMITH**  
**INVESTMENT ADVISOR**

# OUR INVESTMENTS



## CASTLETON

### OVERVIEW OF THE COMPANY

- Quoted on AIM (LSE:CTP)
- Leading supplier of complementary software and managed services to the public and not-for-profit sectors
- A 'One Stop Shop', providing a suite of integrated systems via the Cloud
- Works in partnership with its customers and resellers to help drive efficiencies whilst improving controls and customer service.

### PROGRESS IN 2017

- Revenue and profitability for the six-month period to 30 September 2017 have grown organically by c. 11% (revenue of £10 million and Adjusted EBITDA, as defined by the company in its accounts, of £2.3 million)
- Recurring revenue of over 60%

- Strong operating cash generation in the period has facilitated a continued reduction in net debt, which has decreased from £9.5 million as at 31 March 2017 to £8.0 million as at 30 September 2017
- Appointment of Dean Dickinson as CEO and Paul Gibson, partner at MXC, as non-executive director
- Delivered its integrated product suite on two milestone contracts, both of which run for a period of ten years:
  - Co-operative Housing Ireland Society Ltd is taking multi-product software via a solution hosted by the company's managed services division, Castleton Managed Services
  - Clúid Housing Association is the first customer to acquire Castleton's complete suite of software products
- Customer base now 700+

### 2016/2017 INVESTMENT PERFORMANCE

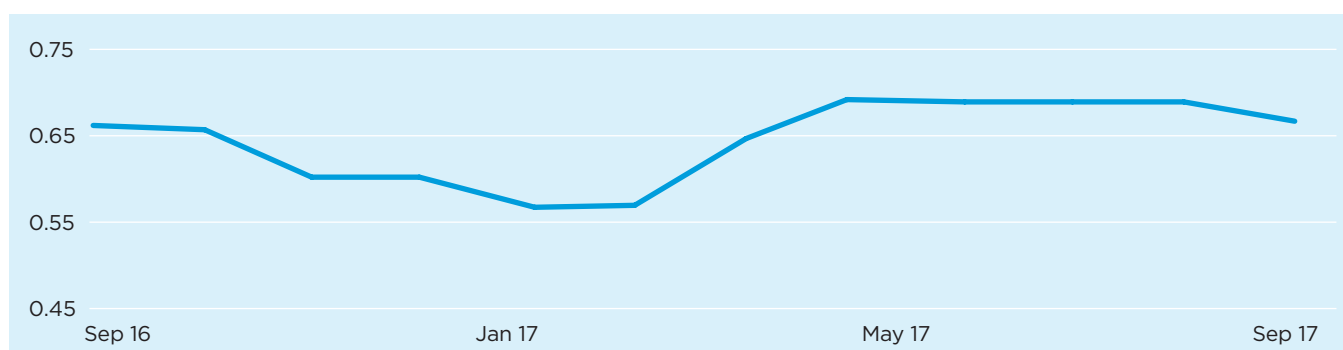
	Value at 31 August 2016 + value of investment in year	Value at 31 August 2017
Shares	£12.7m	£13.3m
Options and Warrants*	£1.5m	£1.6m
	£14.2m	£14.9m

\*For illustrative purposes, assumes all options and warrants have fully vested; calculated as difference between market price and exercise price

### MAJOR INSTITUTIONAL SHAREHOLDERS

Investor	% ownership as at 31 August 2017
Kestrel Partners LLP	26.0%
MXC Capital	25.4%
Nigel Wray	5.3%

### 12 MONTH SHARE PRICE





## TAX SYSTEMS PLC

### OVERVIEW OF THE COMPANY

- Quoted on AIM (LSE:TAX)
- Leading provider of corporation tax software and services to many of the largest companies and the accounting practices in the UK and Ireland
- 43 of the FTSE 100 and 19 out of the top 20 accountancy firms are customers
- Lead product is Alphatax, which deals with virtually all of a company's corporation tax needs and covers practically every aspect of corporation tax

### PROGRESS IN 2017

- Revenue for the six months to 30 June 17 of £7.0 million, representing 7% growth
- 92% recurring revenue from software licences
- Adjusted EBITDA margin, as defined by the company in its accounts, of 49%
- 36 new clients won
- Strategic acquisition of OSMO Data Technology Limited, a provider of automated data extraction software that connects to 295 versions of accounting packages, on 3 April 2017 for £3.2 million, paid in shares
- OSMO technology now linked with the company's flagship product, AlphaTax
- Continuing to focus on delivering an end to end solution for tax departments to drive efficiency through automation and leverage tax data whilst managing tax risk and audit control

### 2016/2017 INVESTMENT PERFORMANCE

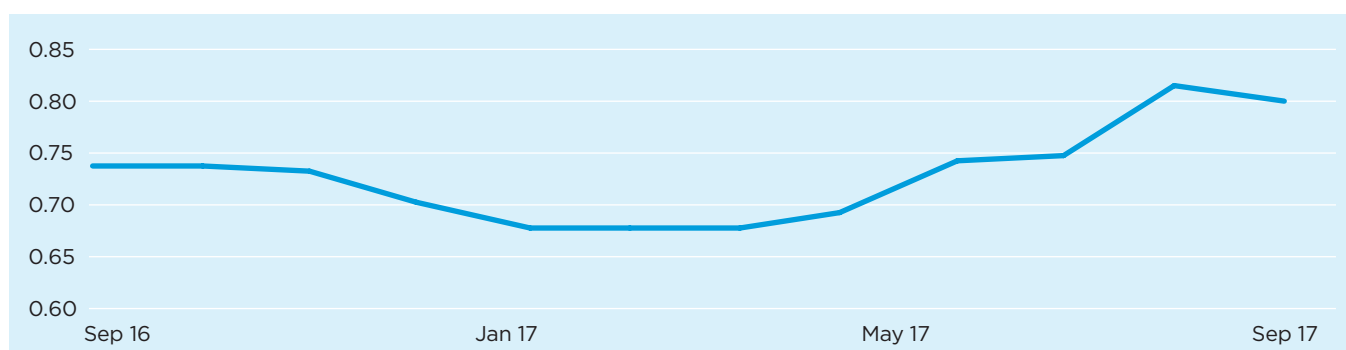
	Value at 31 August 2016	Value at 31 August 2017
Shares	£11.8m	£12.2m
Options and Warrants*	£0.5m	£0.5m
	£12.3m	£12.7m

\*For illustrative purposes, assumes all options and warrants have fully vested; calculated as difference between market price and exercise price

### MAJOR INSTITUTIONAL SHAREHOLDERS

Investor	% ownership as at 31 August 2017
Lombard Odier	19.8%
MXC Capital	18.8%
Coltrane Asset Management	12.6%
Schroder Investment Management	8.3%
Nigel Wray	6.6%
Premier Fund Managers	6.5%
River & Mercantile Asset Management	5.7%

### 12 MONTH SHARE PRICE



# OUR INVESTMENTS



## IDE GROUP HOLDINGS PLC

### OVERVIEW OF THE COMPANY

- Quoted on AIM (LSE:IDE)
- Specialist Managed Service Provider to the mid-market with a broad portfolio of IT services and technology solutions including cloud and hosting, network and connectivity, collaboration, cyber security, managed services and IT asset management
- Seven offices across the UK, employing more than 560 staff to deliver value to customers across all sectors by providing focussed and individually managed IT strategies to support their business goals

### PROGRESS IN 2017

- Revenues of £29.6 million for the six months to 30 June 2017 representing 54% growth (19% growth on a pro forma basis)
- Trading EBITDA, as defined by the company in its accounts, of £3.0 million for the six months to 30 June 2017 representing 27% growth (6% growth on a pro forma basis)

- Acquired 365 ITMS Limited ("365ITMS") for an enterprise value of £5.4 million. 365ITMS is a UK based IT support and services provider with over 400 active customers
- Significant new customer contracts with a value of £5.9 million signed for Lifecycle services to configure, deploy and support over 80,000 new end user devices through their full life
- Investment into new products and services including:
  - Commissioning of a new 20,000 sq ft purpose built IL3 certified facility in Dartford to support the expansion of CITADEL (Lifecycle) solutions
  - Launch of a range of new Cloud based Voice and Hosted Telephony solutions
  - Developing the new PACT Cyber Security business unit
  - Expanding the Microsoft practice to take advantage of the market opportunity in Office 365, Skype for Business and Azure related services

### 2016/2017 INVESTMENT PERFORMANCE

	Value at 31 August 2016	Value at 31 August 2017
Shares	£14.6m	£14.4m
Options and Warrants*	£0.4m	£0.3m
	£15.0m	£14.7m

\*For illustrative purposes, assumes all options and warrants have fully vested; calculated as difference between market price and exercise price

### MAJOR INSTITUTIONAL SHAREHOLDERS

Investor	% ownership as at 31 August 2017
MXC Capital	<b>21.4%</b>
Kestrel Partners LLP	<b>16.4%</b>
Liontrust Investment Partners LLP	<b>11.0%</b>
Coltrane Master Fund	<b>7.1%</b>
LMS Capital	<b>4.9%</b>

### 12 MONTH SHARE PRICE



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## SAGACITY SOLUTIONS

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### OVERVIEW OF THE COMPANY

- Founded in 2005, Sagacity Solutions is dedicated to helping organisations solve complex business challenges. Sagacity specialises in delivering data solutions using its proprietary QTOX software suite, ensuring tangible, quantifiable benefits for its customers
- With an enviable blue-chip customer base, the company specialises in the Energy, Water and Telecommunications sectors. Its software and services seamlessly integrate across these markets and have been developed utilising the core team's industry experience
- Sagacity employs more than 70 staff and selected customers include United Utilities, TalkTalk, Telstra and Eircom

### PROGRESS IN 2017

- Double digit growth in revenue and EBITDA
- High cash generation
- 9 new customer wins in targeted industries
- Significant increases in recurring revenue from both the existing and new customer base
- Productisation of the QTOX suite of software solutions, greatly enhancing the scalability, productivity and profitability of the company's offerings
- Ongoing development of the partnership network globally
- Achieved ISO/IEC 27001 accreditation for Information Security Management

# FINANCE REVIEW

## TRADING RESULTS

The results for the year reflect trading from each element of the Group's merchant banking model: its investments, its corporate finance practice and its advisory business.

## REVENUE

Together, these divisions delivered consolidated revenue for the year of £1.1 million (2016: £4.6 million). The analysis of revenues and trading by segment is shown in note 3 to the financial statements. The fall in revenue in the period is a result of a lower level of corporate finance activities which reflects a period of consolidation in the Group's investee companies.

## MOVEMENT IN VALUE OF INVESTMENTS

The Group prepares its accounts in accordance with IFRS as adopted by the EU, accounting for its investments under IAS 28. This accounting standard mandates that all changes to the fair value of investments are shown in profit or loss, irrespective of whether those changes are considered short-term or permanent. The Group's profit or loss for any given period is, therefore, directly affected by the period-end share price of its investee companies, which, given the nature of the Group's investee companies, can be quite volatile, especially in the early stages of investment. Generally, the Group holds its investments for the longer term but suffered a fall in the fair value of its investment portfolio in the year of £11.2 million, which is directly reflected in the consolidated statement of profit or loss (2016: gain of £6.7 million). Of this loss, £1.4 million related to investments held in quoted and unquoted businesses and £9.8 million to a fall in the fair value of warrants held, predominantly in Redcentric plc as explained in the Market Overview. This loss was partially offset by a realised gain of £3.3 million (2016: £nil) made on the disposal of investments acquired during the year for short-term trading. These movements are detailed in the investments table on page 13.

## ADMINISTRATIVE EXPENSES

Administrative expenses were incurred in the running of all Group entities and include the cost of the Board and its advisers, including the fees associated with maintaining the AIM listing. The Group has a flexible operating model and has controlled costs during the year in line with the fall in revenues, whilst retaining the capability to originate and execute a large volume of investments and transactions for its investee companies.

Administrative expenses have fallen during the year by £1.6 million from £6.8 million in 2016 to £5.2 million in 2017. Of this fall, £1.2 million related to staff costs and £0.4 million to one-off restructuring costs incurred in 2016. Included within Administrative expenses is a non-cash share-based payments charge of £2.3 million (2016: £2.6 million). This charge is in relation to the share incentive scheme implemented in September 2015.

## ADJUSTED EBITDA

As any changes in the fair value of the Group's investment portfolio at any given point in time can affect profit or loss significantly, the Board measures the underlying trading performance of the Group excluding the unrealised gains or losses on its investments. This is based on a measure of EBITDA (earnings before interest, tax, depreciation and amortisation) stated after one-off gains on the sale of investments acquired for short-term trading, but before unrealised movements in the fair value of its longer-term investments and before certain non-trading items such as share-based payments and one-off items ('Adjusted EBITDA'). The Adjusted EBITDA for the year to 31 August 2017 was £1.7 million (2016: £1.2 million). This measure, together with revenue, cash balances and the value of the Group's investments are the principal financial key performance indicators used by the Board in monitoring the performance of the business.

## LOSS FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY

After all costs, including the changes in the fair value of investments, and after net interest charges of £0.03 million (2016: £0.1 million) and a tax charge of £nil (2016: £0.7 million), the reported Group loss for the year was £11.8 million (2016: £3.8 million profit).

The corporate finance business (MXC Capital Markets LLP) made a positive contribution to Adjusted EBITDA of more than £2.6 million over the course of the financial year ended 31 August 2016. However, its revenues are related directly to the volume and size of transactions completed. While we have continued to work on a number of mandates in the year to 31 August 2017, activity has been at a much lower level. We continue to work on a range of other assignments but there can be no certainty that these will complete in the current financial year. While the strength of our joint venture and retained relationships provide us with confidence that sizeable transaction related fees will be generated, the period in which they will fall will remain uncertain. As a result, the Board will continue to evaluate the cost base of our corporate finance and advisory businesses and the best way to retain the capability which we require while seeking to improve the predictability of the contribution made to the Group.

## INVESTMENTS

The year to 31 August 2017 has been a period of consolidation following the intense investment and transactional activity in the previous financial year. This is reflected in the investments made in the year, with £7.1 million of equity and loan capital invested, compared to £31.5 million in 2016. At 31 August 2017, the Group had outstanding loan capital of £0.9 million and its investment portfolio was valued at £52.7 million as shown in the table below:

	Fair value at 1 September 2016 £000	Investment in year £000	Increase/ (decrease) in fair value in year £000	Gain on short-term investment made in year** £000	Disposal proceeds £000	Fair value at 31 August 2017 £000	Original cost of investments held at 31 August 2017 £000	Total unrealised gain on investments as at 31 August 2017 £000
Castleton Technology plc	11,670	1,077	567	-	-	<b>13,314</b>	5,682	7,632
Adept4 plc	4,470	-	(1,703)	-	-	<b>2,767</b>	2,598	169
IDE Group Holdings plc	14,620	-	(215)	-	-	<b>14,405</b>	12,900	1,505
Tax Systems plc	11,819	-	342	-	-	<b>12,161</b>	10,054	2,107
Redcentric plc	87	5,603	(63)	3,324	(8,801)	<b>150</b>	170	(20)
Private companies*	8,070	100	(332)	-	(93)	<b>7,745</b>	6,723	1,022
<b>Total investments</b>	<b>50,736</b>	<b>6,780</b>	<b>(1,404)</b>	<b>3,324</b>	<b>(8,894)</b>	<b>50,542</b>	<b>38,127</b>	<b>12,415</b>
<b>Warrants</b>	<b>12,024</b>	<b>-</b>	<b>(9,838)</b>	<b>-</b>	<b>-</b>	<b>2,186</b>	<b>-</b>	<b>2,186</b>
<b>Total investments and warrants</b>	<b>62,760</b>	<b>6,780</b>	<b>(11,242)</b>	<b>3,324</b>	<b>(8,894)</b>	<b>52,728</b>	<b>38,127</b>	<b>14,601</b>

\*365 Agile plc cancelled its AIM quotation during the period and is therefore included within private company investments in the table above

\*\*Represents total realised gain on original cost of investments sold within the year

## CASH FLOW

The Group's cash outflow from operating activities in the period was £2.6 million (2016: inflow of £1.5 million). This is stated after the payment of £1.5 million of current liabilities in respect of VAT and accruals which arose in August 2016. Corporation tax payments of £2.0 million were made in respect of 2016 profits and £0.4 million was spent servicing the Group's borrowings. Investments and loans of £7.1 million were made in the year and proceeds from the sale of investments and repayment of loans of £9.9 million were received. £1.2 million was received from the issue of new equity whilst £3.0 million was returned to shareholders by way of a tender offer in September 2016 with a further £0.7 million (including costs) spent on the Company's share buy-back programme. The net cash balance at the end of the period was £5.1 million (31 August 2016: £9.8 million).

## NET ASSETS

Net assets at the end of the year were £68.8 million (2016: £80.7 million).

# STRATEGIC REPORT

The directors present their strategic report for the year ended 31 August 2017.

## REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

A detailed review of the business is set out in the Chairman's Statement, the Market Overview and the Financial Review. Included in these reviews are comments on the key performance indicators that are used by the Board on a monthly basis to monitor and assess the performance of the business. These indicators include the level of revenue, Adjusted EBITDA and cash balances and the value of the Group's investments. Future developments and current trading and prospects are set out in the Chairman's Statement, the Market Overview and the Financial Review. These reports together with the Corporate Governance statement contained within the Directors' report are incorporated into this Strategic report by reference and should be read as part of this report. The Group's strategy is focused on maximising its returns from all elements of its merchant banking model.

## RISKS AND RISK MANAGEMENT

Identifying, evaluating and managing the principal risks and uncertainties facing the Group is an integral part of the way we do business. We have policies and procedures in place throughout our operations that enable us to do so, embedded within our management structure and as part of our normal operating processes. Market and economic conditions are recognised as one of the principal risks in the current trading environment. This risk is mitigated by the close monitoring of trading conditions and the performance of our investment portfolio.

The Group is affected by a number of risks and uncertainties, not all of which are wholly within its control as they relate to the wider macroeconomic and legislative environment within which the Group operates. The key financial risks of the Group are detailed in note 19. The key non-financial risks that the Group faces are listed below.

## Portfolio of investments

The Group's largest asset is the portfolio of investments it holds in both quoted and unquoted businesses. The Group is therefore subject to a number of risks in this area, both on terms of its own engagement with these companies and also with the performance of those companies themselves. The key risks the Group faces in this area are:

### Prospective investments

The value of the Group is dependent, inter alia, upon acquiring interests in other businesses. There can be no guarantee that suitable companies will be available for investment or acquisition, or that the Group will successfully identify and invest in such businesses. To mitigate this risk, the Group has a strong pipeline of potential investment opportunities across its target markets.

### Ability to realise value of investee companies

Once the Group has acquired an interest in a business it is likely that such asset may not be realisable immediately, particularly given the nature of the sectors of interest, the size of the targeted businesses and that targeted businesses may be private companies. In addition, smaller companies frequently lack the financial strength, diversity and resources to overcome or survive periods of economic slowdown. Furthermore, the share prices of such companies, if publicly traded, are often subject to significant fluctuations and any volatility in the value of one or more of such businesses could have a substantial impact upon the value of the Group. The Group is also reliant upon the integrity of the financial and non-financial governance within the investee companies. The Group's operating model aims to ensure that sufficient oversight is applied to the investee companies to minimise exposure risks.

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### *Competition in the market place of the Group's investee companies*

Investee companies may be companies which operate in highly competitive markets characterised by evolving customer needs and rapid technological change. Such businesses may well compete with a number of other companies, some of which may well have significantly greater financial, technical and marketing resources. In addition, those competitors may have the ability to respond more quickly to new or emerging technologies, adapt more quickly to changes in customer requirements, have stronger customer relationships, have greater name recognition, and may devote greater resources to the development, promotion and sale of their products than the investee companies. In the markets in which such companies operate, competition may also be based on a variety of factors including product performance, functionality, value, and breadth of sales and service organisation. Competition could result in price reductions, reduced margins, and loss of market share by businesses. The Group's strategy is to invest in companies with the ability to build resilience by way of growth, and focus on quality of product to ensure market share.

### *Early stage of development and limited operating history of investee companies*

Many of the businesses in which the Group invests may be companies at an early stage of commercial development. The commencement of such businesses' generation of material revenues is difficult to predict and there is no guarantee that such businesses will generate any material revenues after investment by the Group or any revenues at all. The resources available to such businesses may not be sufficient to fund the businesses until they are profitable. Some of the businesses may be companies which have a limited sales and operating history upon which their performance and prospects can be evaluated and they may well face the risks frequently encountered by developing companies. These risks include the potential inability to retain key personnel, as well as uncertainty as to which areas to target for growth and expansion. In addition, there can be no assurance that the businesses' proposed operations will be profitable or produce a reasonable return, or any return, on investment. The Group's strategy is, however, formulated by an experienced management team with a strong track record of generating significant gains from early stage companies within the Technology, Media and Telecommunications sector, approved by the board of MXC and executed by a seasoned group of executives.

### *Reliance on key personnel and management*

The success of the Group will be dependent on the services of key management and personnel. Therefore, the directors believe that the ability to attract and retain highly skilled and qualified personnel is crucial. The Group has an incentive scheme in place (see note 21) but there can be no guarantee that such individuals will be retained or identified and employed.

### *Exit of UK from European Union*

The UK has voted in an advisory referendum to leave the European Union (commonly referred to as "Brexit"). The impact of the referendum and consequent triggering of Article 50 of the Lisbon Treaty is not yet clear, but it may significantly affect the fiscal, monetary and regulatory landscape in the UK (and by extension through Protocol 3 of the Treaty of Accession of the United Kingdom to the EEC, Guernsey), and could have a material impact on its economy and the future growth of its various industries. Depending on the exit terms negotiated between EU Member States and the UK following Brexit, the UK could lose access to the single European Union market and the global trade deals negotiated by the European Union on behalf of its members. Such a change in trade terms could affect the attractiveness of the UK as an investment centre and, as a result, could have a detrimental effect on UK companies and financial markets. Although it is not possible to predict fully the effects of an exit of the UK from the European Union, it could have a material effect on the business, financial condition and results of operations of both the Group and its investee companies. The Company pays attention to the progress and direction of the negotiations and will take any actions open to it to mitigate this risk as the impact becomes clearer.

By order of the board

**PETER RIGG**  
**CHAIRMAN**

1 December 2017

# DIRECTORS' REPORT

The directors present their report together with the audited consolidated financial statements for the year ended 31 August 2017 for MXC Capital Limited (the 'Company') and its subsidiaries (together the 'Group').

## CORPORATE STATUS

The Company is domiciled in Guernsey and was incorporated and registered in Guernsey on 19 August 2014 with company number 58895. Its registered office is 1st & 2nd Floors, Elizabeth House, Les Ruettes Brayes, St Peter Port, Guernsey, GY1 1EW.

## PRINCIPAL ACTIVITY

The principal activity of the Group during the year was that of a merchant bank specialising in investing and building value in technology companies. The Company is a permanent capital vehicle that is responsible for the execution and supervision of the Group's strategy.

## RESULTS AND DIVIDENDS

The trading results for the year and the Group's financial position at the end of the year are shown in the financial statements set out on the following pages. The review of the year and the directors' strategy and objectives for the future are set out in the Strategic Report.

The directors do not recommend the payment of a dividend for the year ended 31 August 2017 (2016: £nil).

## PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties are detailed within the Strategic Report, on pages 14 to 15.

Details of the Group's financial risk management objectives and policies are set out in note 19 of the consolidated financial statements.

## DIRECTORS

Peter Rigg	(Non-executive Chairman)
Paul Guilbert	(Non-executive Director)
Meriel Lenfestey	(Non-executive Director)
Marc Young	(Executive Director, resigned 1 December 2017)
Ian Smith	(Chief Executive, appointed 1 December 2017)

The Company has agreed to indemnify its directors against any third-party claims which may be brought against them and has put in place a directors' and officers' insurance policy.

## DIRECTORS' REMUNERATION AND SHARE OPTIONS

Remuneration in respect of the directors was as follows:

	Basic salary and fees £000	Bonus £000	Share- based payments £000	2017 total £000	2016 total £000
Peter Rigg	45	10	-	55	45
Paul Guilbert	35	10	-	45	35
Meriel Lenfestey	30	-	-	30	25
Marc Young	150	-	544	694	798

During the year, an additional fee of £10,000 each was paid to Peter Rigg and Paul Guilbert in recognition of additional duties carried out during 2016.

Marc Young was granted awards under the Company's long-term incentive plan in September 2015. The award is based on 2% of shareholder value created, subject to the achievement of share price and employment-related performance criteria. See note 21 for further details.



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## DIRECTORS' INTERESTS

As at 31 August 2017 the directors and their beneficial interests and those of their families in the share capital of the Company were as follows:

Number of Ordinary shares of nil par value:

	<b>2017</b>	2016
Peter Rigg	<b>10,897,396</b>	9,647,540
Paul Guilbert	<b>1,271,260</b>	822,403
Meriel Lenfestey	-	-
Marc Young	<b>102,212,559</b>	104,767,872

## CORPORATE GOVERNANCE

As a Guernsey incorporated company and under the AIM rules for companies, MXC is not required to comply with the principles and provisions of the 2012 UK Corporate Governance Code published by the Financial Reporting Council. However, the directors recognise the importance of ensuring that high standards of Corporate Governance are maintained and therefore the Company applies all principles the directors consider appropriate to a public company of MXC's size quoted on AIM, taking into account the recommendations contained within the QCA (Quoted Companies Alliance) Guidelines.

### *The Board of Directors*

During the year under review the Board comprised the Non-Executive Chairman (Peter Rigg), two non-executive directors (Paul Guilbert and Meriel Lenfestey) and one executive director (Marc Young).

The business and management of the Company and its subsidiaries are the collective responsibility of the Board, which has a formal written schedule of matters reserved for its review and approval. The Board is responsible for setting the strategic direction of the Group, for making all investment decisions, establishing the policies of the Group and for the overall management of the business of the Group. It is the Board's responsibility to oversee and monitor the financial position and the business and affairs of the Group on behalf of the shareholders, to whom the directors are accountable. The Board also addresses issues relating to internal control and the Group's approach to risk management.

Quarterly Board meetings take place where overall performance against the business plan, its strategy and targets are considered. The Board also holds meetings as issues arise which require its attention. All directors have access to the advice and services of the Company Secretary who is responsible for ensuring that Board procedures and applicable rules and regulations are observed.

There are two standing Board Committees: Audit and Remuneration. Both of these Committees act within defined terms of reference; further detail is set out below.

Formal agendas and reports are provided to the Board on a timely basis for the Board and Committee meetings and the Chairman ensures that all directors are properly briefed on issues to be discussed at the Board meetings. Directors are able to obtain further advice or seek clarity on issues raised at the meetings from within the Company or from external sources.

### *Remuneration Committee*

The Remuneration Committee, which comprises Paul Guilbert as Chairman, Meriel Lenfestey and Peter Rigg, meets not less than twice each year. The committee is responsible for the review and recommendation of the scale and structure of remuneration for senior management, including any bonus arrangements or the award of share options (or similar arrangements) with due regard to the interests of the shareholders and the performance of the Group.

# DIRECTORS' REPORT

Continued

## **Audit Committee**

The Audit Committee comprises Paul Guilbert as Chairman, Meriel Lenfestey and Peter Rigg and also meets at least twice a year. The Board is satisfied that the Chairman of the Audit Committee has recent and relevant financial experience.

The Committee's formal terms of reference include the recommendation, appointment, re-appointment and removal of the external auditors, the review of the scope and results of the interim review and external annual audit by the auditors, their cost effectiveness, independence and objectivity. The Audit Committee also reviews the nature and extent of any non-audit services provided by the external auditors. In addition, the Audit Committee reviews the effectiveness of the Group's internal controls and risk management systems and the integrity of the financial statements and formal announcements. A whistle-blowing arrangement exists whereby matters can be confidentially reported to the Audit Committee. The executive directors and Chief Financial Officer are not members of the Audit Committee but attend the meetings by invitation, as necessary, to facilitate its business.

## **Internal Control**

The Board has overall responsibility for the Group's system of internal control and risk management and for reviewing its effectiveness. The internal control system is designed to manage risk rather than eliminate it and can therefore only provide reasonable and not absolute assurance against material misstatement or loss. The Board confirms that there are ongoing processes for identifying, evaluating and managing the key risks faced by the Group.

The Group is committed to maintaining high standards of business conduct and operates under an established internal control framework covering financial, operational and compliance controls. This is achieved through an organisational structure that has clear reporting lines and delegated authorities. The Board receives monthly financial information which includes key performance indicators and the Executive Director reports on significant changes in the business, the business of the Group's investee companies and the external marketplace, to the extent they represent significant risk.

## **Relations with shareholders**

Copies of the Annual Report and Accounts are issued to all shareholders and copies are available on the Group's website [www.mxccapital.com](http://www.mxccapital.com). The Interim Report is also available on the Group's website. The Group makes full use of its website to provide information to shareholders and other interested parties.

Shareholders are given the opportunity to raise questions at the Annual General Meeting and the directors are available both before and after the meeting for further discussion with shareholders.

Meetings with institutional investors are held following the interim and full-year results and on an ad-hoc basis as required.

## **RELATED PARTY TRANSACTIONS**

Details of the Group's transactions and year end balances with related parties are set out in note 24 of the consolidated financial statements.

## **SUBSEQUENT EVENTS**

Full details of post balance sheet events are included in note 26 to the consolidated financial statements.

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## **DISCLOSURE OF INFORMATION TO THE AUDITOR**

The directors who were in office on the date of approval of these financial statements have confirmed that, as far as they are aware, there is no relevant audit information of which the auditor is unaware. Each of the directors has confirmed that they have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor. The annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

## **AUDITOR**

Grant Thornton Limited were appointed for the year ended 31 August 2017 and have expressed their willingness to continue to act as Auditor to the Company. A resolution for their re-appointment will be proposed at the forthcoming Annual General Meeting.

By order of the board

## **PAUL GUILBERT**

### **DIRECTOR**

On behalf of the Board  
1 December 2017

Registered Office:  
1st & 2nd Floor  
Elizabeth House  
Les Ruettes Brayes  
St Peter Port  
Guernsey  
GY1 1EW

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for the Group for each financial year. As required by the AIM rules of the London Stock Exchange the directors have prepared financial statements for the Group in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs).

The consolidated financial statements are prepared in accordance with IFRS and The Companies (Guernsey) Law, 2008 (as amended) for each financial period and give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial period and of the profit or loss for that period.

In preparing each of the consolidated financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the Group consolidated financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with The Companies (Guernsey) Law, 2008 (as amended). They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

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# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MXC CAPITAL LIMITED

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## OPINION

### ***Our opinion on the financial statements is unmodified***

We have audited the group financial statements of MXC Capital Limited for the year ended 31 August 2017 which comprise the consolidated statement of profit or loss, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated 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 as applied in accordance with the provisions of The Companies (Guernsey) Law, 2008.

In our opinion:

- the group financial statements give a true and fair view of the state of the group's affairs as at 31 August 2017 and of the group's loss for the year then ended;
- are in accordance with IFRSs as adopted by the European Union; and
- comply with the requirements of The Companies (Guernsey) Law, 2008.

## 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 group financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## WHO WE ARE REPORTING TO

This report is made solely to the company's members, as a body, in accordance with Section 262 of The Companies (Guernsey) Law, 2008. 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.

## 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 group 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 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 group financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that 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 group financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### ***Risk 1: Management over-ride of internal controls***

Under ISA (UK) 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities. Additionally the group financial statements include balances that are subject to significant judgement and estimation uncertainty.

Our audit work included, but was not restricted to:

- reviewing the accounting estimates, judgements and decisions made by management, performing testing of journal entries and reviewing any unusual significant transactions.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MXC CAPITAL LIMITED

Continued

## **Key observations**

Based on the procedures performed, we did not note any instance of management override of internal controls. Our testing of journal entries found no unusual entries or behaviours and we did not note any significant transactions outside the normal course of business. We have considered the estimates made by management in valuing the investments and have assessed that the estimates are reasonable.

## **Risk 2: Investment activities are core to operations, giving rise to valuation and existence risks**

Due to the group's investment activity and significant security positions held at the end of the year, this area was subject to special audit focus. The main risks included validity of the investment activity during the year, correctness of fair value measurements of securities and appropriateness of models or similar techniques used for hard-to-value assets.

Our audit work included, but was not restricted to:

- confirmation of the existence of the investments by obtaining third-party confirmation from the group's independent investment custodian;
- testing of significant additions and disposals by reviewing share certificates or other supporting documentation as necessary;
- obtaining an understanding of the valuation techniques used by the valuations specialists and considering the rationale for using the methods employed; and
- where possible, obtaining prices from independent sources and comparing with the share prices applied.

The group's accounting policy on investments is shown in note 2 to the group financial statements and related disclosures are included in note 12.

## **Key observations**

In performing our procedures, we did not identify any material exceptions in relation to the existence of investments. Furthermore we concluded that the valuation techniques used are appropriate and provide a fair basis for representation of the fair value of the investments.

## **Risk 3: Revenue recognition**

Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. Furthermore, in our judgement there is a risk that investment income transactions as recorded may not be complete.

Our audit work included, but was not restricted to:

- assessing whether the group's accounting policy for revenue recognition is in accordance with IFRS;
- obtaining an understanding of management's process to recognise revenue in accordance with the stated accounting policy; and
- testing whether a sample of income transactions has been recognised in accordance with the policy.

The group's accounting policy on revenue recognition is shown in note 2 to the group financial statements and related disclosures are included in notes 3 and 4.

## **Key observations**

Based on the procedures performed, the revenue recognition as at year end appears to be reasonably stated, the policies adopted are appropriate and income is properly supported.

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## OUR APPLICATION OF MATERIALITY

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work. Materiality was determined as follows.

### *Financial statements as a whole:*

- £2,751,000 which is 4% of the group's net assets. This benchmark is considered the most appropriate because for an investment holding structure the value of the investments is the key performance indicator and it is the main focus of the shareholders. Materiality for the current year is similar to the level that we determined for the year ended 31 August 2016.

### *Performance materiality used to drive the extent of our testing:*

- 60% of financial statement materiality for the audit of the group financial statements.

### *Communication of misstatements to the audit committee:*

- £137,550 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

## AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our audit approach was based on a thorough understanding of the group's business and is risk based, and in particular included:

- evaluation by the group audit team of identified components to assess the significance of that component and to determine the planned audit response based on a measure of materiality;
- understanding and evaluation of the group's internal controls environment including its IT systems and controls;
- for components determined to be significant a full scope or targeted approach was taken based on their relative materiality to the group and assessment of audit risk. Significant components audited using a full scope by the group audit team included MXC Capital Limited and MXC Guernsey Limited, representing 67% of the group's total assets. Targeted approach was used for the following significant components: MXC Holdings Limited, MXC Capital (UK) Limited and MXC Capital Markets LLP. These were audited by Grant Thornton UK LLP and in aggregate represent 29% of the group's total assets;
- analytical procedures were performed over remaining group components;
- communication between the group audit team and Grant Thornton UK LLP was continuous via e-mails and regular conference calls throughout the planning, substantive and completion stages of the group audit; and
- substantive testing on significant transactions, balances and disclosures, the extent of which was based on various factors such as our overall assessment of the group control environment and the management of specific risks.

## OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report set out on pages 01 to 56, 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 group financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the group 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 of the group 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.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MXC CAPITAL LIMITED

Continued

## MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters in relation to which The Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the company; or
- the company financial statements are not in agreement with the accounting records; or
- we have not obtained all the information and explanations, which to the best of our knowledge and belief, are necessary for the purposes of our audit.

## RESPONSIBILITIES OF DIRECTORS FOR THE FINANCIAL STATEMENTS

As explained more fully in the statement of directors' responsibilities set out on page 20, the directors are responsible for the preparation of the group 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 group financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the group financial statements, the directors are responsible for assessing the group'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 to cease operations, or have no realistic alternative but to do so.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE GROUP FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the group 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 group 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: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## CYRIL SWALE FOR AND ON BEHALF OF GRANT THORNTON LIMITED CHARTERED ACCOUNTANTS

St Peter Port  
Guernsey

1 December 2017



# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 August 2017

	Notes	2017 £000	2016 £000
Revenue	3	1,089	4,573
Realised profit on disposal of short-term investments	12	3,324	-
Movement in fair value of investments	12	(11,242)	6,696
Cost of sales		(41)	(70)
<b>Gross (loss)/profit</b>		<b>(6,870)</b>	11,199
Other income	4	281	234
Administrative expenses	5	(5,194)	(6,775)
Adjusted EBITDA <sup>(1)</sup>		<b>1,680</b>	1,150
Restructuring and non-recurring costs included within administrative expenses	5	-	(435)
Non-recurring income included within other income	4	280	-
Share-based payments charge	6	(2,329)	(2,590)
Movement in fair value of investments	12	(11,242)	6,696
Depreciation	11	(148)	(139)
Amortisation of intangible assets	10	(24)	(24)
<b>Operating (loss)/profit</b>	5	<b>(11,783)</b>	4,658
Finance income	7	81	91
Finance costs	7	(106)	(219)
<b>(Loss)/profit on ordinary activities before taxation</b>		<b>(11,808)</b>	4,530
Tax credit/(charge) on (loss)/profit on ordinary activities	8	6	(701)
<b>(Loss)/profit and total comprehensive income for the year attributable to owners of the parent company</b>		<b>(11,802)</b>	3,829
<b>(Loss)/earnings per share</b>			
Basic (loss)/earnings per share	9	<b>(0.35)p</b>	0.12p
Diluted (loss)/earnings per share	9	<b>(0.35)p</b>	0.11p

(1) earnings from trading activities before interest, tax, depreciation, amortisation, restructuring and non-recurring items, share-based payments and unrealised movements in fair value of investments.

The notes on pages 29 to 55 form an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 August 2017

	Notes	31 August 2017 £000	31 August 2016 £000
<b>Non-current assets</b>			
Intangible assets	10	11,441	11,573
Property, plant and equipment	11	185	333
Financial assets at fair value through profit or loss	12	52,728	62,760
Loans receivable	13	735	1,790
		<b>65,089</b>	76,456
<b>Current assets</b>			
Trade and other receivables	14	775	684
Cash and cash equivalents	15	5,075	11,232
		<b>5,850</b>	11,916
<b>Total assets</b>		<b>70,939</b>	88,372
<b>Current liabilities</b>			
Trade and other payables	16	(664)	(2,416)
Income tax payable		(15)	(2,086)
Borrowings	17	(45)	(1,508)
Other financial liabilities	18	(188)	(211)
		<b>(912)</b>	(6,221)
<b>Non-current liabilities</b>			
Borrowings	17	(88)	(132)
Other financial liabilities	18	(813)	(1,001)
Deferred tax liability	8	(347)	(294)
		<b>(1,248)</b>	(1,427)
<b>Total liabilities</b>		<b>(2,160)</b>	(7,648)
<b>Net assets</b>		<b>68,779</b>	80,724
<b>Equity</b>			
Share premium	20	59,464	61,936
Share-based payments reserve		5,679	3,350
Merger reserve		(23,712)	(23,712)
Retained earnings		27,348	39,150
<b>Total equity attributable to the owners of the parent</b>		<b>68,779</b>	80,724

The notes on pages 29 to 55 form an integral part of these financial statements.

These financial statements were approved by the Board on 1 December 2017 and signed on its behalf by:

**P RIGG**  
DIRECTOR

**P GUILBERT**  
DIRECTOR

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 August 2017

	Share premium £000	Share- based payments reserve £000	Merger reserve £000	Retained earnings £000	Total £000
<b>Balance at 1 September 2015</b>	<b>37,538</b>	<b>760</b>	<b>(23,712)</b>	<b>35,321</b>	<b>49,907</b>
Profit and total comprehensive income for the year	-	-	-	3,829	3,829
<b>Transactions with owners</b>					
Issue of share capital	25,355	-	-	-	25,355
Costs of share issue	(104)	-	-	-	(104)
Share-based payments charge	-	2,590	-	-	2,590
Purchase of own shares, net of costs	(853)	-	-	-	(853)
	<b>24,398</b>	<b>2,590</b>	<b>-</b>	<b>-</b>	<b>26,988</b>
<b>Balance at 31 August 2016</b>	<b>61,936</b>	<b>3,350</b>	<b>(23,712)</b>	<b>39,150</b>	<b>80,724</b>
<b>Loss and total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(11,802)</b>	<b>(11,802)</b>
<b>Transactions with owners</b>					
Issue of share capital	1,200	-	-	-	1,200
Share-based payments charge	-	2,329	-	-	2,329
Purchase of own shares, net of costs	(3,672)	-	-	-	(3,672)
	<b>(2,472)</b>	<b>2,329</b>	<b>-</b>	<b>-</b>	<b>(143)</b>
<b>Balance at 31 August 2017</b>	<b>59,464</b>	<b>5,679</b>	<b>(23,712)</b>	<b>27,348</b>	<b>68,779</b>

The notes on pages 29 to 55 form an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 August 2017

	Note	2017 £000	2016 £000
<b>Cash flows from operating activities</b>			
Cash (used in)/generated from operations	23	(2,649)	1,522
Corporation tax paid		(2,012)	(830)
<b>Net cash flows (used in)/generated from operating activities</b>		<b>(4,661)</b>	<b>692</b>
<b>Cash flows from investing activities</b>			
Payments to acquire property, plant and equipment		(2)	(226)
Purchase of investments		(6,780)	(30,026)
Proceeds from disposal of investments		8,894	10,440
Loans advanced		(275)	(1,500)
Loans repayments received		1,003	260
Acquisition of subsidiary, net of cash acquired		-	(3,967)
Interest received		-	46
<b>Net cash flows from/(used in) investing activities</b>		<b>2,840</b>	<b>(24,973)</b>
<b>Cash flows from financing activities</b>			
Net proceeds from issue of equity		1,200	6,951
Net costs of purchase of own shares		(3,672)	(853)
Interest paid		(106)	(219)
Borrowings and other liabilities repaid		(288)	(283)
<b>Net cash flows (used in)/from financing activities</b>		<b>(2,866)</b>	<b>5,596</b>
<b>Net decrease in cash and cash equivalents in the year</b>		<b>(4,687)</b>	<b>(18,685)</b>
Cash and cash equivalents at beginning of year		9,762	28,447
<b>Cash and cash equivalents at end of year</b>		<b>5,075</b>	<b>9,762</b>
<b>Comprising:</b>			
Cash and cash equivalents		5,075	11,232
Overdraft		-	(1,470)
		<b>5,075</b>	<b>9,762</b>

The notes on pages 29 to 55 form an integral part of these financial statements.

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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 August 2017

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## 1 GENERAL INFORMATION

MXC Capital Limited (the 'Company') is a company incorporated and domiciled in Guernsey, whose shares are publicly traded on the AIM division of the London Stock Exchange. The registered office is 1st & 2nd Floors, Elizabeth House, Les Ruettes Brayes, St Peter Port, Guernsey, GY1 1EW and the principal place of business is Guernsey.

### BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with applicable International Financial Reporting Standards as issued by the International Accounting Standards Board and adopted by the European Union (IFRS).

These financial statements have been prepared using the measurement bases specified by IFRS for each type of asset, liability or expense. The detailed measurement bases and principal accounting policies of the Company and its subsidiaries (the 'Group') are set out below. The accounting policies have been applied consistently throughout the Group for the purposes of the preparation of these consolidated financial statements. The presentational currency of the Group and functional currency of the Company is Sterling. The consolidated financial statements have been rounded to the nearest thousand.

### GOING CONCERN

These consolidated financial statements have been prepared on a going concern basis. The Group meets its day-to-day working capital requirements through its existing cash reserves which are sufficient to meet currently maturing obligations as they fall due. The directors have reviewed the Group's financial projections and, given the cash balances the Group holds, are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis. The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

### ADOPTION OF NEW ACCOUNTING STANDARDS

There were no updates to financial reporting standards or interpretations which became effective this financial year, which were not in effect for the previous financial year.

### RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

At the date of issue of these financial statements, the following relevant financial reporting standards and interpretations were in issue but not yet effective and have not been applied in these financial statements. The Group is in the process of assessing the impact that the application of these standards and interpretations will have on the Group's financial statements.

- IFRS 16, Leases (effective date for annual periods beginning on or after 1 January 2019);
- IFRS 9, Financial Instruments (2014) (effective date for annual periods beginning on or after 1 January 2018);
- IFRS 15, Revenue from Contracts with Customers (effective date for annual periods beginning on or after 1 January 2018);
- IFRS 2, Classification and Measurement of Share-based Payment Transactions (effective date for annual periods beginning on or after 1 January 2018);
- IAS 7 Disclosure Initiative (Amendments to IAS 7) (effective date for annual periods beginning on or after 1 January 2017);
- Recognition of Deferred Tax Assets for Unrealised Losses (IAS 12); and
- Annual Improvements to IFRSs 2014-2016.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 August 2017

## 1 GENERAL INFORMATION CONTINUED

### BASIS OF CONSOLIDATION

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group, until the effective date of disposal, as applicable.

The consolidated financial statements consolidate those of the Company and its subsidiary undertakings drawn up to 31 August each year. All subsidiaries have a reporting date of 31 August.

The Group applies the acquisition method in accounting for business combinations, with the exception of a business combination in 2015 which was regarded to be outside the scope of IFRS 3 and, as such, management used judgement in determining the appropriate accounting treatment. Under the circumstances, merger accounting was deemed suitable.

Under the acquisition method, the cost of acquisition is measured as the aggregate of the consideration transferred by the Group to obtain control of a subsidiary, which is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group. Acquisition costs are expensed as incurred. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

## 2 ACCOUNTING POLICIES

### SEGMENTAL REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker. The Chief Operating Decision Maker has been identified as the Board of Directors of the Company, which reviews the Group's internal reporting in order to assess performance and allocate resources.

The Group is comprised of the following main operating segments:

**Capital Markets segment** - the Group's FCA regulated corporate finance and related services division.

**Advisory segment** - the Group's advisory and consultancy division, responsible for originating and advising on investment opportunities for the Group, and for providing operational and strategic guidance to clients.

**Central** - all other activities of the Group in performing its principal activity of the provision of merchant banking services, including the management of its investments, are considered together by the CODM.

### REVENUE

Revenue comprises the fair value of the consideration received or receivable for services provided in the ordinary course of the Group's activities. Revenue is shown net of Value Added Tax where applicable and after eliminating sales within the Group.

### RENDERING OF SERVICES

The Group's primary sources of revenue are retainers and transaction fees charged in respect of its corporate finance and advisory activities. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when the services have been provided. The amount is not considered to be reliably measurable until all contingencies relating to the service have been resolved. In the case of retainers charged, these are recognised on a monthly basis in accordance with the provision of services. In the case of transaction fees these are recognised on completion of the relevant transaction.

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## LEASES

Management applies judgement in considering the substance of the lease agreement. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the statement of profit or loss on a straight-line basis over the lease term. Where the Group has substantially all the risks and rewards of ownership, the assets are capitalised as property, plant and equipment and depreciated over the shorter of their useful economic life and the lease term. The resulting lease obligations are included in borrowings net of finance charges. Interest costs on finance leases are charged to the statement of profit or loss so as to produce a constant periodic rate of charge on the remaining balance of the liability for each period.

## TAXATION

The Company is taxed in Guernsey at the standard rate of 0%.

The Group's subsidiaries' current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted at the balance sheet date in the jurisdictions certain of the Group's subsidiaries operate in.

Deferred income taxes are calculated in certain of the Group's subsidiaries using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill or of any other asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Tax losses which are available to be carried forward and other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying temporary differences will be able to be offset against future taxable income. Deferred tax assets and liabilities are measured at tax rates that are expected to apply in the period of realisation based on tax rates and laws that have been enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement except where they relate to items that are charged or credited directly to equity in which case the related deferred tax is also charged or credited directly to equity.

## INVESTMENTS

Investments of the Group include equity securities, warrants and loan notes.

Equity securities classed as investments are designated as fair value through profit and loss ('FVTPL') on initial recognition, as is allowed by the relevant standard for a group of financial assets, financial liabilities or both that is managed and its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel.

Certain subsidiaries of the Company hold investments in investees which are classed as associates as the subsidiary companies are deemed to hold significant influence over these investees. In the opinion of the directors, these subsidiary companies operate akin to venture capital companies and therefore the Group has taken advantage of the exemptions from applying the equity method to account for associates available under IAS 28 and has designated such investments as FVTPL on initial recognition.

Warrants, being derivatives, are by default FVTPL since they classify as held for trading. Loan notes are classified as loans and receivables.

## PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less depreciation and any provision for impairment. Depreciation is provided to write down the cost to the residual value over the assets' estimated useful economic lives as follows:

Office equipment, furniture and fittings	3 years, straight line basis
Motor vehicles	25% reducing balance basis

The residual values and economic lives of assets are reviewed by the directors on at least an annual basis and are amended as appropriate.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 August 2017

## 2 ACCOUNTING POLICIES CONTINUED

### IMPAIRMENT TESTING OF PROPERTY, PLANT AND EQUIPMENT

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). All individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value less costs to sell, and value in use based on an internal discounted cash flow valuation. Any impairment loss is charged pro rata to the assets in the cash-generating unit.

### INTANGIBLE ASSETS AND IMPAIRMENT

#### (i) Goodwill

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognised. Goodwill is carried at cost less accumulated impairment losses. The Group determines whether goodwill is impaired on at least an annual basis. This requires an estimation of the 'value in use' of the cash-generating units to which the goodwill is allocated. Estimating a value in use amount requires the directors to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

#### (ii) Customer contracts

On acquisition of a subsidiary the directors assess the business acquired to identify any intangible assets. Customer contracts meet the criteria for recognition as intangible assets as they are separable from each other and have a measurable fair value, being the amount for which an asset would be exchanged between knowledgeable and willing parties in an arm's length transaction. The fair value of customer contracts is calculated using the discounted cash flows arising from existing customer contracts and relationships based on both contracted and anticipated future fees. Customer contracts are amortised over their estimated useful lives of 3 years on a straight-line basis.

#### (iii) Impairment of intangibles and goodwill

In assessing impairment, management estimates the recoverable amount of each asset or cash generating units based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

### FINANCIAL ASSETS

Financial assets are recognised when the Group becomes a party to the contractual provisions of the instrument. They are assigned to the categories described below on initial recognition, depending on the purpose for which they were acquired. The designations of financial assets are re-evaluated at every reporting date at which a choice of classification or accounting treatment is available, and are as follows:

#### (i) Loans and receivables

Trade and other receivables are recognised initially at fair value less any transaction costs and subsequently amortised cost less any provision for impairment. Any transaction costs are taken to profit or loss. Provision is made where there is evidence that the balances will not be recovered in full. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows.

The Group's loans receivable comprise loans and loan notes which are initially recognised at fair value and stated at amortised cost at each reporting period end. Interest calculated using the effective interest method is recognised in profit or loss within finance income. Provision is made where there is evidence that the balances will not be recovered in full.



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### ***(ii) Financial assets at fair value through profit or loss***

The Group's equity investments are designated as at fair value through profit or loss on initial recognition. Any transaction costs are taken to profit or loss. Gains or losses arising from revaluation of the investments at each reporting period are recognised directly in the Group's profit and loss account.

The Group's warrants are classified as held for trading. Gains or losses arising from revaluation of the warrants at each reporting period are recognised directly in the Group's profit and loss account.

### **FINANCIAL LIABILITIES**

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the financial instrument. The Group's financial liabilities include trade payables, borrowings and an obligation to purchase preferred ordinary shares issued in a subsidiary company. These are measured initially at fair value and subsequently at amortised cost using the effective interest rate method.

### **DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES**

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial assets and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

### **SHARE-BASED PAYMENTS**

#### ***(i) Share options and Long Term Incentive Plan ('LTIP')***

The Group has issued equity-settled share options and awards under LTIPs to certain current and former employees. The fair value of these options and awards is determined at the date of grant and is expensed on a straight-line basis over the vesting period based on the Group's estimate of shares or options that will eventually vest. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made where a change occurs to the expectation of a market based vesting condition. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

The fair value of the options and awards is measured by the Black-Scholes pricing method. All equity-settled share-based payments are ultimately recognised as an expense in the consolidated statement of profit or loss with a corresponding credit to the share-based payments reserve.

Upon exercise of share options the proceeds received, net of attributable transaction costs, are credited to share capital and, where appropriate, share premium. Where vested share options have lapsed, the value previously credited to the share option reserve in relation to those options is transferred to retained profits. Where share options are modified the fair value of those options is reassessed and any revised value is expensed over the vesting period of the modified option. See note 21 for further details.

#### ***(ii) Shares used to settle consultancy services***

The Group on occasion issues equity-settled share-based payments to settle consultancy agreements. The fair value of these payments is determined at the deemed date of grant and is expensed on a straight-line basis over the period of the provision of the relevant services.

### **EQUITY**

Equity comprises the following:

- Share premium, representing the fair value of consideration received for shares, net of expenses of the share issue;
- Share-based payments reserve, representing the cost of equity-settled share-based payments until such share options and awards are exercised or lapse;
- Merger reserve, representing the excess of the Company's cost of investment over the nominal value of MXC Capital (UK) Limited's shares acquired using the principles of predecessor value method accounting;
- Retained earnings, representing the aggregate of all current and prior period retained profits and losses.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 August 2017

## 2 ACCOUNTING POLICIES CONTINUED

### CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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.

Critical accounting estimates and judgements and their underlying assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported revenue and expenses during the periods presented. Actual results may differ significantly from the estimates, the effect of which is recognised in the period in which the facts that give rise to the revision become known. The following paragraphs detail the critical accounting estimates and judgements the Group believes to have the most significant impact on the annual results under IFRS.

#### *(i) Definition of business activities*

The Board has exercised judgement in relation to the definition of its business activities. The Board has assessed the Company's business model in detail against the criteria set out in IFRS 10 and is of the opinion that, although certain of its subsidiaries are investment holding companies, the Company itself does not meet the definition of an 'Investment Company' under IFRS 10, due to its broader merchant banking proposition. All subsidiaries of the Company, including those which are investment holding companies, are therefore consolidated into the Group financial statements as described elsewhere in these accounting policies.

#### *(ii) Accounting for investments*

Certain subsidiaries of the Company hold investments in investees which are classed as associates as the subsidiary companies are deemed to hold significant influence over these investees. In the opinion of the directors, these subsidiary companies operate akin to venture capital companies and therefore the Group has taken advantage of the exemptions from applying the equity method to account for associates available under IAS 28 and has designated such investments as fair value through profit or loss on initial recognition. In the opinion of the board this gives a true and fair view of the Group's operations and financial position to shareholders.

#### *(iii) Fair value measurement of investments*

The Group holds investments in the form of quoted and unquoted securities and warrants measured at fair value. The fair value of these investments is estimated at the reporting period end, under methods detailed in note 12. Estimated fair values may vary from actual prices that would be achieved in an arm's length transaction at the reporting date.

#### *(iv) Fair value measurement of share-based payments*

The fair value of the Group's share-based payments is a significant estimate, calculated as detailed in note 21. Estimated fair values may vary from actual prices that would be achieved in an arm's length transaction at the reporting date.

#### *(v) Impairment assessment*

The Group tests annually whether goodwill and intangible assets have suffered any impairment, in accordance with the accounting policy stated on page 32. The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

#### *(vi) Estimated valuation of intangibles*

On acquisition of a new business, the Group identifies intangible assets. This calculation involves estimates about future revenues, costs, cash flows and the cost of capital for the Group. It also involves estimating the life of customer relationships.

#### *(vii) Estimation of deferred tax liability*

The fair value of the Group's investments is estimated at the reporting period end, as detailed above. The Group provides for deferred tax on the fair value of certain of the Group's investments. The deferred tax liability is therefore an estimate which would vary if the fair value of the underlying investments changed.

#### *(viii) Recoverability of loans and loan notes ("loans")*

As detailed in notes 13 and 14, the Group has outstanding loans receivable. The directors do not believe there are any signs of impairment in respect of the loans at the reporting period end. Given the quantum of the loans and the timescales until redemption the recoverability of these loans is a significant estimate.

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### 3 SEGMENTAL ANALYSIS

Operating segments are reported in a manner consistent with the internal reporting to the Chief Operating Decision Makers ('CODM'). The CODM has been identified as the Board of Directors.

The Board is responsible for strategic decision making and for assessing the performance of the operating segments. The operating segments are defined by distinctly separate product offerings or markets. The CODMs assesses the performance of the operating segments based on the Adjusted EBITDA\* generated by each segment. Assets and liabilities per segment are not monitored by the CODM and therefore that analysis is not provided below.

All revenue originates in the United Kingdom or Guernsey. Third party revenue is detailed in the segmental analysis below as are charges for professional services rendered between the Group's operating segments. Recharges of costs between segments are excluded from the revenue analysis below, in line with the internal reporting to the CODM.

The Group is comprised of the following main operating segments:

**Capital Markets segment** - the Group's FCA regulated corporate finance and related services division.

**Advisory segment** - the Group's advisory and consultancy division, responsible for originating and advising on investment opportunities for the Group, and for providing operational and strategic guidance to clients.

**Central** - all other activities of the Group in performing its principal activity of the provision of merchant banking services, including the management of its investments, are considered together by the CODM.

During the year revenues from the following customers were greater than 10% of total revenue:

	<b>Capital Markets 2017 £000</b>	<b>Advisory 2017 £000</b>	<b>Total 2017 £000</b>
Tax Systems plc	151	171	<b>322</b>
Castleton Technology plc	60	136	<b>196</b>
IDE Group Holdings plc*	162	70	<b>232</b>
Adept4 plc	30	123	<b>153</b>

\*Formerly known as CORETX Holdings plc, name change effective as from 1 December 2017

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 August 2017

## 3 SEGMENTAL ANALYSIS CONTINUED

Results for the year ended 31 August 2017

	Capital Markets £000	Advisory £000	Central transactions £000	Inter- segment transactions £000	Total £000
<b>Revenues:</b>					
Third party	495	594	-	-	1,089
Inter-segment	-	1,137	-	(1,137)	-
<b>Total revenue</b>	<b>495</b>	<b>1,731</b>	<b>-</b>	<b>(1,137)</b>	<b>1,089</b>
<b>Adjusted EBITDA*</b>	<b>(363)</b>	<b>591</b>	<b>1,452</b>	<b>-</b>	<b>1,680</b>
Non-recurring income	-	-	280	-	280
Share-based payments charge	(1,214)	(1,115)	-	-	(2,329)
Depreciation	-	(56)	(92)	-	(148)
Amortisation of intangible assets	(24)	-	-	-	(24)
Unrealised movement in fair value of investments	-	-	(11,242)	-	(11,242)
<b>Operating loss</b>	<b>(1,601)</b>	<b>(580)</b>	<b>(9,602)</b>	<b>-</b>	<b>(11,783)</b>
Finance costs	-	(14)	(92)	-	(106)
Finance income	-	-	81	-	81
<b>Loss before taxation</b>	<b>(1,601)</b>	<b>(594)</b>	<b>(9,613)</b>	<b>-</b>	<b>(11,808)</b>

\*earnings from trading activities before interest, tax, depreciation, amortisation, restructuring and non-recurring items, share-based payments and unrealised movements in fair value of investments.

During the year ended 31 August 2016 revenues from the following customers were greater than 10% of total revenue:

	<b>Capital Markets 2016 £000</b>	<b>Advisory 2016 £000</b>	<b>Total 2016 £000</b>
Tax Systems plc	2,033	107	<b>2,140</b>
IDE Group Holdings plc	1,073	107	<b>1,180</b>
Adept4 plc	364	159	<b>523</b>

### Results for the year ended 31 August 2016

	<b>Capital Markets £000</b>	<b>Advisory £000</b>	<b>Central £000</b>	<b>Inter- segment transactions £000</b>	<b>Total £000</b>
<b>Revenues:</b>					
Third party	3,861	704	8	-	4,573
Inter-segment	120	1,492	-	(1,612)	-
<b>Total revenue</b>	<b>3,981</b>	<b>2,196</b>	<b>8</b>	<b>(1,612)</b>	<b>4,573</b>
<b>Adjusted EBITDA*</b>	<b>2,656</b>	<b>416</b>	<b>(1,922)</b>	<b>-</b>	<b>1,150</b>
Restructuring costs	-	-	(435)	-	(435)
Share-based payments charge	(1,113)	(1,477)	-	-	(2,590)
Depreciation	(1)	(51)	(87)	-	(139)
Amortisation of intangible assets	(24)	-	-	-	(24)
Unrealised movement in fair value of investments	-	-	6,696	-	6,696
<b>Operating profit</b>	<b>1,518</b>	<b>(1,112)</b>	<b>4,252</b>	<b>-</b>	<b>4,658</b>
Finance costs	-	(10)	(209)	-	(219)
Finance income	-	-	91	-	91
<b>Profit before taxation</b>	<b>1,518</b>	<b>(1,122)</b>	<b>4,134</b>	<b>-</b>	<b>4,530</b>

\*earnings from trading activities before interest, tax, depreciation, amortisation, restructuring and non-recurring items, share-based payments and unrealised movements in fair value of investments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 August 2017

## 4 OTHER INCOME

	<b>2017</b>	2016
	<b>£000</b>	£000
Dividends received	<b>1</b>	234
Other non-recurring income	<b>280</b>	-
	<b>281</b>	234

## 5 OPERATING PROFIT

Operating profit is stated after charging to administrative expenses:

	<b>2017</b>	2016
	<b>£000</b>	£000
Amortisation of intangible assets	<b>24</b>	24
Depreciation of owned assets	<b>92</b>	88
Depreciation of assets held under finance leases	<b>56</b>	51
Employee costs, excluding share-based payments charge (see note 6)	<b>1,542</b>	2,554
Share-based payments charge (see note 21)	<b>2,329</b>	2,590
Operating lease rentals	<b>122</b>	157
Restructuring and non-recurring items <sup>(1)</sup>	<b>-</b>	435
Auditor's remuneration:		
Audit of consolidated accounts	<b>24</b>	21
Audit of the Company's subsidiaries	<b>35</b>	36
<i>Non-audit services</i>		
Taxation services	<b>19</b>	16
Other non-audit services	<b>-</b>	19

(1) Restructuring and non-recurring items relate to the restructuring of the MXC Group during the previous financial period.

## 6 PARTICULARS OF STAFF

The average number of persons employed by the Group, including executive directors, during the year was:

	2017 No	2016 No
Fee earners and administration	13	12

The aggregate payroll costs of these persons were:

	2017 £000	2016 £000
Wages and salaries	1,350	2,205
Social security costs	188	345
Pension costs-defined contribution plan	4	4
Total payroll costs	1,542	2,554
Share-based payments charge (see note 21)	2,329	2,590
<b>Total employment costs</b>	<b>3,871</b>	<b>5,144</b>

### DIRECTORS' REMUNERATION

Remuneration of directors, who were the key management personnel during the year, was as follows:

	2017 £000	2016 £000
Short-term employee benefits and fees	280	405
Share-based payments charge	544	498
	824	903

The remuneration of the highest paid director during the year was:

	2017 £000	2016 £000
Aggregate emoluments including short-term employee benefits	150	300
Share-based payments charge	544	498
	694	798

The remuneration of individual directors, who are the key management personnel of the Group, is disclosed in the Directors' report on page 16. No retirement benefits in respect of defined contribution schemes are accruing to any directors.

On 28 September 2015 the Group made awards to certain directors and employees under its recently established Long Term Incentive Plan ('LTIP'). Marc Young, a director of the Company, is entitled to 2% of the shareholder value created under the scheme. For further details, see note 21.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 August 2017

## 7 FINANCE INCOME AND COSTS

	2017 £000	2016 £000
<b>Finance Income</b>		
Interest income on short-term bank deposits	-	35
Interest income on loans receivable	81	56
	<b>81</b>	91

	2017 £000	2016 £000
<b>Finance Cost</b>		
Interest payable on bank overdraft	13	137
Interest payable under finance lease obligations	14	10
Interest payable on other financial liabilities	64	57
Other interest payable	15	15
	<b>106</b>	219

## 8 TAXATION

(a) Tax on (loss)/profit on ordinary activities

	2017 £000	2016 £000
<b>Current tax</b>		
Current year charge	25	1,920
Adjustment in respect of prior periods	(84)	20
	<b>(59)</b>	1,940
<b>Deferred tax</b>		
Movement in provision re fair value of investments	53	(1,239)
<b>Total tax (credit)/charge</b>	<b>(6)</b>	701

The Company is taxed in Guernsey at the standard rate of 0%.



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(b) Reconciliation of the total income tax charge

	<b>2017</b>	2016
	<b>£000</b>	£000
(Loss)/profit on ordinary activities before taxation	<b>(11,808)</b>	4,530
Tax using the applicable Guernsey income tax rate of 0% (2016: 0%)	-	-
UK corporation tax rate of 19.6% (2016: 20.00%) payable on UK profits	<b>25</b>	2,010
Utilisation of tax losses	-	(90)
Prior year adjustment to current income tax	<b>(84)</b>	20
Deferred tax charge/(credit) re temporary differences	<b>53</b>	(1,239)
<b>Total tax (credit)/charge</b>	<b>(6)</b>	701

(c) Deferred tax liability

	£000
At 1 September 2015	-
Temporary difference in respect of fair value of investments	1,533
Credit to income statement	(1,239)
<b>At 31 August 2016</b>	<b>294</b>
Charge to income statement	53
<b>At 31 August 2017</b>	<b>347</b>

## 9 EARNINGS PER SHARE

Earnings per share ('EPS') is based on the profit or loss attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue during the year. The weighted average number of ordinary shares in issue during 2017 and 2016 is:

	<b>2017</b>	2016
	<b>Number</b>	Number
Weighted average shares used to calculate basic EPS	<b>3,351,367,484</b>	3,186,355,864
Dilutive impact of share incentives	-	238,940,391
Weighted average shares used to calculate diluted EPS	<b>3,351,367,484</b>	3,425,296,255

In 2017, the weighted average number of ordinary shares for the purpose of calculating the basic and diluted measures is the same. This is because the outstanding share incentives, details of which are given in note 21, would have the effect of reducing the loss per ordinary share and therefore would be anti-dilutive under the terms of IAS 33.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 August 2017

## 10 INTANGIBLE ASSETS

	Goodwill £000	Customer contracts and related relationships £000	Total £000
<b>Cost</b>			
At 1 September 2015	5,927	73	6,000
Business combinations	5,597	-	5,597
<b>At 31 August 2016</b>	<b>11,524</b>	<b>73</b>	<b>11,597</b>
Adjustment in respect of prior year business combination	(108)	-	(108)
<b>At 31 August 2017</b>	<b>11,416</b>	<b>73</b>	<b>11,489</b>
<b>Amortisation</b>			
At 1 September 2015	-	-	-
Charge for the year	-	24	24
<b>At 31 August 2016</b>	<b>-</b>	<b>24</b>	<b>24</b>
Charge for the year	-	24	24
<b>At 31 August 2017</b>	<b>-</b>	<b>48</b>	<b>48</b>
<b>Net book value</b>			
<b>At 31 August 2017</b>	<b>11,416</b>	<b>25</b>	<b>11,441</b>
At 31 August 2016	11,524	49	11,573

The amortisation charge is included in the Consolidated statement of profit or loss within administrative expenses.

### MXC HOLDINGS LIMITED

The assessment of the fair values of the assets and liabilities on acquisition has been completed. A fair value adjustment to goodwill of £108,000 was made upon review of the acquisition balance sheet.

### GOODWILL

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill is supported by calculating the discounted cash flows arising from value-in-use calculations based on each applicable cash generating unit ("CGU") as detailed below:

#### Capital Markets CGU

This goodwill arising from the acquisition of MXC Capital Markets LLP of £5,927,000 is allocated to this CGU. The value-in-use calculations use cash flow projections based on financial budgets approved by management until 31 August 2019. Cash flows for 3 years beyond this period are extrapolated using the estimated revenue growth rates of 5% per annum and an increase in costs of 3% per annum. The long-term growth rate assumed is 0%.

#### Investments CGU

This goodwill arising from the acquisition of MXC Holdings Limited of £5,489,000 is allocated to this CGU. The value-in-use calculations use cash flow projections over a 5 year period based on management-approved assumptions regarding the time an investment will be held for and the growth in value achieved. Exit multiples of up to 2.8 times are assumed.

In the case of both CGUs, a pre-tax discount rate of 3.25% has been applied to the extrapolated cash flows, which reflects management's risk-adjusted estimate of the weighted average cost of capital.

A reasonably possible adverse movement in any of the above key assumptions made would not give rise to impairment.

## 11 PROPERTY, PLANT AND EQUIPMENT

	Office equipment, furniture and fittings £000	Motor vehicles £000	Total £000
<b>Cost</b>			
At 1 September 2015	11	-	11
Additions	226	115	341
Disposals	-	(97)	(97)
Business combinations	5	197	202
<b>At 31 August 2016</b>	<b>242</b>	<b>215</b>	<b>457</b>
Additions	2	-	2
Disposals	(2)	-	(2)
<b>At 31 August 2017</b>	<b>242</b>	<b>215</b>	<b>457</b>
<b>Depreciation</b>			
At 1 September 2015	3	-	3
Charge for the year	88	51	139
On disposal	-	(18)	(18)
<b>At 31 August 2016</b>	<b>91</b>	<b>33</b>	<b>124</b>
Charge for the year	92	56	148
<b>At 31 August 2017</b>	<b>183</b>	<b>89</b>	<b>272</b>
<b>Net book value</b>			
<b>At 31 August 2017</b>	<b>59</b>	<b>126</b>	<b>185</b>
At 31 August 2016	151	182	333

As at 31 August 2017, included in motor vehicles are assets held under finance leases with a carrying value of £126,000 (2016: £182,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 August 2017

## 12 INVESTMENTS

	Quoted company investments £000	Private company investments £000	Warrants £000	Total £000
<b>Cost</b>				
At 1 September 2015	14,301	-	1,792	16,093
Additions	25,176	4,850	-	30,026
Business combinations	11,029	516	8,840	20,385
Disposals	(10,440)	-	-	(10,440)
Movement in fair value	3,627	1,677	1,392	6,696
<b>At 31 August 2016</b>	<b>43,693</b>	<b>7,043</b>	<b>12,024</b>	<b>62,760</b>
Additions	6,680	100	-	6,780
Disposals	(8,801)	(93)	-	(8,894)
Movement between categories	(155)	155	-	-
Realised gain on short-term investments	3,324	-	-	3,324
Movement in fair value of other investments	(1,945)	541	(9,838)	(11,242)
<b>At 31 August 2017</b>	<b>42,796</b>	<b>7,746</b>	<b>2,186</b>	<b>52,728</b>

The Group's investments at 31 August 2017 relate to equity securities and warrants held in both AIM quoted and private companies. These investments are accounted for at fair value through profit or loss and presented as financial assets at fair value through profit or loss in the Consolidated statement of financial position. The Group generally holds its investments for medium-term gain however, during the year, certain quoted equity investments were disposed of shortly after acquisition. The gain on these investments is accounted for in profit or loss separately from the unrealised movement in those investments expected to be held for the longer term.

### FAIR VALUE MEASUREMENT

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: not traded in an active market but the fair values are based on quoted market prices or alternative pricing sources with reasonable levels of price transparency; or
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The equity securities and warrants are measured at fair value. The quoted equity securities are categorised as level 1 fair values, the warrants and the unquoted equity securities as level 3.

In the case of the warrants, a valuation exercise to estimate their fair value at 31 August has been undertaken. The fair value of the warrants involves the production of a Black-Scholes valuation with estimates made in respect of items such as the timing of the achievability of performance criteria, share price volatility and exercise date. The historic volatility, which is a significant input to the valuation model, constitutes unobservable data in accordance with the relevant standard. The average historical volatility used was 28.6% (2016: 37.1%).

The fair value of the unquoted equity securities is based on a market approach, using either the latest fund raising valuation if applicable, or the application of market-average multiples (EV/EBITDA) to the companies' own data. The financial data of the valued companies themselves is not observable on the market, and whilst the market-average multiples are based on observable market data, the selection of comparable companies used is a significant judgement. The unquoted investees all operate within the technology sector and the key observable inputs were:

Valuation technique	Observable input	Multiple
Market comparable companies	EBITDA multiple	10.3

During the year, £155,000 was transferred from level 1 to level 3 as a previously quoted equity investment de-listed, as shown in the table above. There were no transfers between levels 1, 2 and 3 in 2016. Categorisation of the fair values at 31 August 2017 was:

	Level 1 £000	Level 2 £000	Level 3 £000
Quoted equity securities	42,796	-	-
Unquoted equity securities	-	-	7,746
Derivatives - warrants	-	-	2,186
	<b>42,796</b>	<b>-</b>	<b>9,932</b>

Categorisation of the fair values at 31 August 2016 was:

	Level 1 £000	Level 2 £000	Level 3 £000
Quoted equity securities	43,693	-	-
Unquoted equity securities	-	-	7,043
Derivatives - warrants	-	-	12,024
	<b>43,693</b>	<b>-</b>	<b>19,067</b>

### 13 NON-CURRENT LOANS RECEIVABLE

	2017 £000	2016 £000
Loan notes	639	1,679
Other loans	96	111
	<b>735</b>	<b>1,790</b>

During the previous year, the Group subscribed for £1.5 million 5% convertible unsecured loan notes in Castleton Technology plc ("Loan Notes"). £0.5 million of the Loan Notes were outstanding as at 31 August 2017 (2016: £1.5 million), with £1.0 million Loan Notes having been redeemed during the year. The maturity date of the Loan Notes is 31 January 2021 and the Loan Notes can be redeemed by Castleton Technology plc at any time after the third anniversary of the issue date, or earlier if agreed with the Company. The embedded derivative element of the Loan Notes is valued at £nil as at 31 August 2017 and 2016.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 August 2017

## 14 TRADE AND OTHER RECEIVABLES

	2017 £000	2016 £000
Trade receivables	419	516
Prepayments and accrued income	54	159
Loans receivable	297	-
Other receivables	5	9
	<b>775</b>	<b>684</b>

The ageing of trade receivables at 31 August was:

	2017 £000	2016 £000
Not past due	418	410
Up to 3 months past due	1	79
More than 3 months past due	-	27
	<b>419</b>	<b>516</b>

No past due receivables at the balance sheet date are considered impaired therefore no provision against trade receivables has been made in the consolidated financial statements. The Group trades only with recognised, credit-worthy third parties, typically where the Group has detailed knowledge of the financial position of the counterparty. Receivable balances are monitored on an ongoing basis with the aim of minimising the Group's exposure.

The other classes of assets within trade and other receivables do not contain impaired assets. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable disclosed above.

During the year, the Group made a loan of £275,000 to 365 Agile Group plc. The loan is repayable in November 2017 and carries a 10% coupon.

The carrying amounts of the Group's trade and other receivables are all denominated in sterling.

## 15 CASH AND CASH EQUIVALENTS

	2017 £000	2016 £000
Cash at bank and in hand (excluding overdrafts)	<b>5,075</b>	11,232

The table below shows the balance with the major counterparty in respect of cash and cash equivalents:

	2017 £000	2016 £000
Credit rating		
AA- and above	<b>5,075</b>	11,232

## 16 TRADE AND OTHER PAYABLES

	2017 £000	2016 £000
<b>Current</b>		
Trade payables	56	109
Other payables	43	634
Tax and social security	70	1,045
Accruals	495	628
	<b>664</b>	<b>2,416</b>

## 17 BORROWINGS

	2017 £000	2016 £000
<b>Current</b>		
Bank overdraft	-	1,470
Finance leases	45	38
<b>Total current</b>	<b>45</b>	<b>1,508</b>
<b>Non-current</b>		
Finance leases	88	132
<b>Total non-current</b>	<b>88</b>	<b>132</b>

### FINANCE LEASE LIABILITY

The present value of finance lease liabilities as at 31 August is as follows:

	Minimum lease payments 2017 £000	Interest 2017 £000	Principal 2017 £000
Less than one year	52	7	45
Between one and five years	90	2	88
<b>Total</b>	<b>142</b>	<b>9</b>	<b>133</b>

	Minimum lease payments 2016 £000	Interest 2016 £000	Principal 2016 £000
Less than one year	52	14	38
Between one and five years	142	10	132
<b>Total</b>	<b>194</b>	<b>24</b>	<b>170</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 August 2017

## 18 OTHER FINANCIAL LIABILITIES

The Group has a future obligation to purchase preferred ordinary shares issued in MXC Holdings Limited for a total of £1.1 million. The amortised cost of this obligation is £1.0 million which is analysed in the table below and is based on a discount rate of 3.25%, being the Group's borrowing rate at inception.

	2017 £000	2016 £000
Due within one year	188	211
Due after more than one year	813	1,001

## 19 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

### RISK MANAGEMENT OBJECTIVES AND POLICIES

The investment objective of the Group is to maximise its total return primarily through the capital appreciation of its investments. The Group holds investments in the form of equities, warrants and loan notes. In addition, the Group holds cash and liquid resources as well as having receivables and payables that arise directly from its operations. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The main risks that the Group is exposed to are market risk (which includes currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The most significant financial risks to which the Group is exposed are described below and relate to the following financial instruments:

#### Principal financial instruments

The principal financial instruments used by the Group from which financial instrument risk arises are as follows:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Cash and cash equivalents
- Trade and other payables
- Bank overdraft (in 2016)
- Other financial liabilities

	2017 £000	2016 £000
<b>Financial assets</b>		
Financial assets at fair value through profit or loss	52,728	62,760
Loans and receivables	1,456	2,315
Cash and cash equivalents	5,075	11,232
	<b>59,259</b>	76,307
<b>Financial liabilities</b>		
Trade and other payables - excluding statutory liabilities	594	1,371
Bank overdraft	-	1,470
Other financial liabilities	1,001	1,212
	<b>1,595</b>	4,053



The maturity analysis of the Group's financial assets is as follows:

	On demand £000	<3 months £000	1-5 years £000	<b>Total £000</b>
<b>2017:</b>				
Financial assets at fair value through profit or loss	52,728	-	-	<b>52,728</b>
Loans and receivables	-	721	735	<b>1,456</b>
Cash and cash equivalents	5,075	-	-	<b>5,075</b>
	<b>57,803</b>	<b>721</b>	<b>735</b>	<b>59,259</b>
	On demand £000	<3 months £000	1-5 years £000	Total £000
<b>2016:</b>				
Financial assets at fair value through profit or loss	62,760	-	-	62,760
Loans and receivables	-	525	1,790	2,315
Cash and cash equivalents	11,232	-	-	11,232
	<b>73,992</b>	<b>525</b>	<b>1,790</b>	<b>76,307</b>

## FINANCIAL RISK MANAGEMENT

### Market Risk

#### Currency Risk

The Group has no direct exposure to currency risk. However, the Group is indirectly exposed to currency risk through the companies it invests in. The Group does not hedge against the currency risk, which the Board of Directors believe is a low risk to the Group.

#### Interest Rate Risk

The Group finances its operations through a mixture of Shareholders' capital and reserves, together with leases. During the year the Group received interest of £nil on its cash and cash equivalents (2016: £35,000). The Group has issued loans and loan notes, which are interest bearing. During the year the Group charged interest of £81,000 (2016: £56,000) on its loans and loan notes. All other assets and liabilities of the Group are non-interest bearing.

At 31 August 2017, cash and cash equivalents of £5,075,000 (2016: £11,232,000) are potentially exposed to movements in interest rates. Due to the generally low rates available, a movement in interest rates would not have a material financial impact on the Group. Therefore, the Group does not hedge against the interest rate risk to which it is exposed.

#### Other Price Risk

The Group's exposure to other price risk consists mainly of movements in the value of the Group's investments. The Board manages the price risks inherent in the investment portfolio by ensuring full and timely access to relevant information on current and potential investments. The Board meets regularly and at each meeting reviews investment performance. For the Group's quoted equity securities, an average overall change in fair value of 3% has been observed during 2017 (2016: 9%). Being higher, the comparative figure is considered to be a suitable basis to apply to all of the Group's investments for estimating how profit or loss and equity could have been affected by changes in other price risk that were reasonably possible at the reporting date. If the valuation of the Group's investments increased or decreased by that amount, profit or loss and equity would have changed by £4,746,000 (2016: £5,648,000) in either direction.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 August 2017

## 19 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT CONTINUED

### *Credit risk analysis*

Credit risk is the risk that a counterparty fails to discharge an obligation to the Group. The Group is exposed to this risk principally in respect of cash deposits with financial institutions and its loans receivable. The Group's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at 31 August, as summarised in the 'Principal financial instruments' table above.

The Group's management considers that all of the above financial assets that are not impaired or past due for each of the 31 August reporting dates under review are of good credit quality.

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with high quality external credit ratings of AA- and above.

### *Liquidity risk analysis*

Liquidity risk is that the Group might be unable to meet its financial obligations as they fall due. The Group manages its cash flows to ensure that it will always have sufficient liquidity to meet its liabilities when due. The Board of Directors manages liquidity risk by regularly reviewing the Group's cash requirements by reference to cash flow projections prepared by management.

### *Concentration risk analysis*

Concentration risk is the risk that Group may be adversely affected by its investments being focussed on a relatively small numbers of companies, all of whom operate within the technology sector. See 'Other Price Risk' above for details of how the Group mitigates this risk and the impact it may have on reported results.

## CAPITAL MANAGEMENT

The Group's capital structure is comprised entirely of shareholders' equity. The objective of the Board when managing capital is:

- to ensure the Group can meet its liabilities as they fall due; and
- to maximise the Group's total return primarily through the capital appreciation of its investments.

The capital structure is managed and adjusted to reflect changes in economic conditions. The Group funds its expenditure on commitments from existing cash and cash equivalent balances, primarily received from operating cash flows, the realisation of investments and the issuances of shareholders' equity. There are no externally imposed capital requirements. Financing decisions are made by the Board based on forecasts of the expected timing and level of capital, the operating expenditure required to meet the Group's commitments and development plans and the performance of the Group's current and potential investment portfolio.

## 20 SHARE PREMIUM

<b>Ordinary shares of no par value</b>	<b>Number of shares</b>	<b>Share Premium £000</b>
At 1 September 2015	2,565,350,992	37,538
Issue of share capital	876,329,763	25,251
Purchase of own shares	(22,303,894)	(853)
<b>At 31 August 2016</b>	<b>3,419,376,861</b>	<b>61,936</b>
Issue of share capital	54,533,333	1,200
Purchase of own shares	(122,542,710)	(3,672)
<b>At 31 August 2017</b>	<b>3,351,367,484</b>	<b>59,464</b>

The Company is authorised to issue an unlimited number of Ordinary shares at no par value.

### B SHARES OF NO PAR VALUE

During the previous year the Company issued 1,049,089,816 B shares of no par value as part of the acquisition of MXC Holdings Limited. This is the total number of B shares in issue at 31 August 2016 and 2017. These shares are redeemable shares and are held by MXC Holdings Limited, a wholly-owned subsidiary of the company, and are therefore eliminated in full on consolidation.

### 2017 ORDINARY SHARE ISSUES AND CANCELLATIONS

In September 2016, the Company issued 33,333,333 Ordinary shares at a price of 3.0p per share. 20,000,000 Ordinary shares were issued in 31 October 2016 at a price of 1.0p per share following the exercise of share options. A further 1,200,000 Ordinary shares were issued in March 2017 at a price of 0.0p per share, again to satisfy the exercise of share options.

Following a tender offer to all shareholders in September 2016, 83,399,424 Ordinary shares were purchased by the Company at a price of 3.6p per share and were subsequently cancelled.

During December 2016 to June 2017 the Company bought 39,143,286 Ordinary shares at an average price of 1.63p. These shares have subsequently been cancelled.

### 2016 ORDINARY SHARE ISSUES AND CANCELLATIONS

In September 2015, the Company issued 600,000,000 Ordinary shares to acquire MXC Holdings Limited at a price of 3.05p per share. A further 274,509,820 Ordinary shares were issued in May 2016 via an equity placing at a price of 2.55p per share, raising net proceeds of £6.9 million to increase the Company's investment ability.

1,803,277 Ordinary shares were issued to non-executive directors at a price of 2.55p per share in December 2015 to satisfy a liability in respect of services provided, and 16,666 Ordinary shares were issued at a price of 1p per share in February 2016 to satisfy the exercise of share options.

Following a tender offer to all shareholders, in March 2016 22,303,894 Ordinary shares were purchased by the Company at a price of 3.6p per share and were subsequently cancelled.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 August 2017

## 21 SHARE BASED PAYMENTS

### SHARE OPTION SCHEME

The Company has a share option scheme for certain current and former employees of the Group. Share options outstanding at the end of the year were:

	2017 Number of share options	2017 Weighted average exercise price £	2016 Number of share options	2016 Weighted average exercise price £
Outstanding at the beginning of the year	66,644,176	0.01	66,660,842	0.01
Exercised in the year	(21,200,000)	0.01	(16,666)	0.01
Outstanding at the end of the year	45,444,176	0.01	66,644,176	0.01
Exercisable at the end of the year	45,444,176	0.01	66,644,176	0.01

Share options with an option life of 10 years were granted in 2013 and, as the performance criteria were achieved, all options have fully vested. Where applicable, the Board has exercised its discretion so that options granted to former employees continue to be exercisable.

Options outstanding under the Company's share option schemes at 31 August 2017 were as follows:

Name of scheme	2017 No of options	2016 No of options	Calendar year of grant	Exercise period	Exercise price per share
2013 Enterprise Management Incentive scheme	-	20,000,000	2013	2013-2016	£0.01
	26,644,176	26,644,176	2013	2013-2023	£0.01
	18,800,000	20,000,000	2013	2013-2023	£ nil

The weighted average remaining contractual life of these options is 6 years (2016: 4.9 years).

The fair value of the employees' services received in exchange for the grant of share options is recognised as an expense. The total amount to be expensed over the vesting period was determined by reference to the fair value of the share options granted, calculated using the Black-Scholes option pricing model.

The share-based payments charge in respect of these share options has been fully expensed in previous financial years.

### LONG TERM INCENTIVE PLAN ('LTIP')

On 28 September 2015 the Group made awards to certain directors and employees under its recently established Long Term Incentive Plan ('LTIP').

The beneficiaries of the LTIP are entitled to receive a share in a pool of up to 12.5% of shareholder value created, subject to share price performance criteria, and need to have been employed by the Group for a minimum period of three years. Shareholder value is defined as the growth in the market capitalisation of the Company from the base value of at least three years from August 2014, taking into account dividends and capital returns, if any. The base value is defined as the aggregate value of all of the ordinary shares in the capital of the Company in issue in August 2014 as adjusted for the issue or cancellation of new ordinary shares after that date.

Initially the LTIP is implemented by way of an unapproved share option scheme. However, should certain share price targets be achieved then the unapproved share option scheme will be replaced in part or in whole by an employee shareholder share scheme. The overall entitlement of the beneficiaries and therefore potential dilution to shareholders will remain the same regardless of how the LTIP is implemented.

As at 31 August 2017, awards over 10.43% of shareholder value are in place (2016: 11.25%).

The LTIP scheme has the following broad principles:

Participants at 31 August 2017 are entitled to share in a pool equivalent to 10.43% of shareholder value created in excess of the base value of the Company as at August 2014, subject to the share price performance of the Company. Share price performance will initially be measured at August 2017 or August 2018 (depending when employment commenced), with an extension to August 2019 if the performance condition is not met by those dates. The share price performance criterion for the unapproved share option scheme was a share price of 3 pence over ten consecutive trading days. For the scheme to be replaced by the employee shareholder share scheme the share price must reach 4.5 pence over ten consecutive trading days.

The fair value of the LTIP is calculated by an external valuations expert using a two-tiered Black-Scholes option pricing model together with an empirical model. The fair value of the LTIP at date of implementation, adjusted for subsequent starters and leavers, was £5,539,000 (2016: £5,929,000), generating an expense for equity-settled share-based payments in respect of employee services received during the year to 31 August 2017 of £2,329,000 (2016: £2,590,000). The significant inputs into the model were the LTIP expiry date of August 2020, the expected exercise date of within 12 months, the weighted average share price of 3.05 pence per share at the grant date, a risk free rate of 0.5% and an average volatility of 49.0% which is based on an average of the short and longer term historical volatility of the Company's share price.

## 22 OPERATING LEASE COMMITMENTS

At 31 August 2017, the Group had aggregate minimum lease payments under non-cancellable operating leases in relation to property as follows:

	2017 £000	2016 £000
Due within one year	41	161
Due from one to five years	-	116
	<b>41</b>	<b>277</b>

## 23 NET CASH FLOWS FROM OPERATING ACTIVITIES

	2017 £000	2016 £000
(Loss)/profit on ordinary activities before taxation	<b>(11,808)</b>	4,530
Adjustments for:		
Realised gain on disposal of short-term investments	<b>(3,324)</b>	-
Movement in fair value of investments	<b>11,242</b>	(6,696)
Loss on disposal of PPE	<b>2</b>	-
Depreciation	<b>148</b>	139
Amortisation	<b>24</b>	24
Share-based payment charge	<b>2,329</b>	2,590
Net finance charges	<b>25</b>	128
Decrease in trade and other receivables	<b>187</b>	635
(Decrease)/increase in trade and other payables	<b>(1,474)</b>	172
<b>Cash (used in)/generated from operations</b>	<b>(2,649)</b>	<b>1,522</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 August 2017

## 24 RELATED PARTY TRANSACTIONS

Transactions between the Company and its wholly-owned subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Certain of the Group's investee companies are deemed to be related parties, either because they are classed as associates of the Group, or because they share common directors with a Group company. These companies and transactions with them during the year are as follows:

	<b>Profit and Loss 2017 £000</b>	Profit and Loss 2016 £000	<b>Due 2017 £000</b>	Due 2016 £000
Sales:				
Castleton Technology plc	<b>196</b>	381	<b>25</b>	76
Redcentric plc	<b>36</b>	155	-	28
365 Agile Group plc	<b>95</b>	157	<b>367</b>	251
IDE Group Holdings plc	<b>232</b>	1,180	-	3
Tax Systems plc	<b>322</b>	2,140	<b>12</b>	34
Adept4 plc	<b>153</b>	523	<b>12</b>	77

In addition, at 31 August 2017, the Group had loans outstanding due from Castleton Technology plc of £639,000 (2016: £1,679,000) and 365 Agile Group plc of £297,000 (2016: £nil) as disclosed in notes 13 and 14.

The directors are the key management personnel of the Company and their remuneration is disclosed in the Directors' Report. Social security costs in respect of directors' emoluments were £20,000 (2016: £52,000).

The directors are not aware of any ultimate controlling party.

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## 25 SUBSIDIARIES

At 31 August 2017 the Company had the following subsidiary undertakings.

<b>Investment</b>	<b>Principal activity</b>	<b>Country of incorporation</b>	<b>% ordinary share capital/members' interests owned</b>
MXC Guernsey Limited	Investment and intermediate holding company	Guernsey	100%
MXC Capital (UK) Limited*	Investment and intermediate holding company	England & Wales	100%
MXC Capital Markets LLP*	Corporate Finance	England & Wales	100%
MXC Advisory Limited*	Advisory services	England & Wales	100%
MXC Holdings Limited*	Investment and intermediate holding company	England & Wales	100%
Mathian Limited*	Advisory services	England & Wales	100%
Mantin Capital Limited*	Non-trading	England & Wales	100%
Lammtara Industries EBT Trustees Limited*	Dormant	England & Wales	100%
2ergo Inc*	Dormant	United States	100%
Georgia Holding Company Inc	Dormant	United States	100%
M-Invent Inc*	Dormant	United States	100%
Proteus Movil SA*	Dormant	Argentina	100%

\*held indirectly

## 26 SUBSEQUENT EVENTS

On 20 November 2017 the Company announced that it has signed a joint venture agreement with Liberty Global Europe 2 Limited (a wholly owned subsidiary of Liberty Global plc, the world's largest international TV and broadband company). The parties intend to work together with a view to building an IT services provider focused on small and medium sized business customers within the UK.

The joint venture company will be owned by both parties equally, will be called MXLG Acquisitions Limited and each party will appoint two directors to the board of the company. The Group's shareholding in MXLG Acquisitions Limited will be held by a newly formed subsidiary of the Group, MXC JV Limited.

On 27 November 2017 the Company issued 6.4 million new Ordinary shares at a price of £nil each to satisfy the exercise of share options by a former employee.

# COMPANY INFORMATION

## DIRECTORS

### PETER RIGG

(Non-executive Chairman)

### PAUL GUILBERT

(Non-executive Director)

### MERIEL LENFESTEY

(Non-executive Director)

### MARC YOUNG

(Executive Director, resigned 1 December 2017)

### IAN SMITH

(Chief Executive, appointed 1 December 2017)

## SECRETARY

Carey Commercial Limited

## COUNTRY OF INCORPORATION AND REGISTRATION

Guernsey

## COMPANY NUMBER

58895

## REGISTERED OFFICE

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Elizabeth House  
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Guernsey  
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