MXC CAPITAL LIMITED

ANNUAL REPORT FOR THE YEAR TO 31 AUGUST 2018

MXC | CAPITAL
TECHNOLOGY ADVISER & INVESTOR

LONDON'S TECHNOLOGY FOCUSSED ADVISER AND INVESTOR

MXC is a quoted (AIM: MXCP) adviser to and investor in technology companies, building value in the companies we invest in as well as for our own shareholders.

MXC's model of investing as a principal, sharing in the risk as well as the reward, unambiguously aligns our management directly with the interests of our shareholders.

MXC Capital Limited is a Guernsey based and incorporated permanent capital vehicle that is responsible for the company's strategy, capital raising and investment decisions as well as the supervision of our London based advisory activities. MXC's Advisory Board comprises a number of the company's key professionals all of whom are significant investors in the company. The Advisory Board is responsible for originating investment opportunities and contributing to the day to day management of our investments.

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SUMMARY
A PERIOD OF SIGNIFICANT DEVELOPMENTS

"The period under review has seen significant developments for MXC including our new partnerships with Ravenscroft Limited in relation to GIF Technology and Innovation Cell and the joint venture with Liberty Global plc. Both of these are testament to our expertise in the sector. They not only provide investment opportunities but regular fee income and the opportunity to share in more of the profit than is the case with our public investments. We believe this is an important change in the focus of our business.

I am grateful for the hard work, initiative and creativity of the MXC team during the year and, as ever, for the continuing support of our shareholders. The Board looks to the future with confidence."

PETER RIGG
CHAIRMAN

- Strong balance sheet, net assets of £63.9 million as at 31 August 2018 (31 August 2017: £68.8 million)
- Net asset value per share as at 31 August 2018 of 1.90 pence with the underlying portfolio and liquid assets* valued at 1.61 pence per share
- Trading EBITDA loss** of £1.2 million (2017: loss of £1.6 million)
- Significant further capital invested into existing and new companies within the Group's portfolio
- Post period end establishment of an Employee Benefit Trust to purchase MXC shares in the market in order to satisfy existing and future share incentive awards thereby reducing future shareholder dilution
- Notable milestones during the year include:
  - Launch of the joint venture with Liberty Global plc;
  - Appointment as consultant to Ravenscroft Limited in relation to its role as investment manager to the GIF Technology and Innovation Cell;
  - Sale of a 25% stake in MXCUK, the holding company of MXC's transactional businesses, which completed post year end; and
  - Final exit from Castleton Technology plc, generating a 3.3x return over the period of our investment

*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 2018 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, non-recurring and exceptional items, share-based payments and 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 is an experienced chairman with a background in investment banking. Until May this year he served for 10 years as chairman of Polarcus Limited, an Oslo listed marine seismic survey company and is currently an independent non-executive director of Schroder Oriental Income Fund Ltd and a director of various private companies involved in education in Asia. 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 OFFICER

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

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 Schroders. 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 20 years' experience at Board level. She worked at Microsoft and the BBC before becoming a successful entrepreneur. Meriel is currently a non-executive director at various public, private and third sector companies including Jersey Telecom, Aurigny Air Services, Guernsey Enterprise Agency, Arts for Impact and Gemserv Ltd.

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.

MARTIN CHAPMAN
CHAIRMAN
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.

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.

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.

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 15 years of operational experience at plc board level, specialising in finance, human resources, investor relations and corporate finance.

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.

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.

STEVEN ZHANG
Steven joined MXC from a multi-billion pound international oil trading and distribution group where his role covered M&A, structured trade, finance and strategic planning. Steven started his career by training and qualifying as an accountant with Grant Thornton spending time in their Transaction Services team where he worked on financial due diligence and bid support assigments for public company, corporate M&A and private equity transactions.

CHAIRMAN'S STATEMENT

This year has seen a shift in our focus from investment in public companies to working with and investing alongside third parties, predominantly in the unlisted sector. Examples of this were the sale of our stake in Castleton Technology plc ("Castleton") and our entry into partnership with Liberty Global plc ("Liberty"), and then with Ravenscroft Limited ("Ravenscroft") in relation to GIF Technology & Innovation Cell (the "GIF"). These partnerships mean that in addition to the return on our own investment in a transaction we can also be rewarded by a level of profit share and fee income on the overall transaction, so providing the opportunity for enhanced returns to our shareholders.

As ever, we remain committed to our existing public investments, as evidenced by the purchase of 5.4 million more shares in Tax Systems plc ("Tax Systems") during the year and the purchase of a further 11.3 million shares in Adept4 plc ("Adept4") post year end. In addition, we have provided support for IDE Group Holdings plc ("IDE") both financially and on an operational level.

BALANCE SHEET

Our balance sheet remains healthy with net assets at 31 August 2018 of £63.9 million (2017: £68.8 million) including £12.4 million of cash with no borrowings. This gives us the flexibility to make further investments while avoiding the inefficiency of carrying too much capital. The major movement in the year was a £5.0 million diminution in the value of our investments; the majority of this decrease was attributable to our investment in IDE which was partially offset by an increase in the value of our stake in Castleton.

INVESTMENT PORTFOLIO

£14.9 million of further equity and loan capital investments were made during the year, including:

- £4.9 million which was used to purchase further shares in Tax Systems to take our holding to 25.6%. We are now the largest shareholder in the company;
- Initial investments into the joint venture with Liberty and the GIF; and
- £3.5 million invested into IDE to support the company's cashflow requirements, taking our holding to 43%.

We have also made smaller investments into several private companies during the year. As with our other investments, we continue to work with the management of these companies in order to help develop their strategies and maximise value.

CORPORATE FINANCE AND ADVISORY

Significant resources were invested during the year in securing the agreements with Ravenscroft and Liberty and in building the respective investment pipelines. Both of these partnerships began to generate corporate finance and advisory revenues for the Group during the second half of the financial year.

The fees from our transactional businesses flow to MXC Capital (UK) Limited ("MXCUK"). Post year end, we completed the sale of 25% of this company to Ravenscroft for £2.25 million. The investment represents a deepening of MXC's relationship with Ravenscroft, which we believe will help to grow and drive further value within MXCUK, as well as providing additional opportunities for our investment business. We continue to assess the strategic options for this valuable part of our business.

BOARD & MANAGEMENT CHANGES

On 1 December 2017 Ian Smith, co-founder of MXC, joined the Board as Chief Executive Officer to help lead the strategic development of the Company. At the same time, Marc Young stepped down from the Board and subsequently left the Group to run one of MXC's private investee companies. We are grateful to Marc for his past contribution and we wish him every success in his new role. There have also been changes at an Advisory Board level, with Martin Chapman taking the role of Chairman of the Advisory Board following Alex Sandberg's departure.

EMPLOYEE BENEFIT TRUST

Following the share buyback programme undertaken in the previous financial year, the decision was made to set up an employee benefit trust ("EBT") which was established post year end following completion of the investment by Ravenscroft into MXCUK. The purpose of the EBT is to buy MXC shares in the market to be held to satisfy existing and future share incentivisation awards, so reducing any future dilution for shareholders. The EBT has been funded by way of a loan from MXC and as at 26 November 2018 has purchased circa 6% of the issued share capital of the Company.

OUTLOOK

The period under review has seen significant developments for MXC including our new partnerships with Ravenscroft in relation to the GIF and the joint venture with Liberty. Both of these are testament to our expertise in the sector. They not only provide investment opportunities but regular fee income and the opportunity to share in more of the profit than is the case with our public investments, as detailed in the CEO's Report which follows. We believe this is an important change in the focus of our business.

I am grateful for the hard work, initiative and creativity of the MXC team during the year and, as ever, for the continuing support of our shareholders. The Board looks to the future with confidence.

PETER RIGG
CHAIRMAN

CHIEF EXECUTIVE OFFICER'S REPORT

The year to 31 August 2018 represented a turning point for MXC with four notable milestones;

- **Launch of the joint venture with Liberty;**
- **Our appointment as consultant to Ravenscroft in relation to its role as investment manager to the GIF;**
- **Our sale of a 25% stake in MXCUK, the holding company of MXC's transactional businesses, which completed post year end; and**
- **Our final exit from Castleton.**

The traditional route to market for MXC and its investments has been the public markets. However, what had become clear was that MXC and its shareholders could achieve a higher return on capital by working and investing alongside others, often in the unlisted sector. This model means that not only would MXC generate a return from its own capital invested in a transaction, but, by way of carried interest, could also share in the overall profit of that transaction. Furthermore, by providing advisory and professional services, MXC will also generate fees for providing such expertise alongside our capital. To that end, during this financial year, MXC was appointed as consultant to Ravenscroft in relation to the GIF and entered into a joint venture with Liberty. In both of these cases MXC was selected because of our expertise, demonstrable track record and because we were prepared to invest alongside our partners.

These fledgling relationships are expected to deliver combined fee income in excess of £1 million a year to the Group. Additionally, our profit share of 10% or more on joint investments compares very favourably with the 5% that we have usually received from our investments in public companies, typically by way of warrants.

The fees from these first two initiatives flow through MXCUK, the holding company of MXC's transactional businesses which is where the majority of fees generated by MXC reside. It was this company in which Ravenscroft took a 25% stake, valuing the equity at a minimum of £9 million. This value is not fully recognised within the net asset value of MXC and is unrecognised for shareholders. MXCUK now has high levels of recurring revenue and we are considering strategic options that will realise the current and potential future value inherent in the entity.

Castleton was borne out of what was left in Redstone plc, a turnaround that began in August 2010. At that time Redstone had just posted an £8 million EBITDA loss and across bank loans, investors' loans and creditor stretch was significantly in debt. Two of the members of the current MXC team successfully restructured this business over the course of the next few years and then demerged the managed service side of the business to form a new company which became Redcentric plc. Following the subsequent disposal of Redstone's infrastructure solutions business, a small company generating a few million pounds of revenue was left. This was renamed Castleton and MXC set about enacting a strategy to roll up small software and managed services companies in the social housing sector into Castleton, which resulted in 8 acquisitions. The outcome today is a strong and successful company with excellent organic growth and cash conversion. Having been invested in Castleton since inception and, with a 3.3x return on our capital over 3 years, we took the decision to sell down our stake during the year and at the end of August sold our last remaining shares. Castleton was in fact the fourth buy and build from scratch completed by members of MXC which, in total, were built to a combined valuation of £230 million.

Part of the proceeds from the disposal of our Castleton shares was used to increase our holding in Tax Systems to 25.6%. We now have three public investments, being Tax Systems, IDE and Adept4.

There is no escaping the fact that both IDE and Adept4 have thus far been poor investments for MXC. In response to this, and in order to drive stronger performance, MXC management has now moved to take a much stronger operational position within these businesses. In respect of IDE, we are fully engaged and have demonstrated significant financial commitment to the turnaround, now owning 43% of the equity of that business. It is our intention to right the wrongs of the past and we are working hard to recover our lost value. One of the things we have learned from these situations is that where we are a minority investor in public market companies we have insufficient ability to influence the strategy of our investments and maximise their value, hence the shift towards investing and working alongside other investment partners in the unlisted sector as described above.

SUMMARY

Aside from our underperforming investments in IDE and Adept4 detailed above, this has been a positive year for MXC. The Company has significant cash resources, has developed a proven way to leverage its balance sheet whilst also generating strong, recurring fee income and has delivered yet another profitable exit. The MXC board believes that additional partnerships like the ones entered into this year will become available to us in the future. I am confident that the continuing development of our strategy and the efforts of the MXC team will deliver real shareholder returns from this point forwards.

IAN SMITH
CEO

FINANCIAL REVIEW

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

REVENUE
Together, these divisions delivered consolidated revenue for the year of £1.0 million (2017: £1.1 million). The analysis of revenue and trading by segment is shown in note 3 to the financial statements. Significant resources were invested during the year in securing the agreements with Ravenscroft in relation to the GIF and with Liberty and in building the respective investment pipelines. Both of these arrangements are now generating revenue for the Group.

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. The Group suffered a fall in the fair value of its investment portfolio in the year of £5.0 million (2017: fall of £11.2 million), which is directly reflected in the Consolidated Statement of Profit or Loss. The movement in the value of investments is detailed in the investments table on page 9.

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. Total administrative expenses for the year were £4.0 million (2017: £5.2 million). The Group's share incentives, implemented in September 2015, have now largely vested and therefore the share-based payments charge in the year reduced to £0.4 million (2017: £2.3 million). Excluding this non-cash charge and exceptional staff bonuses paid during the year, underlying administrative expenses fell by £0.5 million from £2.9 million in 2017 to £2.4 million in 2018. This fall predominantly relates to a reduction in staff numbers and a move to less expensive office premises.

During the year, as a result of the Group's disposal of its entire shareholding in Castleton, carried interest in the sum of £1.2 million (including related social security costs) became payable to employees of MXC by way of a bonus. This bonus was targeted principally at employees most responsible for the investment's success and is not related to the trading performance of the Group during the year. It is therefore considered as exceptional in nature.

TRADING 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 gains or losses on its investments. This is based on a measure of EBITDA (earnings before interest, tax, depreciation and amortisation) before movements in the value of its investments and before certain non-trading items such as share-based payments and one-off or exceptional items ("Trading EBITDA"). The Trading EBITDA loss for the year to 31 August 2018 was £1.2 million (2017: £1.6 million). In addition, the Board also measures performance based on the Trading EBITDA stated after one-off gains on the sale of investments acquired for short-term trading where such disposals have been made ("Adjusted EBITDA"), as was the case in the previous financial year. Adjusted EBITDA loss in 2018 was £1.2 million (2017: £1.7 million profit), with the previous year's profit resulting from the disposal of short-term investments.

Trading EBITDA, 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), together with a tax credit of £0.4 million (2017: £nil) primarily in relation to the release of a deferred tax provision, the reported Group loss for the year was £7.6 million (2017: £11.8 million).

INVESTMENTS

As detailed above, this financial year saw MXC sign agreements with Liberty and Ravenscroft in relation to the GIF, with the Group making its maiden investments into the resultant investment vehicles. MXC continues to develop its pipeline of potential co-investments with both of these entities and expects to make further investments in the near-term.

Including the above, during the year the Group made investments into five private companies and two quoted companies, totalling £14.3 million. In addition, loan notes with a value of £0.6 million were converted to equity. Proceeds of £21.5 million were raised from the disposal of investments and the exercise of options, the most notable being the disposal of the Group's entire holding in Castleton. In total, over the period of the investment, a realised profit of £14.6 million was generated from MXC's investment in Castleton, a 3.3x return.

At the year end, the Group had outstanding loan capital of £0.5 million and its investment portfolio was valued at £41.1 million as shown in the table below:

	Fair value at 1 September 2017 £000	Investment cost £000	Change in fair value £000	Disposal/ exercise proceeds £000	**Fair value at 31 August 2018 £000**
Castleton Technology plc	13,314	633	5,332	(19,279)	**-**
Adept4 plc	2,767	–	(1,802)	–	**965**
IDE Group Holdings plc	14,405	3,456	(11,296)	(257)	**6,308**
Tax Systems plc	12,161	4,882	2,374	–	**19,417**
Redcentric plc	150	–	(2)	(148)	**-**
Private companies	7,745	5,931	–	(193)	**13,483**
Total investments	50,542	14,902	(5,394)	(19,877)	**40,173**
Warrants	2,186	–	421	(1,662)	**945**
Total investments and warrants	52,728	14,902	(4,973)	(21,539)	**41,118**

CASH FLOW

The Group's cash outflow from operating activities in the period was £1.9 million (2017: £2.6 million). Investments with a cash cost of £14.3 million were made in the year and proceeds from the sale of investments of £21.5 million were received. £2.3 million was received from the GIF in relation to its investment in 50% of MXC JV Limited (see below) and £0.3 million was spent servicing the Group's borrowings. The cash balance at the end of the period was £12.4 million (2017: £5.1 million).

NET ASSETS

Net assets at the end of the year were £63.9 million (2017: £68.8 million). Of this, £61.6 million (2017: £68.8 million) was attributable to equity holders of the Company and £2.35 million (2017: £nil) was attributable to a non-controlling interest. The non-controlling interest arose as a result of the investment by the GIF in MXC JV Limited, a subsidiary of the Group which holds the investment in the joint venture with Liberty. The proceeds of this investment were used towards the consideration for the initial acquisition by the joint venture. Further details of the non-controlling interest are given in note 26.

STRATEGIC REPORT

The directors present their Strategic Report for the year ended 31 August 2018.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

A detailed review of the business is set out in the Chairman's Statement, the CEO's Report 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, Trading EBITDA and cash balances together with the value of the Group's investments. Future developments and current trading and prospects are set out in the Chairman's Statement, the CEO's Report and the Financial Review. These reports together with the Corporate Governance Statement 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 investment and advisory 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 in 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 which could be caused by the trading underperformance of the investee companies themselves or other internal and external factors. 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 to risks.

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 is 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"). Whilst negotiations between the UK and the European Union continue the impact of Brexit 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. The UK could, however, correspondingly acquire the right to secure additional trade deals with non-EU countries and with the EU itself. 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 or positive 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 any risk as the impact becomes clearer.

By order of the board

PAUL GUILBERT
DIRECTOR
27 November 2018

DIRECTORS' REPORT

The directors present their report together with the audited consolidated financial statements for the year ended 31 August 2018 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 advisor to and investor 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 2018 (2017: £nil).

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties are detailed within the Strategic Report, on pages 10 to 11.

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)
Ian Smith	(Chief Executive Officer, appointed 1 December 2017)
Marc Young	(Executive director, resigned 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

Remuneration in respect of the directors was as follows:

	Basic salary and fees £000	**Additional payment/ bonus £000**	**Benefits £000**	**2018 total £000**	2017 total £000
Peter Rigg	**45**	**20**	**-**	**65**	55
Paul Guilbert	**35**	**15**	**-**	**50**	45
Meriel Lenfestey	**30**	**15**	**-**	**45**	30
Ian Smith(1)	**113**	**336**	**36**	**485**	–
Marc Young(1)	**38**	**-**	**-**	**38**	694

(1) figures relate to the period of directorship. Included in the 2017 total for Marc Young is £544,000 relating to a non-cash share based payments charge.

In recognition of significant investment-related activity during the year, the non-executive directors received an additional payment as set out in the table above.

As a result of the Group's disposal of its shareholdings in Castleton, carried interest in the sum of £1.2m (including social security costs) became payable to employees of MXC as a bonus. Reflecting the exceptional nature of this payment, the allocation of the bonus to two individuals, including Ian Smith, was in excess of the Remuneration Committee's general guidelines for bonus payments of a maximum of 100% of annual salary. The Remuneration Committee felt this appropriately reflected the individuals' personal involvement with the investment since it was acquired by MXC.

DIRECTORS' INTERESTS

As at 31 August 2018 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:

	2018	2017
Peter Rigg	**10,897,396**	10,897,396
Paul Guilbert	**1,271,260**	1,271,260
Meriel Lenfestey	**–**	–
Ian Smith	**518,550,515**	518,550,515

In addition, Ian Smith 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.

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 27 to the consolidated financial statements.

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 2018 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
27 November 2018

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

CORPORATE GOVERNANCE STATEMENT

Since September 2018 all AIM companies have been required to comply with a recognised corporate governance code. MXC has chosen the Quoted Companies Alliance Corporate Governance Code ("QCA Code") published in April 2018 for this purpose. High standards of corporate governance are a priority for the Board, and details of how the Company addresses the ten broad governance principles defined in the QCA Code are set out below.

Principle 1 – Establish a strategy and business model which promote long-term value for shareholders

The Board has set out the Company's business model and strategy, including key challenges in their execution in the Strategic Report. In addition, further information of how the Company performed against its stated strategy and its strategy for growth can be found in the Chairman's Statement, the CEO's Report and the Financial Review.

As a public company, MXC is focused on delivering value for all of the companies in which we invest as well as our shareholders. Furthermore, the Company's strategy is to maximise the returns from all aspects of our investment and advisory model.

Principle 2 – Seek to understand and meet shareholder needs and expectations

MXC is committed to open communication with all of its shareholders.

Copies of the Annual Report and Accounts are issued to all shareholders who have requested them, and copies are available on the Group's website www.mxccapital.com. The Group's interim results and other market announcements are also made available on the website. The Group makes full use of its website to provide information to shareholders and other interested parties.

The Board reviews proxy voting reports and any significant dissent is discussed with relevant shareholders and, if necessary, action is taken to resolve any issues. In compliance with best practice, the level of proxy votes (for, against and vote withheld) lodged on each resolution is declared at all general meetings and in future will be announced.

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.

Ian Smith, Chief Executive Officer, is primarily responsible for communicating with investors. Meetings via the Company's broker are offered to shareholders to discuss strategy, financial performance and investment activity immediately after the full year and interim results announcements. The non-executive directors are available to meet with shareholders if such meetings are requested. Feedback from such meetings with shareholders is provided to the Board to ensure the directors have a balanced understanding of any issues and concerns raised.

The Board receives share register analysis reports on a regular basis to enable them to monitor the Company's shareholder base to better understand and identify the profile of investors on the register.

Principle 3 – Take into account wider stakeholder and social responsibilities and their implications for long-term success

The Group recognises its employees, clients, suppliers, advisors and shareholders as forming part of the wider stakeholder group. Management identifies key relationships within the business and effort is directed to ensuring these relationships are managed appropriately. Regular reviews are undertaken to ensure any issues are addressed promptly. The Board reviews the Group's interaction with its clients and the performance of its investments during quarterly Board meetings and these are summarised in documents provided to the Board.

The Company has a good relationship with its Nomad and broker and other advisers. Feedback from investors is provided by the broker as well as through direct engagement with investors by the Board. The Group meets frequently with clients and communicates regularly with suppliers. Any feedback from clients is brought to the attention of the Board and any issues raised are addressed.

The Company's internal stakeholders are its employees. The Group is committed to employment policies which follow best practice, based on equal opportunities for all employees, irrespective of ethnic origin, religion, political opinion, gender, marital status, disability, age or sexual orientation.

Staff policies

The Group's employment policies are designed to ensure that they meet the statutory, social and market practices in the United Kingdom and Guernsey. The Group systematically provides employees with information on matters of concern to them, consulting them regularly, so that their views can be taken into account when making decisions that are likely to affect their interests. Given the small number of employees, employee involvement in the Group is encouraged, as achieving a common awareness on the part of all employees on the financial, strategic and economic factors affecting the Group, plays a major role in maintaining MXC's relationship with its staff.

The Group gives full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitude and abilities.

The Board believes that its investment in the wider stakeholder network will assist the Company's management in achieving its long-term goals by creating an environment of inclusion, trust and communication which will have positive implications for the long-term success of the Company.

Principle 4 – Embed effective risk management, considering both opportunities and threats, throughout the organisation

Risk assessment and evaluation is an essential part of the Company's planning and an important aspect of the Company's internal control system. The business and management of the Company and its subsidiaries are the collective responsibility of the Board. At each meeting, the Board considers and reviews the trading performance of the Group. The Board has a formal written schedule of matters reserved for its review and approval. These include the approval of the annual budget, major capital expenditure, investment proposals, the interim and annual results and a review of the overall system of internal control, corporate governance and risk management.

The Board has established a risk register which is bespoke to the Group's business. At least twice a year the register is reviewed, and the Board considers the appropriateness of the risks identified and the mitigating action taken by management on a risk by risk basis with a particular focus on those deemed most critical. The Group's principal risks and uncertainties are set out on pages 10 to 11 whist details of the Group's financial risk management objectives and policies are set out in the Notes to the Consolidated Financial Statements in note 19.

Principle 5 – Maintain the board as a well-functioning, balanced team led by the Chair

The Board, chaired by Peter Rigg, currently comprises one executive and three non-executive directors and it oversees and implements the Company's corporate governance programme.

As Chairman, Peter Rigg is responsible for the Company's approach to corporate governance and the application of the principles of the QCA Code. Peter Rigg, Paul Guilbert and Meriel Lenfestey are the Company's independent directors. Further details pertaining to the Board and the roles carried out by each member are set out within Principle 6.

Each board member commits sufficient time to fulfil their duties and obligations to the Board and the Company. They attend quarterly board meetings and join board calls and offer availability for consultation when needed. The contractual arrangements between the directors and the Company specify the minimum time commitments which are considered sufficient for the proper discharge of their duties. However, all board members understand the need to commit additional time as and when required.

Detailed board packs include information on all business units and investments as well as the financial performance of the Group and are circulated ahead of board meetings. Key issues are highlighted and explained, providing board members with sufficient information to enable an informed discussion in the board meeting.

The Board is supported by its Audit Committee and its Remuneration Committee. Further details of these committees are set out in Principle 9 below. All four quarterly board meetings held during the year have been attended by all directors in post at the time of the meetings. There have been two Audit Committee and three Remuneration Committee meetings during the year. All directors sitting on each committee have attended all meetings.

Principle 6 – Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities

The Chairman believes that the Board has a suitable mix of skills and competencies covering all essential disciplines bringing a balanced perspective that is beneficial both strategically and operationally and will enable the Company to deliver its strategy.

The Board consists of one executive director and three independent non-executive directors and comprises three men and one woman. The nature of the Company's business requires the directors to keep their skillset up to date. Periodic updates to the Board on regulatory matters are given by Company's professional advisers.

CORPORATE GOVERNANCE STATEMENT
Continued

The Company's Nomad and lawyers are consulted on any significant matters where the Board believes external expertise is required. External advisers attend board meetings as invited by the Chairman to report and/or discuss specific matters relevant to the Company and the markets in which it operates. The Company Secretary also advises the Board on corporate governance and regulatory matters and attends the Board meetings. In keeping with best practice as set out the in the QCA Code the Company has split the role of Chief Financial Officer and Company Secretary.

The directors of the Company, together with their experience relevant to the Company's business are outlined below:

Peter Rigg, Independent non-executive Chairman: Peter is an experienced chairman with a background in investment banking. Until May this year he served for 10 years as chairman of Polarcus Limited, an Oslo listed marine seismic survey company and is currently an independent non-executive director of Schroder Oriental Income Fund Ltd and a director of various private companies involved in education in Asia. Peter was formerly Head of Asian Equity Capital Markets and Head of Investment Banking North Asia at Credit Suisse First Boston.

Paul Guilbert, Independent non-executive: 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 Schroders. 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: Meriel has significant experience in both technology and investment with more than 20 years' experience at Board level. She worked at Microsoft and the BBC before becoming a successful entrepreneur. Meriel is currently a non-executive director at various public, private and third sector companies including Jersey Telecom, Aurigny Air Services, Guernsey Enterprise Agency, Arts for Impact and Gemserv Ltd.

Ian Smith, Chief Executive Officer: Ian has an extensive track record of investing in and managing tech companies. He co-founded the advisory subgroup of MXC Capital. Ian has sat on numerous boards and either led or been involved in a large number of transactions in the TMT sector. Ian led strategic change and value accretion at Redstone plc and Accumuli plc and was previously deputy executive chairman at Castleton Technology plc, having formerly been CEO, a role he held since the company's inception. He currently sits on the board of IDE Group Holdings plc.

Principle 7 – Evaluate board performance based on clear and relevant objectives, seeking continuous improvement

The Chairman is responsible for ensuring the annual evaluation of the Board's performance and that of its committees and individual directors. The first performance evaluation of the Board, its Chairman and its committees was conducted in September 2017. This was conducted by questionnaire, evaluating the composition of the Board as a whole, the strength, skills & experience of each director, the effectiveness of the meetings and the monitoring and control mechanisms in place. Based upon the questionnaire responses and individual meetings with the Chairman, it was concluded following discussion, that the Board and its committees are operating efficiently and that the individual directors contribute effectively and demonstrate their commitment to the Company.

The next evaluation will take place in 2019 for which the Board is in the process of engaging external advisers to evaluate the performance of the Board with a view to supplementing its own internal evaluation processes.

In all cases board appointments are made after consultation with advisers and in some cases with major shareholders. The Nomad undertakes due diligence on all new potential board candidates. All board members have appropriate notice periods so that if a board member indicates his/her intention to step down, there is sufficient time to appoint a replacement, whether internally or externally.

Principle 8 – Promote a corporate culture that is based on ethical values and behaviours

The Board firmly believes that sustained success will best be achieved by adhering to a corporate culture of treating all stakeholders fairly and with respect. Accordingly, in dealing with each of the Company's principal stakeholders, MXC encourages its staff to operate in an honest and respectful manner.

The Chief Executive Officer takes the lead in developing the corporate culture and encourages all employees to contribute to its evolution. The Board believes that achieving a common awareness across all employees plays a major role in maintaining good employee relations.

MXC is committed to promoting a culture based on ethical values and behaviours across its business. Policies are in place covering key matters such as bribery, protection of intellectual property and sensitive information, conflicts of interest and whistleblowing. These are rigorously enforced.

The Company is committed to building an inclusive culture. Discrimination in all its forms (including on the basis of ethnic origin, religion, political opinion, gender, marital status, disability, age or sexual orientation) is not tolerated at any level.

Principle 9 – Maintain governance structures and processes that are fit for purpose and support good decision-making by the board

The business and management of the Company and its subsidiaries are the collective responsibility of the Board. At each board meeting, the Board considers and reviews the trading performance of the Group. The Board has a formal written schedule of matters reserved for its review and approval. These include the approval of the annual budget, major capital expenditure, investment proposals, the interim and annual results and a review of the overall system of internal control and risk management.

There are two standing board committees – Audit and Remuneration. Each of these committees acts within defined terms of reference. The roles of the Audit Committee and the Remuneration Committee are set out below:

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.

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 Board recognises that under the QCA Code the Chairman should not sit on the Audit Committee but considers Peter's experience is of benefit to the committee as a whole.

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 CEO and Chief Financial Officer are not members of the Audit Committee but attend the meetings by invitation, as necessary, to facilitate its business.

Principle 10 – Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

The Company reports formally to its shareholders and the market generally twice each year with the release of its interim and full year results. The full year results are audited by an external firm of auditors with the interim statement usually subject to a review by the same external auditors. These reports contain full details of all the principal events of the relevant period together with an assessment of current trading and future prospects and the reports are made available via the Company's website to anyone who wishes to review them. Interim announcements are made to the market as required under AIM regulations.

The Company maintains a regular dialogue with stakeholders including shareholders to enable interested parties to make informed decisions about the Company and its performance. The Board believes that transparency in its dealings offers a level of comfort to stakeholders and an understanding that their views will be listened to.

The Board already discloses the results of general meetings by way of announcement and discloses the proxy voting numbers to those attending the meetings. To improve transparency, the Board has committed to announcing proxy voting results in future. In the event that a significant portion of voters vote against a resolution, an explanation of what actions it intends to take to understand the reasons behind the vote will be included.

Historical annual reports and other governance related material, including notices of all general meetings over the last five years can be found on the Company's website.

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.

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

OPINION

Our opinion on the group financial statements is unmodified

We have audited the group financial statements of MXC Capital Limited and its subsidiaries (the "group") for the year ended 31 August 2018, which comprise the consolidated statement of profit or loss, the consolidated statement of financial position, the consolidated statement of changes in equity, the 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.

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 2018 and of its 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 group financial statements in Guernsey, 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 group 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 group 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 override of internal controls

Under ISA (UK) 240 there is a presumed risk that the risk of management override 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 consideration. 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.

Risk 3: Revenue recognition

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 IFRSs as adopted by the European Union;
- obtaining an understanding of management's process to recognise revenue in accordance with the stated accounting policy; and
- performing substantive procedures on material revenue streams.

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.

OUR APPLICATION OF MATERIALITY

We define materiality as the magnitude of misstatement in the group 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.

Group financial statements as a whole:

- £2,558,000 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 the same as the level that we determined for the year ended 31 August 2017.

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:

• £127,900 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 85% of the group's total assets. Targeted approach was used for the following significant components: MXC Holdings Limited, MXC Capital (UK) Limited, MXC Capital Markets LLP and MXC Advisory Limited. These were audited by Grant Thornton UK LLP as component auditor and in aggregate represent 15% of the group's total assets;
- analytical procedures were performed over remaining group components;
- communication between the group audit team and the component auditor, 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, other than the group financial statements and our auditor's report thereon. Our opinion on the group 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.

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:

- 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.

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

Continued

RESPONSIBILITIES OF DIRECTORS FOR THE FINANCIAL STATEMENTS

As explained more fully in the statement of directors' responsibilities set out on page 18, 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. 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

27 November 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 August 2018

	Notes	2018 £000	2017 £000
Revenue	3	**1,034**	1,089
Realised profit on disposal of short-term investments	12	**-**	3,324
Movement in fair value of investments	12	**(4,973)**	(11,242)
Cost of sales		**(67)**	(41)
Gross loss		**(4,006)**	(6,870)
Other income	4	**40**	281
Administrative expenses	5	**(3,951)**	(5,194)
Trading EBITDA(1)		**(1,241)**	(1,644)
Realised profit on disposal of short-term investments	12	**-**	3,324
Adjusted EBITDA(2)		**(1,241)**	1,680
Non-recurring income included within other income	4	**-**	280
Exceptional costs	6	**(1,221)**	-
Share-based payments charge	6	**(373)**	(2,329)
Movement in fair value of investments	12	**(4,973)**	(11,242)
Depreciation	11	**(84)**	(148)
Amortisation of intangible assets	10	**(25)**	(24)
Operating loss	5	**(7,917)**	(11,783)
Finance income	7	**34**	81
Finance costs	7	**(56)**	(106)
Loss on ordinary activities before taxation		**(7,939)**	(11,808)
Tax credit on loss on ordinary activities	8	**381**	6
Loss and total comprehensive income for the year attributable to owners of the parent company		**(7,558)**	(11,802)
Loss per share			
Basic loss per share	9	**(0.22)p**	(0.35)p
Diluted loss per share	9	**(0.22)p**	(0.35)p

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

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

The notes on pages 27 to 52 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 August 2018

	Notes	31 August 2018 £000	31 August 2017 £000
Non-current assets			
Intangible assets	10	**11,416**	11,441
Property, plant and equipment	11	**148**	185
Financial assets at fair value through profit or loss	12	**41,118**	52,728
Loans receivable	13	**182**	735
		52,864	65,089
Current assets			
Trade and other receivables	14	**1,044**	775
Cash and cash equivalents	15	**12,433**	5,075
		13,477	5,850
Total assets		**66,341**	70,939
Current liabilities			
Trade and other payables	16	**(1,506)**	(664)
Income tax payable		**–**	(15)
Borrowings	17	**(19)**	(45)
Other financial liabilities	18	**(194)**	(188)
		(1,719)	(912)
Non-current liabilities			
Borrowings	17	**(59)**	(88)
Other financial liabilities	18	**(619)**	(813)
Deferred tax liability	8	**–**	(347)
		(678)	(1,248)
Total liabilities		**(2,397)**	(2,160)
Net assets		**63,944**	68,779
Equity			
Share premium	20	**59,464**	59,464
Share-based payments reserve		**6,052**	5,679
Merger reserve		**(23,712)**	(23,712)
Retained earnings		**19,790**	27,348
Equity attributable to the owners of the parent		**61,594**	68,779
Non-controlling interest	26	**2,350**	–
Total equity		**63,944**	68,779

The notes on pages 27 to 52 form an integral part of these financial statements.

These financial statements were approved by the Board on 27 November 2018 and signed on its behalf by:

I SMITH
DIRECTOR

P GUILBERT
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 August 2018

	Share premium £000	Share-based payments reserve £000	Merger reserve £000	Retained earnings £000	Non-controlling interest £000	Total £000
Balance at 1 September 2016	**61,936**	**3,350**	**(23,712)**	**39,150**	**–**	**80,724**
Loss and total comprehensive loss for the year	–	–	–	(11,802)	–	(11,802)
Transactions with owners						
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)
	(2,472)	**2,329**	**–**	**–**	**–**	**(143)**
Balance at 31 August 2017	**59,464**	**5,679**	**(23,712)**	**27,348**	**–**	**68,779**
Loss and total comprehensive loss for the year	–	–	–	(7,558)	–	(7,558)
Transactions with owners						
Share-based payments charge	–	373	–	–	–	373
Changes in ownership interests						
Sale of NCI in subsidiary without a change in control	–	–	–	–	2,350	2,350
Balance at 31 August 2018	**59,464**	**6,052**	**(23,712)**	**19,790**	**2,350**	**63,944**

The notes on pages 27 to 52 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 August 2018

	Note	2018 £000	2017 £000
Cash flows from operating activities			
Cash used in operations	23	**(1,850)**	(2,649)
Corporation tax (received)/paid		**10**	(2,012)
Net cash flows used in operating activities		**(1,840)**	(4,661)
Cash flows from investing activities			
Payments to acquire property, plant and equipment		**(49)**	(2)
Disposal of property, plant and equipment		**6**	–
Purchase of investments		**(14,269)**	(6,780)
Proceeds from disposal of investments		**21,539**	8,894
Loans advanced		**(122)**	(275)
Loans repayments received		**39**	1,003
Net cash flows from investing activities		**7,144**	2,840
Cash flows from financing activities			
Proceeds from sale of NCI in subsidiary		**2,350**	–
Net proceeds from issue of equity		**–**	1,200
Net costs of purchase of own shares		**–**	(3,672)
Interest paid		**(56)**	(106)
Borrowings and other liabilities repaid		**(240)**	(288)
Net cash flows from/(used in) financing activities		**2,054**	(2,866)
Net increase/(decrease) in cash and cash equivalents in year		**7,358**	(4,687)
Cash and cash equivalents at beginning of year		**5,075**	9,762
Cash and cash equivalents at end of year		**12,433**	5,075

The notes on pages 27 to 52 form an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 August 2018

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 and its investments in liquid securities, 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 STANDARDS AND INTERPRETATIONS
There were no significant new financial reporting standards or interpretations adopted in the year ended 31 August 2018.

STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS THAT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN ADOPTED EARLY BY THE GROUP
At the date of authorisation of these financial statements, several new, but not yet effective, financial reporting standards, amendments to existing standards, and interpretations have been published by the IASB. These standards, amendments or interpretations have not been adopted early by the Group.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New standards, amendments and interpretations neither adopted nor listed below have not been disclosed as they are not expected to have a material impact on the Group's financial statements.

IFRS 9 'Financial Instruments'
The new standard for financial instruments (IFRS 9) replaces IAS 39 'Financial Instruments: Recognition and Measurement'. It makes major changes to the previous guidance on the classification and measurement of financial assets and is effective for annual periods beginning on or after 1 January 2018. Following assessment, management do not believe there will be any significant changes to the accounting treatment of the Group's assets following the adoption of IFRS 9.

The Group's equity investments and warrants will continue to be accounted for at fair value through profit or loss. In the case of the Group's other financial assets, these are held to hold and collect the associated cash flows and therefore these will continue to be accounted for at amortised cost.

IFRS 15 'Revenue from Contracts with Customers'
IFRS 15 'Revenue from Contracts with Customers' and the related 'Clarifications to IFRS 15 Revenue from Contracts with Customers' (hereinafter referred to as "IFRS 15") replace IAS 18 'Revenue', IAS 11 'Construction Contracts', and several revenue-related Interpretations. IFRS 15 is effective for annual periods beginning on or after 1 January 2018. Following assessment, management do not believe there will be any significant changes to the Group's revenue recognition policies as a result of the adoption of IFRS 15.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 August 2018

1 GENERAL INFORMATION CONTINUED

IFRS 16 'Leases'

IFRS 16 will replace IAS 17 'Leases' and three related interpretations. It completes the IASB's long-running project to overhaul lease accounting. Leases will be recorded in the Statement of Financial Position in the form of a right-of-use asset and a lease liability. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. The impact of IFRS 16 on the Group is being assessed, however as the main impact is expected to be around property leases of which the Group currently has only one this is not expected to be material.

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.

The Group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests where it is considered material to do so.

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 ("CODM"). The CODM 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 advisor to and investor in technology companies, 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.

EXCEPTIONAL COSTS

Costs which are material either because of their size or their nature, are highlighted separately on the face of the Consolidated Statement of Profit or Loss. The separate reporting of exceptional costs helps provide a better picture of the Group's underlying performance. Items which may be included within the exceptional category include, inter alia, acquisition and restructuring costs and other particularly significant or unusual items.

Exceptional items are excluded from the headline profit measures used by the Group and are highlighted separately in the income statement as management believe that they need to be considered separately to gain an understanding of the underlying profitability of the trading businesses.

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 eligible for exemption from taxation in Guernsey under the provision of the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989, and has paid the annual exemption fee of £1,200.

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 for on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided for 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 for 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 for 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 loans.

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 and joint ventures 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 and joint ventures 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. Loans are classified as loans and receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 August 2018

2 ACCOUNTING POLICIES CONTINUED

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	3-5 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.

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.

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 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.

(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 Consolidated Statement of Profit or Loss.

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 Consolidated Statement of Profit or Loss.

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 equity.

Upon exercise of share options, the proceeds received, net of attributable transaction costs, are credited to share capital and, where appropriate, share premium. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 August 2018

2 ACCOUNTING POLICIES CONTINUED

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.

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 advisory and corporate finance 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 and joint ventures 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 and joint ventures 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 for impairment. 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. As at 31 August 2017, the Group provided for deferred tax on the fair value of certain of the Group's investments. The deferred tax liability was therefore an estimate which would vary if the fair value of the underlying investments changed. There is no deferred tax liability provided at 31 August 2018.

(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.

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 CODM assesses the performance of the operating segments based on the Trading EBITDA[(1)] 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 advisor to and investor in technology companies, including the management of its investments, are considered together by the CODM.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 August 2018

3 SEGMENTAL ANALYSIS CONTINUED

Results for the year ended 31 August 2018

	Capital Markets £000	Advisory £000	Central £000	Inter-segment transactions £000	Total £000
Revenues:					
Third party	409	625	–	–	1,034
Inter-segment	–	1,029	–	(1,029)	–
Total revenue	**409**	**1,654**	**–**	**(1,029)**	**1,034**
Trading EBITDA(1)	**(350)**	**908**	**(1,799)**	**–**	**(1,241)**
Realised profit on disposal of short-term investments	–	–	–	–	–
Adjusted EBITDA(2)	**(350)**	**908**	**(1,799)**	**–**	**(1,241)**
Exceptional costs	(259)	(549)	(413)	–	(1,221)
Share-based payments charge	(126)	(247)	–	–	(373)
Depreciation	–	(32)	(52)	–	(84)
Amortisation of intangible assets	(25)	–	–	–	(25)
Movement in fair value of investments	–	–	(4,973)	–	(4,973)
Operating (loss)/profit	**(760)**	**80**	**(7,237)**	**–**	**(7,917)**
Finance costs	–	(3)	(53)	–	(56)
Finance income	–	–	34	–	34
(Loss)/profit before taxation	**(760)**	**77**	**(7,256)**	**–**	**(7,939)**

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

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

During the year revenue from four of the Group's customers each represented more than 10% of total revenue. Revenue related to those customers was £273,000, £220,000, £186,000 and £107,000 respectively. The revenue in respect of each of these customers was generated from both the Capital Markets and Advisory segments.

Results for the year ended 31 August 2017

	Capital Markets £000	Advisory £000	Central £000	Inter-segment transactions £000	Total £000
Revenues:					
Third party	495	594	–	–	1,089
Inter-segment	–	1,137	–	(1,137)	–
Total revenue	**495**	**1,731**	**–**	**(1,137)**	**1,089**
Trading EBITDA(1)	**(363)**	**591**	**(1,872)**	**–**	**(1,644)**
Realised profit on disposal of short-term investments	–	–	3,324	–	3,324
Adjusted EBITDA(2)	**(363)**	**591**	**1,452**	**–**	**1,680**
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)
Movement in fair value of investments	–	–	(11,242)	–	(11,242)
Operating loss	**(1,601)**	**(580)**	**(9,602)**	**–**	**(11,783)**
Finance costs	–	(14)	(92)	–	(106)
Finance income	–	–	81	–	81
Loss before taxation	**(1,601)**	**(594)**	**(9,613)**	**–**	**(11,808)**

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

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

During the year ended 31 August 2017 revenue from four of the Group's customers each represented more than 10% of total revenue. Revenue related to those customers was £322,000, £232,000, £196,000 and £153,000 respectively. The revenue in respect of each of these customers was generated from both the Capital Markets and Advisory segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 August 2018

4 OTHER INCOME

	2018 £000	2017 £000
Profit on disposal of property, plant and equipment	**40**	–
Dividends received	**-**	1
Other non-recurring income	**-**	280
	40	281

5 OPERATING LOSS

Operating loss is stated after charging to administrative expenses:

	2018 £000	2017 £000
Amortisation of intangible assets	**25**	24
Depreciation of owned assets	**52**	92
Depreciation of assets held under finance leases	**32**	56
Employee costs, excluding share-based payments charge and exceptional costs (see note 6)	**1,256**	1,542
Exceptional costs (see note 6)	**1,221**	–
Share-based payments charge (see note 21)	**373**	2,329
Operating lease rentals	**103**	122
Auditor's remuneration:		
Audit of consolidated accounts	**24**	24
Audit of the Company's subsidiaries	**31**	35
Non-audit services		
Taxation services	**14**	19
Other non-audit services	**3**	–

6 PARTICULARS OF STAFF

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

	2018 No	2017 No
Fee earners and administration	**10**	13

The aggregate payroll costs of these persons were:

	2018 £000	2017 £000
Wages and salaries	**2,225**	1,350
Social security costs	**244**	188
Pension costs-defined contribution plan	**8**	4
Total payroll costs (see below)	**2,477**	1,542
Share-based payments charge (see note 21)	**373**	2,329
Total employment costs	**2,850**	3,871

EXCEPTIONAL COSTS

Included in total payroll costs above is £1,221,000 in respect of staff bonuses and the related social security expense. The bonuses were paid as a result of the profit realised by MXC on the exit of the investment in Castleton Technology plc during the year rather than as a result of the trading performance of the Group. Given this and the size of the total bonus expense, it is therefore considered exceptional in nature.

DIRECTORS' REMUNERATION

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

	2018 £000	2017 £000
Aggregate emoluments including short-term benefits and fees	**683**	280
Share-based payments charge	**-**	544
	683	824

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

	2018 £000	2017 £000
Aggregate emoluments including short-term employee benefits	**485**	150
Share-based payments charge	**-**	544
	485	694

The remuneration of individual directors, who are the key management personnel of the Group, is disclosed in the Directors' Report on page 12. No retirement benefits in respect of defined contribution schemes are accruing to any directors.

In September 2015 the Group made awards to certain directors and employees under its Long Term Incentive Plan ("LTIP"). Ian Smith, a director of the Company, is entitled to 2% of the shareholder value created under the scheme. For further details, see note 21.

7 FINANCE INCOME AND COSTS

	2018 £000	2017 £000
Finance Income		
Interest income on loans receivable	**34**	81

	2018 £000	2017 £000
Finance Cost		
Interest payable under finance lease obligations	**3**	14
Interest payable on other financial liabilities	**53**	64
Interest payable on bank overdraft	**-**	13
Other interest payable	**-**	15
	56	106

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 August 2018

8 TAXATION

(a) Tax on loss on ordinary activities

	2018 £000	2017 £000
Current tax		
Current year charge	**-**	25
Adjustment in respect of prior periods	**(34)**	(84)
	(34)	(59)
Deferred tax		
Movement in provision re fair value of investments	**(347)**	53
Total tax credit	**(381)**	(6)

The Company is eligible for exemption from taxation in Guernsey under the provision of the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989, and has paid the annual exemption fee of £1,200.

(b) Reconciliation of the total income tax charge

	2018 £000	2017 £000
Loss on ordinary activities before taxation	**(7,939)**	(11,808)
UK corporation tax rate of 19.0% (2017: 19.6%) payable on UK profit/(loss)	**-**	25
Prior year adjustment to current income tax	**(34)**	(84)
Deferred tax (credit)/charge re temporary differences	**(347)**	53
Total tax credit	**(381)**	(6)

(c) Deferred tax liability

	£000
At 1 September 2016	294
Charge to income statement	53
At 31 August 2017	**347**
Credit to income statement	(347)
At 31 August 2018	**-**

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 2018 and 2017 is:

	2018 Number	2017 Number
Weighted average shares used to calculate basic and diluted EPS	**3,360,167,484**	3,351,367,484

In 2018 and 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.

10 INTANGIBLE ASSETS

	Goodwill £000	Customer contracts and related relationships £000	Total £000
Cost			
At 1 September 2016	11,524	73	11,597
Adjustment in respect of prior year business combination	(108)	–	(108)
At 31 August 2017 and 2018	**11,416**	**73**	**11,489**
Amortisation			
At 1 September 2016	–	24	24
Charge for the year	–	24	24
At 31 August 2017	**–**	**48**	**48**
Charge for the year	–	25	25
At 31 August 2018	**–**	**73**	**73**
Net book value			
At 31 August 2018	**11,416**	**–**	**11,416**
At 31 August 2017	11,416	25	11,441

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 was completed in the year ended 31 August 2017. 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

The 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 3.5 times are assumed based on historic averages achieved.

In the case of both CGUs, a pre-tax discount rate of 8.0% 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 August 2018

11 PROPERTY, PLANT AND EQUIPMENT

	Office equipment, furniture and fittings £000	Motor vehicles £000	Total £000
Cost			
At 1 September 2016	242	215	457
Additions	2	–	2
Disposals	(2)	–	(2)
At 31 August 2017	**242**	**215**	**457**
Additions	48	116	164
Disposals	(147)	(215)	(362)
At 31 August 2018	**143**	**116**	**259**
Depreciation			
At 1 September 2016	91	33	124
Charge for the year	92	56	148
At 31 August 2017	**183**	**89**	**272**
Charge for the year	52	32	84
On disposal	(138)	(107)	(245)
At 31 August 2018	**97**	**14**	**111**
Net book value			
At 31 August 2018	**46**	**102**	**148**
At 31 August 2017	59	126	185

As at 31 August 2018, included in motor vehicles are assets held under finance leases with a carrying value of £102,000 (2017: £126,000).

12 INVESTMENTS

	Quoted company investments £000	Private company investments £000	Warrants £000	Total £000
Cost				
At 1 September 2016	43,693	7,043	12,024	62,760
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 investments	(1,945)	541	(9,838)	(11,242)
At 31 August 2017	**42,796**	**7,746**	**2,186**	**52,728**
Additions	8,970	5,932	–	14,902
Disposals of investments and exercise of warrants	(19,684)	(193)	(1,662)	(21,539)
Movement in fair value of investments	(5,392)	–	419	(4,973)
At 31 August 2018	**26,690**	**13,485**	**943**	**41,118**

The Group's investments at 31 August 2018 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.

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 9.7% (2017: 28.6%).

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 there were no transfers between categories (2017: £155k was transferred from level 1 to level 3).

Categorisation of the fair values at 31 August 2018 was:

	Level 1 £000	Level 2 £000	Level 3 £000
Quoted equity securities	26,690	–	–
Unquoted equity securities	–	–	13,485
Derivatives – warrants	–	–	943
	26,690	**–**	**14,428**

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
	42,796	**–**	**9,932**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 August 2018

13 NON-CURRENT LOANS RECEIVABLE

	2018 £000	2017 £000
Loan notes	–	639
Other loans	182	96
	182	735

During 2016, the Group made available a facility of up to £3.5 million 5% convertible unsecured loan notes to Castleton Technology plc. £0.5 million of the facility was drawn down as at 31 August 2017. During the year ended 31 August 2018 the entire principal and accrued interest in respect of the loan notes was converted into equity shares in Castleton Technology plc.

14 TRADE AND OTHER RECEIVABLES

	2018 £000	2017 £000
Trade receivables	547	419
Prepayments and accrued income	186	54
Loans receivable	302	297
Other receivables	9	5
	1,044	775

The ageing of trade receivables at 31 August was:

	2018 £000	2017 £000
Not past due	547	418
Up to 3 months past due	–	1
	547	419

No trade 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 a previous financial year, the Group made a loan of £275,000 to Prefcap Limited (formerly 365 Agile Group plc). The loan is repayable on demand and carried a 10% coupon up to November 2017.

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

15 CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances:

	2018 £000	2017 £000
Cash at bank	**12,433**	5,075

16 TRADE AND OTHER PAYABLES

	2018 £000	2017 £000
Current		
Trade payables	**78**	56
Other payables	**1**	43
Tax and social security	**66**	70
Accruals	**1,361**	495
	1,506	664

17 BORROWINGS

	2018 £000	2017 £000
Current		
Finance leases	**19**	45
Total current	**19**	45
Non-current		
Finance leases	**59**	88
Total non-current	**59**	88

FINANCE LEASE LIABILITY

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

	Minimum lease payments 2018 £000	Interest 2018 £000	Principal 2018 £000
Less than one year	24	5	19
Between one and five years	64	5	59
Total	**88**	**10**	**78**

	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
Total	**142**	**9**	**133**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 August 2018

18 OTHER FINANCIAL LIABILITIES

The Group has a future obligation to purchase preferred ordinary shares issued in MXC Holdings Limited for a total of £880,000. The amortised cost of this obligation is £813,000 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.

	2018 £000	2017 £000
Due within one year	**194**	188
Due after more than one year	**619**	813

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 loans. 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
- Other financial liabilities

	2018 £000	2017 £000
Financial assets		
Financial assets at fair value through profit or loss	**41,118**	52,728
Loans and receivables	**1,040**	1,456
Cash and cash equivalents	**12,433**	5,075
	54,591	59,259
Financial liabilities		
Trade and other payables – excluding statutory liabilities	**1,370**	594
Other financial liabilities	**813**	1,001
	2,183	1,595

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

	On demand £000	<3 months £000	1-5 years £000	**Total £000**
2018:				
Financial assets at fair value through profit or loss	41,118	–	–	**41,118**
Loans and receivables	–	858	182	**1,040**
Cash and cash equivalents	12,433	–	–	**12,433**
	53,551	858	182	**54,591**

	On demand £000	<3 months £000	1-5 years £000	Total £000
2017:				
Financial assets at fair value through profit or loss	52,728	–	–	52,728
Loans and receivables	–	721	735	1,456
Cash and cash equivalents	5,075	–	–	5,075
	57,803	721	735	59,259

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 (2017: £nil). The Group has issued loans and loan notes, which are interest bearing. During the year the Group charged interest of £34,000 (2017: £81,000) on its loans and loan notes. All other assets and liabilities of the Group are non-interest bearing.

At 31 August 2018, cash and cash equivalents of £12,433,000 (2017: £5,075,000) 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 10% has been observed during 2018 (2017: 3%, 2016: 9%). This 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 £4,112,000 in either direction (2017: £4,746,000, based on the higher volatility observed in 2016).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 August 2018

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 the 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

Ordinary shares of no par value	Number of shares	Share Premium £000
At 1 September 2016	3,419,376,861	61,936
Issue of share capital	54,533,333	1,200
Purchase of own shares	(122,542,710)	(3,672)
At 31 August 2017	**3,351,367,484**	**59,464**
Issue of share capital	8,800,000	–
At 31 August 2018	**3,360,167,484**	**59,464**

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

B SHARES OF NO PAR VALUE

During a previous financial 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 2018 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.

2018 ORDINARY SHARE ISSUES AND CANCELLATIONS

In November 2017 and June 2018 6,400,000 Ordinary shares and 2,400,000 Ordinary shares respectively were issued at a price of 0.0p per share to satisfy the exercise of share options.

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 a further 39,143,286 Ordinary shares at an average price of 1.63p. These shares have subsequently been cancelled.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 August 2018

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:

	2018 Number of share options	**2018 Weighted average exercise price £**	2017 Number of share options	2017 Weighted average exercise price £
Outstanding at the beginning of the year	**45,444,176**	**0.01**	66,644,176	0.01
Exercised in the year	**(8,800,000)**	**0.01**	(21,200,000)	0.01
Outstanding at the end of the year	**36,644,176**	**0.01**	45,444,176	0.01
Exercisable at the end of the year	**36,644,176**	**0.01**	45,444,176	0.01

Share options with an option life of 10 years were granted in 2013 and, as the performance criteria has been 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 2018 were as follows:

Name of scheme	**2018 No of options**	**2017 No of options**	**Calendar year of grant**	**Exercise period**	**Exercise price per share**
2013 Enterprise Management Incentive scheme:	26,644,176	26,644,176	2013	2013-2023	£0.01
	10,000,000	18,800,000	2013	2013-2023	£ nil

The weighted average remaining contractual life of these options is 5 years (2017: 6 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 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 2018, awards over 10.43% of shareholder value are in place (2017: 10.43%).

The LTIP scheme has the following broad principles:

Participants at 31 August 2018 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 was initially to 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 (2017: £5,539,000), generating an expense for equity-settled share-based payments in respect of employee services received during the year to 31 August 2018 of £373,000 (2017: £2,329,000). 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 2018, the Group had aggregate minimum lease payments under non-cancellable operating leases in relation to property as follows:

	2018 £000	2017 £000
Due within one year	**72**	41
Due from one to five years	**241**	–
	313	41

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 August 2018

23 NET CASH FLOWS FROM OPERATING ACTIVITIES

	2018 £000	2017 £000
Loss on ordinary activities before taxation	**(7,939)**	(11,808)
Adjustments for:		
Realised gain on disposal of short-term investments	**–**	(3,324)
Movement in fair value of investments	**4,973**	11,242
(Profit)/loss on disposal of PPE	**(40)**	2
Depreciation	**84**	148
Amortisation	**25**	24
Share-based payment charge	**373**	2,329
Net finance charges	**22**	25
(Increase)/decrease in trade and other receivables	**(255)**	187
Increase/(decrease) in trade and other payables	**907**	(1,474)
Cash used in operations	**(1,850)**	(2,649)

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, because they are classed as associates or joint ventures of the Group. Transactions entered into, and trading balances outstanding at 31 August with these related parties, are as follows:

Related party:	Services provided to related party £000	Amounts owed by related party £000
Associates		
2018	**490**	**126**
2017	1,016	408
Joint venture		
2018	**273**	**302**
2017	–	–

Amounts owed by related parties are stated gross of VAT.

Terms and conditions of transactions with related parties

Sales to and purchases from related parties are made on an arm's length basis. Outstanding balances with entities other than group companies are unsecured, interest free and cash settlement is expected within agreed payment terms. Terms and conditions for transactions with group companies are the same, with the exception that balances are placed on intercompany accounts with no specified credit period. The Group has not provided or benefited from any guarantees for any related party receivables or payables. During the year ended 31 August 2018, the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2017: nil).

In addition, at 31 August 2018, the Group had loans outstanding due from an associate, Prefcap Limited (formerly 365 Agile Group plc) of £302,000 (2017: £297,000) 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 £9,000 (2017: £20,000).

The directors are not aware of any ultimate controlling party.

25 SUBSIDIARIES

At 31 August 2018 the Company had the following subsidiary undertakings.

Investment	Principal activity	Country of incorporation	% ordinary share capital/members' interests owned
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 company	England & Wales	100%
MXC JV Limited*	Investment company	Guernsey	50%
Fort George Limited*	Dormant	Guernsey	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 August 2018

26 SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS

The Group includes one subsidiary, MXC JV Limited, with material non-controlling interests ("NCI"). At 31 August 2018 the NCI held 50% of the ownership interests and none of the voting rights of MXC JV Limited. MXC JV Limited, a Guernsey based company, was incorporated during the current financial year therefore there is no comparative information to disclose. The accumulated NCI at 31 August 2018 was £2,350,000. The majority of the losses in MXC JV Limited were incurred prior to the creation of the NCI therefore it is not considered material to allocate any losses to the NCI for the period. No dividends were paid to the NCI.

Summarised financial information for MXC JV Limited, before intragroup eliminations, is set out below:

	2018 £000
Revenue	–
Loss and total comprehensive income for the year	(35)

	2018 £000
Non-current assets	4,700
Current assets	1
Total assets	4,701
Current liabilities	(36)
Net assets	4,665
Equity attributable to owners of the parent	2,315
Non-controlling interests	2,350
	4,665

	2018 £000
Net cash used in investing activities	(4,700)
Net cash from financing activities	4,700

27 SUBSEQUENT EVENTS

In September 2018, MXC Guernsey Limited, a subsidiary of the Company, completed the sale of 25% of the share capital of a subsidiary company, MXC Capital (UK) Limited, for £2.25 million.

Also in September 2018, MXC Guernsey Limited established an Employee Benefit Trust (the "EBT") to buy ordinary shares of no par value in the capital of the Company ("Ordinary Shares") in the market to be held to satisfy existing and future share incentivisation awards for the benefit of employees and certain directors of MXC. The EBT has been initially funded by way of a loan of £3 million (with an interest rate of 2% above the Bank of England base rate) from MXC Guernsey Limited, with further funding to be provided as and when appropriate. Oak Trust (Guernsey) Limited, as trustee of the EBT, has absolute discretion and independence in respect of all trading decisions it may make in respect of the purchase of Ordinary Shares.

COMPANY INFORMATION

DIRECTORS
PETER RIGG
(Non-executive Chairman)

PAUL GUILBERT
(Non-executive Director)

MERIEL LENFESTEY
(Non-executive Director)

IAN SMITH
(Chief Executive Officer)

SECRETARY
CL Secretaries Limited

COUNTRY OF INCORPORATION AND REGISTRATION
Guernsey

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MXC CAPITAL

TECHNOLOGY ADVISER & INVESTOR