MXC CAPITAL LIMITED

ANNUAL REPORT FOR THE YEAR TO 31 AUGUST 2016

MXC CAPITAL
LONDON'S TECHNOLOGY
MERCHANT BANK

LONDON'S TECHNOLOGY MERCHANT BANK

MXC is a quoted (AIM: MXCP) merchant bank specialising in investing in technology companies, building value in the companies we invest in as well as for our own shareholders.

MXC's merchant banking model, 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 merchant banking 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.

CONTENTS

www.mxccapital.com

HIGHLIGHTS
A YEAR OF STEADY PROGRESS

"I am pleased to report a year of steady progress with further strengthening of the business and its portfolio of investments. MXC benefitted from the increasing number of investments in its portfolio and a higher level of activity in corporate finance.

We have a promising pipeline of opportunities which will allow us to continue to drive the growth of our investee companies, as well as provide us with completely new investment prospects to consider. I look forward to the future with confidence".

PETER RIGG
CHAIRMAN

- Underlying trading EBITDA* of £3.1 million (2015: £1.0 million), £1.2 million (2015: £0.3 million) on a consolidated basis**
- Growth in NAV per share over the year of 11% (2015: 34%); over two years of 49%
- NAV per share growth reflects balance between recent and mature investments in portfolio
- Gross revenues from Capital Markets and Advisory businesses for the year of £6.2 million, £4.6 million on a consolidated basis (2015: £2.1 million)
- Net assets of £80.7 million as at 31 August 2016 (31 August 2015: £49.9 million)
- £31.5 million of investments and loans made during the year across six businesses; portfolio now eleven investments, six of which are quoted
- £3.8 million of capital returns to shareholders announced during the year

→ **£80.7M**
NET ASSETS (2015 : £49.9M)

→ **£31.5M**
INVESTED DURING YEAR

→ **£3.8M**
RETURNED TO SHAREHOLDERS

→ **49%**
GROWTH IN NAV PER SHARE OVER TWO YEARS

*Underlying trading EBITDA comprises the trading EBITDA** of the Capital Markets and Advisory businesses pre-consolidation; an element of the results from both businesses is eliminated on consolidation.

**earnings from trading activities before interest, tax, depreciation, amortisation, restructuring and non-recurring costs, share-based payments and realised and unrealised gains on investments.

OUR MANAGEMENT

MXC CAPITAL LIMITED BOARD

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

PETER RIGG
NON-EXECUTIVE CHAIRMAN

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

MARC YOUNG
EXECUTIVE DIRECTOR

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

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

MXC ADVISORY BOARD

MXC Advisory is the advisory and consultancy division of the company responsible for originating investment opportunities, making recommendations on them and providing operational and strategic guidance to our investee companies. It comprises the Advisory Board which reports to its parent, MXC Capital Limited in Guernsey. The Advisory Board is driven by MXC founders Ian Smith and Tony Weaver who are employed full-time by MXC Advisory to lead its activities.

MARTIN BOLLAND
CHAIRMAN

Martin founded the private equity group Alchemy, serving as a Partner for 11 years. Martin is currently chairman of Capita plc, a FTSE 100 company. Martin previously held a number of senior operational roles in Lonrho and is a chartered accountant.

IAN SMITH
FOUNDER

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 has recently led strategic change and value accretion at Redstone plc and Accumuli plc. Ian is also an operational partner and is currently Executive Deputy Chairman of Castleton Technology plc.

TONY WEAVER
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 and until recently was a non-executive director of Redcentric plc, having recently stepped down as CEO, a role which he held since IPO.

MARTIN CHAPMAN

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

MXC ADVISORY BOARD CONTINUED

CHARLES VIVIAN

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

ALEX SANDBERG

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

MXC CAPITAL MARKETS LLP

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

MARC YOUNG

Marc is a Director of MXC Capital Limited (biography on page 02) and is Managing Partner of MXC Capital Markets LLP.

CHARLES VIVIAN

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

CHARLOTTE STRANNER

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

OPERATIONAL PARTNERS

ANDY ROSS

Andy has over 25 years of experience in the technology sector, leading and transforming businesses through sales led and organic growth strategies. He has worked in a wide variety of different businesses, ranging from large global multinationals to smaller UK mid-market companies, having been Chief Executive at Northgate Managed Services and Valldata Group, UK Sales Director at Atos Origin as well as having held senior roles at Sema Group, EDS and KPMG. Andy is currently CEO at CORETX Holdings plc.

GAVIN LYONS

Gavin has had a distinguished career in the TMT sector, most recently as CEO of Accumuli PLC, a successful MXC backed buy and build in the IT security sector sold to NCC Group plc for £55m. Prior to Accumuli, Gavin was Head of Telecoms & Utilities UK&I at SAP SE and held a senior position at Trend Micro Inc. having also worked at Xerox, Compuware and The Caudwell Group. Gavin is currently Executive Chairman of adept4 plc and Tax Systems plc.

JILL COLLIGHAN

Jill is the finance director of the advisory subgroup. She qualified as a chartered certified accountant in 1994, initially joining Lathams, before leaving to set up her own accountancy consultancy business. Jill has worked with the Group since 2002 and has been a director since 2004. Jill has extensive experience of finance, human resources, investor relations and corporate finance.

PAUL GIBSON

Paul 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. The foundations of Paul's career were built at Unigate, GrandMet (now Diageo) and Oracle. Paul is focusing on developing and expanding MXC's portfolio of software focused businesses.

STRATEGIC REPORT
CHAIRMAN'S STATEMENT

I am pleased to report a year of steady progress at MXC with further strengthening of the business and its portfolio of investments. Whilst equity markets were more volatile in the second half of the year, MXC benefitted from the increasing number of investments in its portfolio and a higher level of activity in corporate finance.

During the period, we successfully raised £7.0 million of new equity as part of a wider £13.0 million funding package to support our growth. We made new investments totalling £31.5 million into four quoted and two private businesses whilst at the same time continuing to support the growth of our existing portfolio.

I am delighted that during the year under review, having realised gains of £7.6 million on a disposal, we were able to announce capital returns of £3.8 million to shareholders via a tender offer mechanism in line with the Company's policy of distributing realised gains while retaining sufficient capital for our investment pipeline.

BALANCE SHEET

Our balance sheet was further strengthened during the year with net assets at 31 August 2016 of £80.7 million (2015: £49.9 million), including the £7.0 million of new equity raised. We ended the year with sufficient liquidity to continue to support our further investment activities with net cash of £9.8 million and an available banking facility of £6.0 million. Post year end we distributed £3.0 million, following which MXC had £12.8 million of net funding to support its investing activities. It will remain our policy to seek additional funding to invest in larger opportunities as they arise.

TENDER OFFERS

The Company made its first tender offer in February of £0.8 million and a further £3.0 million was returned in September, post the year end. These capital returns together represented 3.5% of the Company's market capitalisation as at 31 August 2016.

INVESTMENT PORTFOLIO

We invested £31.5 million across four public and two private businesses during the year.

The four public companies were:

- Tax Systems plc, a leading provider of tax technology and solutions, capitalised at £56 million*
- CORETX Holdings plc, a mid-market network, cloud and IT managed services business, capitalised at £60 million*
- adept4 plc, an 'IT as a Service' provider focusing on providing SME customers with cloud, connectivity and desktop support services, capitalised at £15 million*
- Castleton Technology plc, a software and IT infrastructure solutions business focused on serving the social housing and wider public sector, capitalised at £50 million*

In a clear demonstration of our team's capability, we acted as lead adviser and cornerstone investor on the IPOs of CORETX Holdings plc and Tax Systems plc. Both flotations were well received with impressive rosters of institutional investors contributing to oversubscribed fundraisings.

We also successfully concluded two new private investments:

- Sagacity Solutions Limited, a data solutions company specialising in data cleansing and compliance services
- CoInvestor Limited, an electronic investment platform providing access to growth capital, tax efficient equity and income opportunities

The restructuring and repositioning of adept4 plc is of note. This was an underperforming asset which our team repositioned as a cloud based IT services provider to the SME market through three disposals and five acquisitions, all completed in short order. Having corner-stoned a fundraising to support this strategy, we are pleased that all who participated have registered a substantial paper gain.

*Market capitalisations as at 31 August 2016

I am also happy to report that one of our early 'fast growth' private investments – Avar Communications Limited – successfully raised Series B funding at a substantially higher valuation than our original investment.

Since the year end, on November 7, one of our portfolio businesses, Redcentric plc ("Redcentric"), announced that an internal audit committee review had discovered accounting misrepresentations likely to significantly reduce the company's net assets and thereby increase its net debt. At time of writing, the extent of the problem is still unclear. Despite this set back, we strongly believe in the fundamental quality of Redcentric's business. Accordingly, on 7 and 8 November, MXC purchased 8.1 million shares in Redcentric and now holds 5.6% of Redcentric's equity. Together with the options and warrants we hold in Redcentric, this represents a 10.5% stake in the company.

CORPORATE FINANCE

Our Corporate Finance business had another busy year advising on twelve transactions in the period. The mix of transactions included M&A alongside debt and equity advisory roles but most notable were the two IPOs that we originated and led.

Our Corporate Finance capability continues to differentiate MXC from others through our ability to support our investee companies with technology sector specialist advice, from acquisition strategies and financings through to investor relations. We ended the year with seven retained clients (2015: five).

ADVISORY

Advisory represents the revenue generated by our operating partners and the management fees charged to MXC Guernsey for providing investment advisory services. Our gross revenue in this division for the period was £2.2 million. In a private equity model, these fees would be paid to an external manager whereas in MXC's case these revenues are retained within the Group for the benefit of shareholders.

In August, Paul Gibson joined us as an operating partner and subsequently invested in the Company. Paul has had a highly successful career in the TMT sector having held senior board level positions in both operational and financial capacities, the most recent being Chief Operating Officer of Advanced Computer Software plc prior to its acquisition by Vista Equity Partners for £725 million.

MXC now has seriously impressive bench strength with six highly experienced operating partners, who work closely with the management teams of our investee companies. Their experience is at board level and their skills include strategic direction, operational expertise, sales focussed growth and business re-engineering. They have exemplary track records of value creation in the technology sector. This hands-on strength, combined with the broad experience of our Advisory Board, sets MXC apart.

OUTLOOK

This has been a year of crossover in our portfolio, which included the realisation of a maturing investment, capital distributions to shareholders and substantial investment in fresh opportunities. As a result, our one year growth in NAV per share slowed to 11% compared with 34% for the previous year. The growth in our NAV per share over the two years was 49%.

I am pleased to report that we have a healthy pipeline of opportunities which will allow us to continue to drive the growth of our investee companies, as well as provide us with completely new investment prospects to consider. Whilst the economic and political background remains somewhat uncertain, I am confident that the MXC team will continue to prosper in its area of focus, technology. I remain confident in our future prospects and am grateful for the continuing support of our shareholders.

PETER RIGG
CHAIRMAN

STRATEGIC REPORT
MARKET OVERVIEW FROM THE INVESTMENT ADVISOR IAN SMITH, FOUNDER OF MXC AND MEMBER OF MXC ADVISORY BOARD

Our financial year to 31 August 2016 was another very active one for the team at MXC. In what has been a noticeably quieter period in the market due to Brexit and general political uncertainty, MXC led twelve transactions in our core sector of technology during the year under review. On the basis that to bring that number of transactions to completion we had to analyse very many more, this gives an indication of the breadth of our coverage of the sector.

Our technology merchant bank model is serving us well. However, our focus has narrowed somewhat. We have always said that we would not focus on start-ups, ecommerce and the harder to predict consumer end of the technology sector, preferring companies with proven cash flow and earnings. As a result, we have principally targeted B2B software and IT managed services businesses, where we have a particular expertise. That said, we'll remain opportunistic.

OUR INVESTMENTS*

QUOTED

Company	Shares first acquired by MXC	Value of investment, options and warrants at 1 September 2015 + investments made during the year	Value of investment, options and warrants 31 August 2016 + share sales	Summary
Redcentric plc	Sep 2010	£20.1m	£19.8m	UK managed services
Castleton Technology plc	Sep 2010	£12.2m	£13.2m(1)	Provider of software support and managed services to public sector
365 Agile Group plc	Oct 2014	£3.4m	£1.0m	Cash-shell
adept4 plc	Oct 2013	£2.6m	£4.6m	UK managed services
CORETX Holdings plc	Jan 2016	£12.9m	£15.0m	UK managed services
Tax Systems plc	Dec 2015	£10.1m	£12.4m	Tax software provider

(1) excludes the convertible loan note in Castleton Technology plc

UNQUOTED

Sagacity Solutions Limited	Sep 2015	£5.0m	£5.0m	Big data analytics business specialising in data quality, revenue assurance and customer value management
Avar Communications Limited (Jobbio)	Apr 2013	£266k	£1.8m	An online marketplace for recruiters and job-seekers
Other	–	£300k	£300k	–

*Please refer to Appendix for explanation of bases of calculation for investments, options and warrants.

It is worth noting where we are in our investment cycle: we realised one of our investments during the year (£10.4 million) whilst investing some £31.5 million in new opportunities. Our slower NAV per share growth during the year reflects the balance between recent and mature investments in our portfolio. We would expect our recent investments to begin to contribute to NAV growth in the coming year.

The availability of low price debt continues to define our market and asset prices have continued to increase. What would have attracted a market multiple of 7 to 8 times five years ago, in many cases today would expect a double digit multiple. We ask ourselves whether these companies are measurably better quality than they were three to five years ago or is it that the market has simply re-rated. I believe it is the latter, with ever larger funds chasing fewer reliable, cash generating assets.

Recent investments in the managed services sector have been completed with multiples in the 11 to 13 range. Of course, that is pre-synergy which would bring these multiples down, but those synergies are never guaranteed – they still need to be delivered. We like the characteristics of the managed services sector and we will continue to focus on this area.

Whilst the competition for assets has increased, it has not stopped us investing. That said, we are not shy to be priced out of deals where we are uncomfortable with the rating. It is worth noting that the returns that MXC has generated, yielding a three-year IRR of 47%, have been achieved in largely publicly quoted businesses with much lower levels of leverage than is the norm in private equity backed situations. Despite our self-imposed disciplines, twelve transactions in twelve months is going some and our pipeline is as strong as ever.

MXC has accelerated returns in its investee companies by focusing on M&A activity that augments organic growth through both revenue and cost synergies. We continue to take the difficult decisions in integrating our companies and shaping them for future growth, not always easily done alongside the cycle of public company reporting.

The process of investing in a cash shell and then managing it into a publicly traded company with a substantial business is an example which demonstrates well the value the MXC model creates. In December last year we led investors into a cash shell called Eco City Vehicles plc (“ECV”). By July this year, despite the market turbulence post the Brexit vote, we delivered the IPO of Tax Systems plc via the cash shell. A £73 million deal, Tax Systems plc is a promising company with a high level of recurring income to build on. We bid for the business via a competitive process, which we do not normally do since, as in this case, the more obvious home for this company might have been private equity. However, we were successful in our bid and led the acquisition of the business by ECV, introducing a new management team in place of the retiring owners. I believe that what distinguished MXC in the process was our ability to move quickly, partner as a principal with the vendors in preparing their company for an IPO and introducing new shareholders. In short, managing the transaction from start to finish.

Our business model is to cornerstone a company with our funds by taking a stake of up to 29.9% alongside providing management support. We are prepared to invest substantial amounts of our own capital and provide our management resource for the longer term. I think MXC is quite unusual in this way, creating the opportunities, preparing them and bringing them to market and then supporting them in the role of significant investor with our bench of experienced management, our operating partners.

MXC attracts first class talent because of our deal flow and track record. Our hands-on operating partner bench strength has grown during the year and will continue to do so. Each operating partner has significant experience – “been there and done it” – with demonstrable success in sourcing, buying, building and exiting. This core ingredient in our model is rare enough but becomes, I believe, unique when you add that our operating partners are prepared to risk their own capital.

We apply speed and efficiency to our process by having our own corporate finance business to execute our transactions and give advice on an ongoing basis. Our interests are directly aligned with those of the other shareholders through our sizeable investment.

The special spark at the heart of MXC is our increasing ability to deliver deal flow. This is our “golden currency”. I see our model gaining pace as we combine that deal flow with our experience in the public market, our acute focus on operational improvement and the speed of our funding. I have not felt more excited about the opportunities ahead for MXC and for our shareholders.

IAN SMITH
INVESTMENT ADVISOR

STRATEGIC REPORT
OUR INVESTMENTS

CORETX HOLDINGS PLC

OPPORTUNITY IDENTIFIED

In January 2016, CORETX Holdings PLC was formed following the reverse acquisition of Selection Services Ltd into the cash shell, Castle Street Investments PLC, following which the group was renamed CORETX Holdings plc on 11 April 2016.

CORETX provided MXC with a platform to start a buy and build in the IT solutions and Cloud services sector.

Following multiple successful IT Managed Services roll-ups, MXC identified CORETX as the right platform due to:

- Its position as an established business with significant recurring revenue (c. 65% of total revenues in the last financial year to 30 June 2015) from delivering IT services into a broad client base with improving margin profiles and strong cash generation.
- Its service offering and customer engagement model cultivates long-term customer relationships that drive an increasing proportion of contracted revenues.
- Strategy is aligned to the structural trends and growth segments within the IT services market. Data centre, network services and Cloud based offerings all support the transformation of a client's IT infrastructure and systems, this transformation is increasingly being delivered on an outsourced basis.

There is still a compelling market opportunity in the mid-market IT Managed Services sector. Structural and technological change have created high growth segments within the IT services market as businesses increasingly look to external providers for outsourced cloud management services, data centre hosting, network services and IT infrastructure modernisation.

MXC'S ROLE

- Appointed Andy Ross, an Operating Partner of MXC, as CEO. Andy has a long track record running IT Services businesses having been Chief Executive at Northgate Managed Services and Valldata Group, UK Sales Director at Atos Origin as well as having held senior roles at Sema Group, EDS and KPMG.
- Originated the opportunity and acted as cornerstone investor in £30 million equity placing, subscribed for £12.9 million of equity to own 24.9% of issued share capital, making MXC the company's largest shareholder post Re-Admission. The placing was more than 2x oversubscribed underlining MXC's support from leading institutional investors.
- Adviser to CORETX's acquisition of C4L Group in February 2016. C4L brought a high quality core network infrastructure with substantial capacity for growth and a broad data centre infrastructure. With 45 staff based in Bournemouth and Docklands, C4L provides services to over 800 customers and over 90% of its revenues are recurring.

2015/2016 INVESTMENT PERFORMANCE

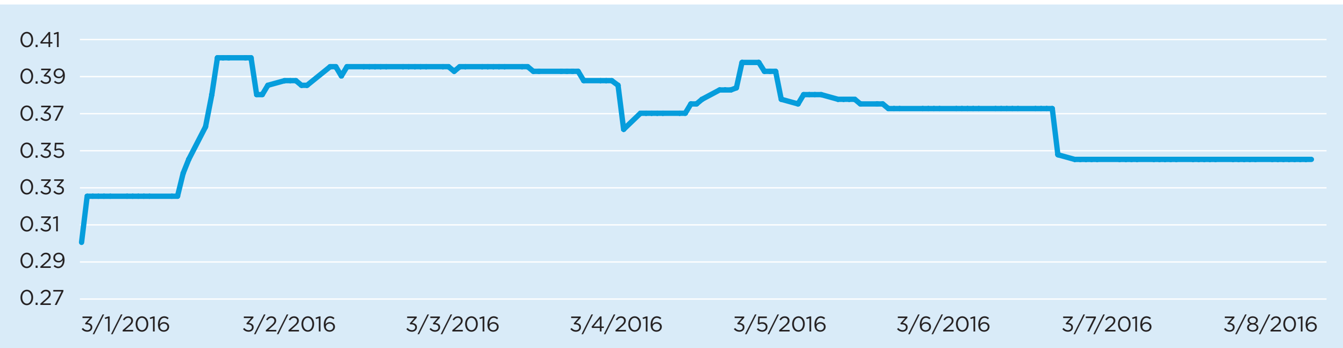
	Quantum investment	Value at 31 August 2016
Shares	£12.9m	£14.6m
Options and Warrants*	–	£382k
	£12.9m	£15.0m

*Please refer to Appendix for explanation of bases of calculation for investments, options and warrants.

MAJOR INSTITUTIONAL SHAREHOLDERS

Investor	% ownership as at 31 August 2016
MXC Capital	**22.5%**
Kestrel Partners LLP	**16.1%**
Coltrane Asset Management	**7.5%**
Liontrust Asset Management	**5.0%**

SHARE PRICE *(post reverse takeover)*



ADEPT 4

IT AS A SERVICE

ADEPT4

OPPORTUNITY IDENTIFIED

Opportunity to re-structure Pinnacle Technology Group plc, a failed IT and Telco buy and build. The business was reorganised, legacy businesses were disposed of and higher margin, recurring revenues were targeted.

The strategy is to build a leading provider of 'IT as a Service' to the SME market in the UK. The market of smaller, sub-scale IT services providers is highly fragmented, and is rife for further consolidation.

MXC'S ROLE

Transformed the company from an underperforming, loss making business, to one that is profitable and cash generative with healthy levels of recurring revenue.

- Appointed Gavin Lyons, an Operating Partner of MXC, as Executive Chairman in December 2015. Gavin has had a distinguished career in the TMT sector, most recently as CEO of Accumuli PLC, a successful buy and build in the IT security sector sold to NCC Group plc for £55m.

- Lead investor and advisor in £4.55m equity placing in January 2016 – MXC Capital continues to be the largest shareholder.

- MXC originated and executed the acquisition of Ancar-B for a consideration of £3.5m in January 2016. Ancar-B is a provider of IT support services to SMEs with 315 customers generating revenue of £2.2m (59% recurring) at the time of acquisition.

- MXC originated and executed the acquisition of Weston for a consideration of £1.5m in January 2016. Weston is a provider of telecoms and IT support services to SMEs, councils and universities.

- Disposal of legacy business RMS Managed IT Security Limited to Intronovo for a nominal £1 in May 2016. This was a legacy, underperforming division.

- Disposal of non-core division Pinnacle CDT for £2.8m to Chess in May 2016.

- MXC originated and executed the acquisition of adept4 in May 2016 for £4.5m. adept4 provides IT as a Service encompassing fully managed IT service contracts, cloud based services, professional services, software support and development. The business had c. 60 customers and average contract length of 3 – 6 years, c. 70% recurring revenue and strong free cash flow generation in excess of 90% of EBITDA at the time of acquisition.

2015/2016 INVESTMENT PERFORMANCE

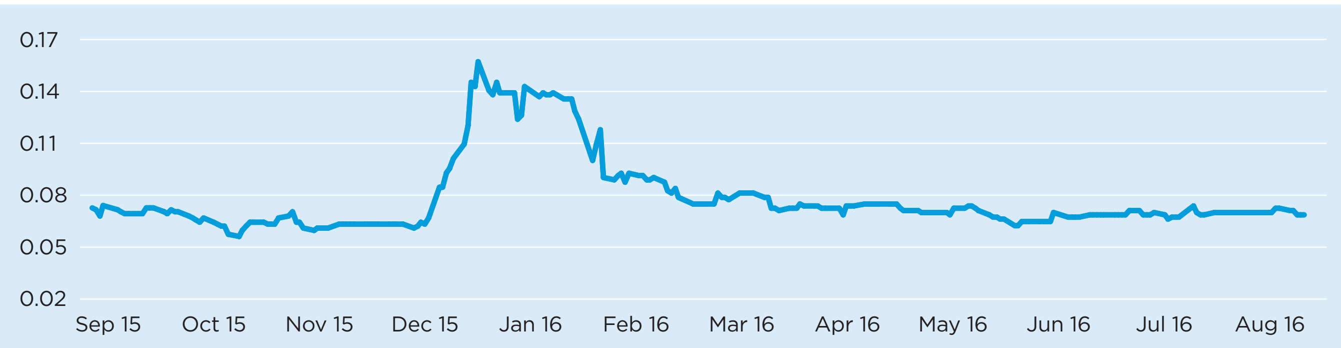
	Value at 1 September 2016 + value of investment in year	Value at 31 August 2016
Shares	£2.6m	£4.47m
Options and Warrants*	£25k	£156k
	£2.6m	£4.6m

*Please refer to Appendix for explanation of bases of calculation for investments, options and warrants.

MAJOR INSTITUTIONAL SHAREHOLDERS

Investor	% ownership as at 31 August 2016
MXC Capital	**25.0%**
Hargreave Hale	**10.2%**
Livingbridge EP LLP	**10.0%**

SHARE PRICE



STRATEGIC REPORT
OUR INVESTMENTS

CASTLETON

OPPORTUNITY IDENTIFIED

MXC orchestrated the strategy to develop Castleton into a leading supplier of complementary software and managed services to the public and not-for-profit sectors. Currently the business has over 600 customers with approximately a third of all the social housing associations in the UK.

MXC has assisted in delivering this strategy through 7 acquisitions, a disposal and organic growth that has resulted in adjusted EBITDA growing from -100k in 2015 to £3.6m in 2016.

MXC sees further growth opportunities in the sector and is still actively looking for and analysing prospective bolt-on opportunities.

MXC'S ROLE

Having orchestrated the demerger of the managed services business from Redstone and subsequent disposals of the legacy Redstone businesses, leading to the renaming of the company as Castleton Technology plc, MXC has worked closely with company to identify and execute M&A opportunities while directly assisting the company grow organically.

- MXC has been instrumental in identifying and executing acquisitions: Montal Holdings Limited for £3.8m (June 2014), Documotive Limited (November 2014), Keylogic Limited for £3.8m (March 2015), Opus Information Technology for £1.5m (March 2015), Impact Applications Limited for £5m (June 2015), Brixx Solutions Limited for £5m (June 2015) and Kypera Holdings Limited for £3.5m.
- MXC oversaw the disposal of the Montal consultancy business for £600k (March-15).
- MXC acted as cornerstone investor in equity and debt financings to provide capital for acquisitions
- During the year MXC subscribed for £1.5m of convertible loan notes to provide Castleton with capital to finance the acquisition of Kypera for £3.5m. Kypera provides fully integrated housing management and finance software to over 140 customers and has offices in the UK and Australia, as well as a presence in New Zealand and South Africa, providing further international opportunities for the Castleton group.

2015/2016 INVESTMENT PERFORMANCE

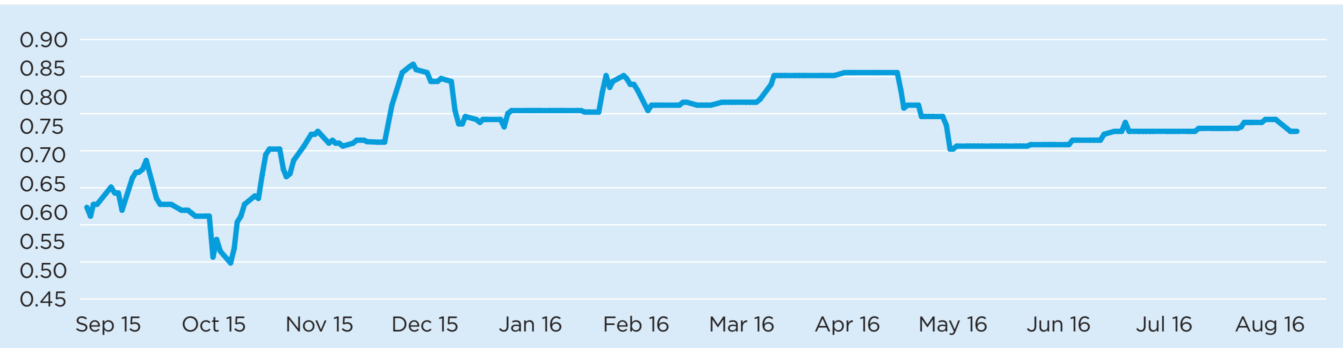
	Value at 1 September 2016	Value at 31 August 2016
Shares	£10.5m	£11.7m
Options*	£380k	exercised
Warrants*	£1.3m	£1.5m
	£12.2m	£13.2m

*Please refer to Appendix for explanation of bases of calculation for investments, options and warrants.

MAJOR INSTITUTIONAL SHAREHOLDERS

Investor	% ownership as at 31 August 2016
MXC Capital	**23.1%**
Kestrel Partners LLP	**21.1%**
Nigel Wray	**6.0%**
Slater Investments	**4.0%**

SHARE PRICE



TAX SYSTEMS PLC

OPPORTUNITY IDENTIFIED

In July 2016, Tax Systems plc was formed following the reverse acquisition of Tax Computer Systems Limited by cash shell Eco City Vehicles plc which then resulted in the business being renamed to Tax Systems plc.

Tax Systems plc provides market leading corporation tax software and represents a strong and stable platform from which to drive growth.

The qualities underlying the business as a platform capable of delivering strong shareholder returns were the following:

- Tax Systems' position as a leading brand in its field in the UK and Ireland, offering a comprehensive set of corporation tax reporting solutions and additional professional services.
- Already an established business with a very high proportion of recurring revenue (c. 90% of total revenues in the last financial year to 31 December 2015) with strong cash generation and low customer churn.
- Tax systems' market share among large corporates and accountancy firms is ahead of its competitors, with Tax Systems' being able to name 43 of the FTSE 100 companies and 19 out of the top 20 accountancy firms among its customers; however there remains a significant opportunity to further penetrate these markets.
- The Tax Systems team have built up a substantial amount of sector expertise which would be very difficult to duplicate, providing a high barrier to entry to the market.
- Managing tax risk and compliance is an increasingly significant challenge for companies. Increased regulation and complexity associated with corporation tax represents a significant opportunity for Tax Systems as a leading incumbent player in the UK and Ireland.

MXC'S ROLE

- Originated the opportunity and invested £8.7 million out of a total placing of £45.0 million, amounting to 20% of the enlarged share capital making MXC the largest shareholder. Furthermore, MXC was granted warrants over 6% of the enlarged share capital.
- Appointed Gavin Lyons, an Operating Partner of MXC, as Executive Chairman of Tax Systems. Gavin has had a distinguished career in the TMT sector, most recently as CEO of Accumuli PLC, a successful buy and build in the IT security sector sold to NCC Group plc for £55m.
- MXC Capital Markets LLP acted as financial adviser on the transaction and continues to provide corporate finance advisory services and to identify and execute suitable bolt-on opportunities.
- MXC will seek to drive organic growth and identify complementary acquisitions.

tax systems plc

2015/2016 INVESTMENT PERFORMANCE

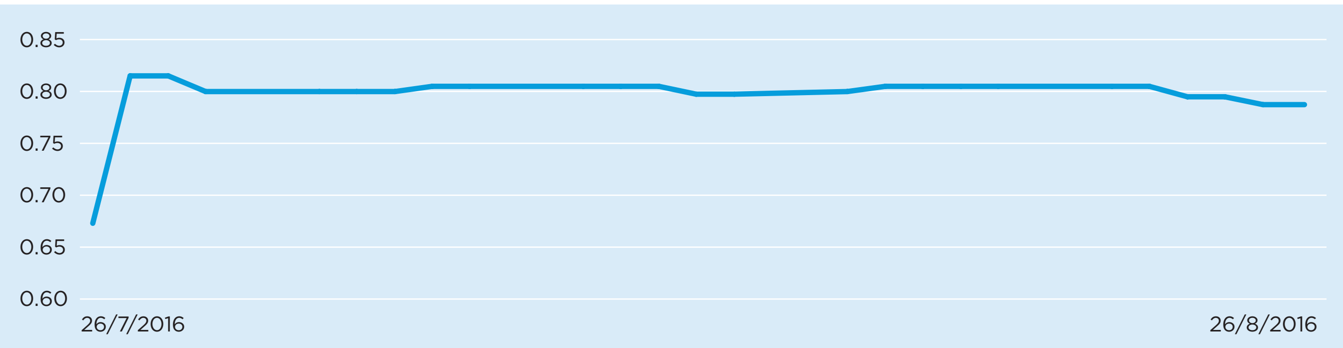
	Quantum invested in July 2016	Value at 31 August 2016
Shares	£10.1m	£11.8m
Options and Warrants*	–	£548k
	£10.1m	£12.30m

*Please refer to Appendix for explanation of bases of calculation for investments, options and warrants.

MAJOR INSTITUTIONAL SHAREHOLDERS

Investor	% ownership as at 31 August 2016
MXC Capital	**20.0%**
Henderson Global Investors	**16.8%**
Coltrane Asset Management	**13.4%**
Schroder Investment	**8.9%**
Nigel Wray	**7.1%**
Premier Asset Management	**6.9%**
Harwood Capital LLP	**5.9%**

SHARE PRICE *(post reverse takeover)*



OUR INVESTMENTS

The Group has continued to grow its portfolio in the year, investing £31.5 million of equity and loan capital across six businesses. In addition, the acquisition of MXC Holdings Limited ("MXCH") added investments valued at £20.4 million to the Group's portfolio. At 31 August 2016, the investment portfolio was valued at £62.8 million as shown in the table below:

	Original cost £000	Fair value at 1 September 2015 £000	Investment in year £000	On acquisition of MXCH at fair value £000	Increase/ (decrease) in fair value in year £000	Fair value/ proceeds on disposal £000	**Fair value at 31 August 2016 £000**	Total unrealised gain on investments as at 31 August 2016 £000	Total gain on investments realised in year to 31 August 2016 £000
Castleton Technology plc	4,605	10,521	135	385	629	–	**11,670**	7,065	–
adept 4 plc*	2,598	466	2,087	87	1,830	–	**4,470**	1,872	–
365 Agile Group plc	1,333	3,314	–	–	(2,286)	–	**1,028**	(305)	–
Coretx Holdings plc**	12,900	–	12,900	–	1,720	–	**14,620**	1,720	–
Tax Systems plc***	10,054	–	10,054	–	1,765	–	**11,819**	1,765	–
Redcentric plc	2,843	–	–	10,558	(31)	(10,440)	**87**	63	7,621
Private companies	5,365	–	4,850	515	1,677	–	**7,042**	1,677	–
Total investments	39,698	14,301	30,026	11,545	5,304	(10,440)	**50,736**	13,857	7,621
Warrants	–	1,792	–	8,840	1,392	–	**12,024**	12,024	–
Total investments and warrants	39,698	16,093	30,026	20,385	6,696	(10,440)	**62,760**	25,881	7,621

*formerly Pinnacle Technology Group plc; name changed on 14 June 2016.
**formerly Castle Street Investments plc; name changed on 12 April 2016.
***formerly Eco City Vehicles plc; name changed on 26 July 2016.

In the prior year's consolidated financial statements, the investments were classified as available-for-sale financial assets. During the year ended 31 August 2016, management made a comprehensive assessment of MXC's investments. Given the relative size of the Group's holdings in its investee companies, particularly following the investments made in the period, the board considered that the more appropriate treatment and classification for the investments is at fair value through profit or loss. The investments must be designated at fair value through profit or loss on initial recognition and therefore the prior year consolidated financial statements have been restated to reflect the more applicable accounting treatment in accordance with IAS 8. Accordingly, the unrealised gains and losses recognised in other comprehensive income and reported within the fair value reserve within equity in the 2015 consolidated financial statements are now presented as part of the profit and loss account. The retained earnings, the fair value reserve and the profit and loss have therefore been restated as detailed in note 28.

As shown in the table above, during the year the Group disposed of most of its shareholding in Redcentric plc for proceeds of £10.4 million, generating a profit on disposal of £7.6 million. This investment was acquired by the Group as part of the purchase of MXCH, which is accounted for under the provisions of IFRS 3. This means that the net assets of MXCH are stated at their fair values at the date of the acquisition, and, as most of the gain in the Redcentric plc shareholding occurred in MXCH before its acquisition by MXC, the profit on disposal is not reflected in the consolidated profit and loss account for the year.

INCOME STATEMENT

The results for the year reflect income and profit generation from each element of the Group's merchant banking model: its investments, its corporate finance practice and its newly established advisory business. Together these delivered consolidated revenue for the year of £4.6 million (2015: £2.1 million), demonstrating the steady growth of the Group now all restructuring has been completed. The analysis of revenues and profits by segment is shown in note 3 to the financial statements.

The unrealised gains in the year on the movement in the fair value of the Group's investment portfolio was £6.7 million (2015: £9.9 million), with EBITDA (earnings before interest, tax, depreciation and amortisation) generated for the period of £4.8 million (2015: £14.95 million, which included a one-off profit on disposal of an asset of £5.4 million).

The Board measures the underlying trading performance of the Group based on a measure of EBITDA stated before realised and unrealised gains or losses in the value of its investments and certain non-trading costs such as share-based payments and restructuring costs, to show the results from trading activities ('Trading EBITDA'). The Trading EBITDA for the year to 31 August 2016 was £1.2 million (2015: £0.3 million). The Trading EBITDA is stated after the elimination on consolidation of revenues charged by the corporate finance and advisory businesses to other group companies, which those businesses undertook in lieu of third party mandates. Allowing for these revenues, on an unconsolidated basis the Trading EBITDA of the corporate finance and advisory businesses was £3.1 million in the period (2015: £1.0 million).

During the year, the Group incurred restructuring and other one-off costs of £0.4 million (2015: £0.6 million) and a non-cash share-based payments charge of £2.6 million (2015: £nil). This charge is in relation to the share incentive scheme implemented in September 2015 and a further non-cash charge will accrue over the next two years. After accounting for these costs the operating profit for the year was £4.7 million (2015: £14.9 million).

After net interest costs and taxation, the reported profit was £3.8 million (2015: £14.8 million).

BALANCE SHEET AND CASH

In September 2015, the Company completed the acquisition of MXCH for a net consideration of £18.3 million, settled by the issue of shares in the Company. As shown in the table above, the fair value of MXCH's investments on acquisition was £20.4 million. After accounting for borrowings and other liabilities of MXCH, provisional goodwill of £5.6 million has been recognised in these financial statements. See note 10 for further details.

The fair value of the Group's investments and warrants at 31 August 2016 was £62.8 million (2015: £16.1 million, excluding those investments held by MXCH) as detailed in the above table. Further details are shown in note 13. In addition to this, at the period end the Group had convertible loan notes outstanding from Castleton Technology plc with a fair value of £1.7 million. Net assets at the end of the period were £80.7 million (2015: £49.9 million).

The Group's cash flow from operating activities in the period was £0.7 million (2015: outflow of £0.8 million). Equity investments of £30.0 million were made in the year, whilst proceeds of £10.4 million were received in respect of the sale of MXC's investment in Redcentric plc. Loan advances, net of repayments, were £1.2 million and £0.5 million was incurred meeting the Group's borrowing obligations, with a further £0.2 million spent on tangible fixed assets. £0.8 million was returned to shareholders by way of a tender offer in March and a placing in May raised £7.0 million net of costs. After accounting for the net overdraft of £4.0 million in MXCH on acquisition, the net cash balance at 31 August 2016 was £9.8 million (2015: £28.4 million). The Group has access to a further £6 million via its banking facilities.

DISTRIBUTION AND CAPITAL RETURNS POLICY

In line with the Board's commitment to distribute up to 20% of realised gains on MXC's portfolio to shareholders, a further £3.0 million was returned to shareholders by way of a tender offer in September 2016.

JILL COLLIGHAN
FINANCE DIRECTOR
MXC CAPITAL (UK) LIMITED

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 20. The key non-financial risks that the Group faces are listed below:

RELIANCE ON KEY PERSONNEL AND MANAGEMENT

The success of the Group will be dependent on the services of key management and personnel. Therefore, the directors believe that the ability to attract and retain highly skilled and qualified personnel is crucial. The Group has recently implemented an incentive scheme (see note 22) but there can be no guarantee that such individuals will be retained or identified and employed.

PROSPECTIVE PORTFOLIO INVESTMENTS

The value of the Group is dependent, inter alia, upon the Group 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. Once the Group has acquired an interest in a business it is likely that such asset may not be realisable immediately, particularly given the nature of the sectors of interest, the size of the targeted businesses and that targeted businesses may be private companies. In addition, smaller companies frequently lack the financial strength, diversity and resources to overcome or survive periods of economic slowdown. Furthermore, the share prices of such companies, if publicly traded, are often subject to significant fluctuations and any volatility in the value of one or more of such businesses could have a substantial impact upon the value of the Group. It is the intention of the Board that, over time, the Group will create an even more diverse portfolio of businesses, thereby spreading its investment risk.

COMPETITION IN THE MARKET PLACE

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.

EARLY STAGE OF DEVELOPMENT AND LIMITED OPERATING HISTORY

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.

By order of the board

PETER RIGG
CHAIRMAN
30 November 2016

DIRECTOR'S REPORT

The directors present their report together with the audited consolidated financial statements for the year ended 31 August 2016 for MXC Capital Limited (the 'Company') and its subsidiaries (together the 'Group').

CORPORATE STATUS

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

PRINCIPAL ACTIVITY

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

RESULTS AND DIVIDENDS

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

The directors do not recommend the payment of a dividend for the year ended 31 August 2016 (2015: £nil).

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties are detailed within the Strategic Report, on page 15.

Details of the Group's financial risk management objectives and policies are set out in note 20 of the consolidated financial statements.

DIRECTORS

Peter Rigg (Non-executive Chairman)
Paul Guilbert (Non-executive Director)
Meriel Lenfestey (Non-executive Director, appointed 27 October 2015)
Marc Young (Executive Director)

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

DIRECTORS' REMUNERATION AND SHARE OPTIONS

Remuneration in respect of the directors was as follows:

	Basic salary and fees £000	**Bonus £000**	**Share-based payments £000**	**2016 total £000**	2015 total £000
Peter Rigg	**45**	**-**	**-**	**45**	80
Paul Guilbert	**35**	**-**	**-**	**35**	53
Meriel Lenfestey*	**25**	**-**	**-**	**25**	–
Marc Young	**150**	**150**	**498**	**798**	300

*from date of appointment on 27 October 2015

Post year end, an additional fee of £10,000 each has been agreed for Peter Rigg and Paul Guilbert in recognition of additional duties carried out during the year. These fees will be paid during the year to 31 August 2017.

At 31 August 2015 the directors did not hold any share options in the Company. On 28 September 2015 Marc Young was granted awards under the Company's recently established long term incentive plan. The award is based on 2% of shareholder value created, subject to the achievement of share price and employment-related performance criteria. See note 22 for further details.

DIRECTORS' INTERESTS

As at 31 August 2016 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:

	2016	2015
Peter Rigg	**9,647,540**	8,500,000
Paul Guilbert	**822,403**	–
Meriel Lenfestey	**-**	–
Marc Young	**104,767,872**	–

CORPORATE GOVERNANCE

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

The board of MXC holds meetings as issues arise which require the attention of the Board. Quarterly board meetings take place where overall performance against the business plan, its strategy and targets are considered. The Board is responsible for setting the strategic direction of the Group, for making all investment decisions, establishing the policies of the Group and for the overall management of the business of the Group. It is the Board's responsibility to oversee and monitor the financial position, the business and affairs of the Group on behalf of the shareholders, to whom the directors are accountable. The primary duty of the Board is to act in the best interests of the Group at all times. The Board also addresses issues relating to internal control and the Group's approach to risk management.

The Group has also established a remuneration committee (the 'Remuneration Committee') and an audit committee (the 'Audit Committee') with formally delegated duties and responsibilities. The revised written terms of reference of these committees were adopted on 19 September 2014. 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.

The Audit Committee, which comprises Paul Guilbert as Chairman, Meriel Lenfestey and Peter Rigg, meets not less than twice a year. The committee is responsible for making recommendations to the Board on the appointment of auditors and the audit fee and for ensuring that the financial performance of the Group is properly monitored and reported. In addition, the Audit Committee receives and reviews reports from management and the auditors relating to the interim report, the annual report and accounts and the internal control systems of the Group.

RELATED PARTY TRANSACTIONS

Details of the Group's transactions and year end balances with related parties are set out in note 25 of the consolidated financial statements.

DIRECTOR'S REPORT
Continued

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 2016 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
30 November 2016

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

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

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

The directors 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

OUR OPINION ON THE GROUP FINANCIAL STATEMENTS IS UNMODIFIED

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 2016 and of the group's profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of The Companies (Guernsey) Law, 2008.

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 parent 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 parent company and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

WHAT WE HAVE AUDITED

MXC Capital Limited's group financial statements comprise the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows and the related notes.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and as applied in accordance with the provisions of The Companies (Guernsey) Law, 2008.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Under The Companies (Guernsey) Law, 2008 we are required to report to you if, in our opinion:

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

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or
- otherwise misleading.

We have nothing to report in respect of the above.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

What an audit of financial statements involves:
A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate

What the directors are responsible for:
As explained more fully in the Directors' Responsibilities Statement set out on page 19, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

What are we responsible for:
Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

GRANT THORNTON LIMITED
CHARTERED ACCOUNTANTS
St Peter Port
Guernsey
Channel Islands

30 November 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 August 2016

	Notes	2016 £000	Restated[1] 2015 £000
Revenue	3	**4,573**	2,094
Realised profit on disposal of assets		–	5,385
Movement in fair value of investments	13	**6,696**	9,903
Cost of sales		**(70)**	(66)
Gross profit	3	**11,199**	17,316
Other income	4	**234**	–
Administrative expenses		**(6,775)**	(2,368)
EBITDA[2]		**4,821**	14,951
Trading EBITDA[3]		**1,150**	267
Restructuring and non-recurring costs included within administrative expenses		**(435)**	(604)
Share-based payments charge	6	**(2,590)**	–
Movement in fair value of investments	13	**6,696**	9,903
Realised profit on disposal of assets		**-**	5,385
Depreciation	12	**(139)**	(3)
Amortisation of intangible assets	11	**(24)**	–
Operating profit	5	**4,658**	14,948
Finance income	7	**91**	23
Finance costs	7	**(219)**	–
Profit on ordinary activities before taxation		**4,530**	14,971
Tax charge on profit on ordinary activities	8	**(701)**	(161)
Profit for the year attributable to owners of the parent company		**3,829**	**14,810**
Earnings per share			
Basic earnings per share	9	**0.12p**	0.71p
Diluted earnings per share	9	**0.11p**	0.69p

(1) comparative figures have been restated to reflect the treatment of unrealised movements in the fair value of investments. For further details see note 28.
(2) earnings before interest, tax, depreciation, amortisation.
(3) earnings from trading activities before interest, tax, depreciation, amortisation, restructuring and non-recurring costs, share-based payments and realised and unrealised gains on investments.

The notes on pages 27 to 55 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 August 2016

	2016 £000	Restated(1) 2015 £000
Profit for the financial year	**3,829**	14,810
Items that will be reclassified subsequently to profit or loss		
Available-for-sale financial assets, gains arising during the year	**-**	610
Less: reclassification for gains included in profit	**-**	(439)
Other comprehensive income for the year, net of tax	**-**	171
Total comprehensive income for the year attributable to owners of the parent company	**3,829**	14,981

(1) comparative figures have been restated to reflect the treatment of unrealised movements in the fair value of investments. For further details see note 28.

The notes on pages 27 to 55 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 August 2016

	Notes	31 August 2016 £000	Restated[1] 31 August 2015 £000
Non-current assets			
Intangible assets	11	**11,573**	6,000
Property, plant and equipment	12	**333**	8
Financial assets at fair value through profit or loss	13	**62,760**	16,093
Loans receivable	14	**1,790**	–
		76,456	22,101
Current assets			
Trade and other receivables	15	**684**	1,020
Cash and cash equivalents	16	**11,232**	28,447
		11,916	29,467
Total assets		**88,372**	51,568
Current liabilities			
Trade and other payables	17	**(2,416)**	(1,661)
Income tax payable		**(2,086)**	–
Borrowings	18	**(1,508)**	–
Other financial liabilities	19	**(211)**	–
		(6,221)	(1,661)
Non-current liabilities			
Borrowings	18	**(132)**	–
Other financial liabilities	19	**(1,001)**	–
Deferred tax liability	8	**(294)**	–
		(1,427)	–
Total liabilities		**(7,648)**	(1,661)
Net assets		**80,724**	49,907
Equity			
Share premium	21	**61,936**	37,538
Share-based payments reserve		**3,350**	760
Merger reserve		**(23,712)**	(23,712)
Retained earnings		**39,150**	35,321
Total equity attributable to the owners of the parent		**80,724**	49,907

(1) comparative figures have been restated to reflect the treatment of unrealised movements in the fair value of investments. For further details see note 28.

The notes on pages 27 to 55 form an integral part of these financial statements.

These financial statements were approved by the Board on 30 November 2016 and signed on its behalf by:

P RIGG
DIRECTOR

P GUILBERT
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 August 2016

	Share premium £000	Investment in own shares £000	Fair value reserve £000	Share-based payments reserve £000	Merger reserve £000	Retained earnings £000	Total £000
Balance at 1 September 2014	**15,012**	**(16)**	**(171)**	**760**	**(23,712)**	**20,527**	**12,400**
Profit for the year	–	–	–	–	–	14,810	14,810
Other comprehensive income							
Available-for-sale financial assets, gains arising during the year	–	–	610	–	–	–	610
Reclassification for gains included in profit	–	–	(439)	–	–	–	(439)
Total comprehensive income for the year	**–**	**–**	**171**	**–**	**–**	**14,810**	**14,981**
Transactions with owners							
Issue of share capital	22,950	–	–	–	–	–	22,950
Issue costs	(424)	–	–	–	–	–	(424)
Reduction in value of investment in own shares	–	16	–	–	–	(16)	–
	22,526	**16**	**–**	**–**	**–**	**(16)**	**22,526**
Balance at 31 August 2015 (restated[(1)])	**37,538**	**–**	**–**	**760**	**(23,712)**	**35,321**	**49,907**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**3,829**	**3,829**
Transactions with owners							
Issue of share capital	25,355	–	–	–	–	–	25,355
Costs of share issue	(104)	–	–	–	–	–	(104)
Share-based payments charge	–	–	–	2,590	–	–	2,590
Purchase of own shares, net of costs	(853)	–	–	–	–	–	(853)
	24,398	**–**	**–**	**2,590**	**–**	**–**	**26,988**
Balance at 31 August 2016	**61,936**	**–**	**–**	**3,350**	**(23,712)**	**39,150**	**80,724**

(1) comparative figures have been restated to reflect the treatment of unrealised movements in the fair value of investments. For further details see note 28.

The notes on pages 27 to 55 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 August 2016

	Note	2016 £000	Restated[1] 2015 £000
Cash flows from operating activities			
Cash generated from/(consumed in) operations	24	**1,522**	(834)
Corporation tax paid		**(830)**	–
Net cash flows from/(used in) operating activities		**692**	(834)
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		**(3,967)**	444
Payments to acquire property, plant and equipment		**(226)**	(10)
Purchase of investments		**(30,026)**	(16,544)
Proceeds from disposal of investments		**10,440**	17,739
Interest received		**46**	23
Loans advanced		**(1,500)**	–
Loans repayments received		**260**	–
Net cash flows (used in)/from investing activities		**(24,973)**	1,652
Cash flows from financing activities			
Net proceeds from issue of equity		**6,951**	16,526
Net costs of purchase of own shares		**(853)**	–
Interest paid		**(219)**	–
Borrowings and other liabilities repaid		**(283)**	–
Net cash flows from financing activities		**5,596**	16,526
Net (decrease)/increase in cash and cash equivalents in the year		**(18,685)**	17,344
Cash and cash equivalents at beginning of year		**28,447**	11,103
Cash and cash equivalents at end of year		**9,762**	28,447
Comprising:			
Cash and cash equivalents		**11,232**	28,447
Overdraft		**(1,470)**	–
		9,762	28,447

(1) comparative figures have been restated to reflect the treatment of unrealised movements in the fair value of investments. For further details see note 28.

The notes on pages 27 to 55 form an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 August 2016

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.

RESTATEMENT OF PRIOR-PERIOD FINANCIAL STATEMENTS

In the consolidated financial statements for the year ended 31 August 2015, the Group's investments were classified as available-for-sale financial assets. During the current period, management made a comprehensive assessment of its investments. Given the relative size of the Group's holdings in its investee companies, particularly following the investments made in the period, the board considered that it was not appropriate to class the investments as available-for-sale. The Group is thought to exercise significant influence over its investees, and as such they meet the criteria to be associates. In the opinion of the directors, the subsidiary companies holding the associates operate akin to venture capital companies and therefore the Group has taken advantage of the exemptions from applying the equity method to account for associates available under IAS 28 and has designated such investments as fair value through profit or loss on initial recognition. The investments must be designated at fair value through profit or loss on initial recognition and therefore the prior period consolidated financial statements have been restated to reflect the more applicable accounting treatment in accordance with IAS 8. Accordingly, the unrealised gains and losses recognised in other comprehensive income and reported within the fair value reserve within equity in the 2015 consolidated financial statements are now presented as part of the profit and loss account. The retained earnings, the fair value reserve and the profit and loss have therefore been restated to reflect this position in accordance with IAS 1. The Group held no investments at 1 September 2014 therefore there is no requirement to provide restated the figures at that date in the Consolidated Statement of Financial Position. A summary of the effect of the restatements is shown in note 28.

GOING CONCERN

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

ADOPTION OF NEW ACCOUNTING STANDARDS

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 August 2016

1 GENERAL INFORMATION CONTINUED

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS
At the date of issue of these financial statements, the following relevant Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective. The directors anticipate that the adoption of these Standards and Interpretations, which is expected to occur on their effective dates, will not have a material impact on the Group's financial statements.

- IFRS 16, Leases (effective date for annual periods beginning on or after 1 January 2019)
- IFRS 9, Financial Instruments (2014) (effective date for annual periods beginning on or after 1 January 2018)
- IFRS 15, Revenue from Contracts with Customers (effective date for annual periods beginning on or after 1 January 2018)
- IFRS 2, Classification and Measurement of Share-based Payment Transactions (effective date for annual periods beginning on or after 1 January 2018)
- IAS 7 Disclosure Initiative (Amendments to IAS 7) (effective date for annual periods beginning on or after 1 January 2017)
- IAS 1 Disclosure Initiative (Amendments to IAS 1 Presentation of Financial Statements) (effective date for annual periods beginning on or after 1 January 2016)
- IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception (effective date for annual periods beginning on or after 1 January 2016)
- Various Annual Improvements to IFRSs 2012-2014 Cycle (effective date for annual periods beginning on or after 1 January 2016).

2 ACCOUNTING POLICIES

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. In the previous year, a business combination 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. In the current year, the business combination was a transaction in the scope of IFRS 3 and the Group's policy to apply the acquisition method was followed.

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

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

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

The Group is comprised of the following main operating segments:

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

Advisory segment – the Group's advisory and consultancy division, responsible for originating and advising on investment opportunities and providing operational and strategic guidance to clients. This division was newly established during the year ended 31 August 2016 and therefore the comparative segmental analysis does not include details for this segment.

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

REVENUE

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

RENDERING OF SERVICES

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

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.

PROPERTY, PLANT AND EQUIPMENT

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

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

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

INVESTMENTS

Investments of the Group include equity securities (certain of which are associates), warrants and loan notes. Equity securities classed as investments are designated as fair value through profit and loss ('FVTPL') on initial recognition, as is allowed by the relevant standard for a group of financial assets, financial liabilities or both that is managed and its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel. Warrants, being derivatives, are by default FVTPL since they classify as held for trading. Loan notes are classified as loans and receivables.

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.

2 ACCOUNTING POLICIES CONTINUED

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.

TAXATION

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

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

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

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying temporary differences will be able to be offset against future taxable income.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply in the period of realisation based on tax rates and laws that have been enacted or substantively enacted at the reporting date.

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

CASH AND CASH EQUIVALENTS

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

FINANCIAL ASSETS

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

(i) Loans and receivables

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

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

(ii) Financial asset at fair value through profit or loss

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

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

FINANCIAL LIABILITIES

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

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

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

SHARE-BASED PAYMENTS

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

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

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

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

(ii) Shares used to settle consultancy services

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

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;
- Investment in own shares, representing the fair value of shares held in treasury by the Company;
- Fair value reserve, representing the movement in fair value of financial assets designated as available-for-sale;
- 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 merchant banking proposition. All subsidiaries of the Company, including those which are investment holding companies, are therefore consolidated into the Group financial statements as described elsewhere in these accounting policies.

(ii) Accounting for investments

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

(iii) Fair value measurement of investments

The Group holds investments in the form of quoted and unquoted securities and warrants measured at fair value. The fair value of these investments is estimated at the reporting period end, under methods detailed in note 13. 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 22. Estimated fair values may vary from actual prices that would be achieved in an arm's length transaction at the reporting date.

(v) Impairment assessment

The Group tests annually whether goodwill and intangible assets have suffered any impairment, in accordance with the accounting policy stated on page 28. 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) Estimated of deferred tax liability

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

(viii) Recoverability of loan notes

As detailed in note 14, the Group has an outstanding loan note receivable. The directors do not believe there are any signs of impairment in respect of the loan notes at the reporting period end. Given the quantum of the loan notes and the timescales until redemption the recoverability of these loan notes 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 CODMs assesses the performance of the operating segments based on the Trading EBITDA* generated by each segment.

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 and providing operational and strategic guidance to clients. This division was newly established during the year ended 31 August 2016 and therefore the comparative segmental analysis does not include details for this segment.

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

3 SEGMENTAL ANALYSIS CONTINUED

Results for the year ended 31 August 2016

	Capital Markets £000	Advisory £000	Central £000	Inter-segment transactions £000	Total £000
Revenues:					
Third party	3,861	704	8	–	4,573
Inter-segment	120	1,492	–	(1,612)	–
Total revenue	**3,981**	**2,196**	**8**	**(1,612)**	**4,573**
Trading EBITDA*	**2,656**	**416**	**(1,922)**	**-**	**1,150**
Restructuring costs	–	–	(435)	–	(435)
Share-based payments charge	(1,113)	(1,477)	–	–	(2,590)
Depreciation	(1)	(51)	(87)	–	(139)
Amortisation of intangible assets	(24)	–	–	–	(24)
Movement in fair value of investments	–	–	6,696	–	6,696
Operating profit	**1,518**	**(1,112)**	**4,252**	**-**	**4,658**
Finance costs	–	(10)	(209)	–	(219)
Finance income	–	–	91	–	91
Profit before taxation	**1,518**	**(1,122)**	**4,134**	**-**	**4,530**
Other segment information					
Segment non-current assets	5,976	–	70,480	–	76,456
Segment current assets	4,739	2,694	9,782	(5,299)	11,916
Segment liabilities	(1,005)	(2,319)	(9,623)	5,299	(7,648)

*earnings from trading activities before interest, tax, depreciation, amortisation, restructuring and non-recurring costs, share-based payments and realised and unrealised gains on investments.

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

	Capital Markets 2016 £000	Advisory 2016 £000	Total 2016 £000
Tax Systems plc	2,033	107	**2,140**
Coretx Holdings plc	1,073	107	**1,180**
adept4 plc	364	159	**523**

Results for the year ended 31 August 2015

	Capital Markets £000	Central £000	Total £000
Revenue – third party	1,998	96	2,094
Realised profit on disposal of assets	–	5,385	5,385
Trading EBITDA*	**1,020**	**(753)**	**267**
Restructuring costs	–	(604)	(604)
Depreciation	(1)	(2)	(3)
Movement in fair value of investments	–	9,903	9,903
Realised profit on disposal of assets	–	5,385	5,385
Operating profit	**1,019**	**13,929**	**14,948**
Finance income	–	23	23
Profit before taxation	**1,019**	**13,952**	**14,971**
Other segment information			
Segment non-current assets	6,001	16,100	22,101
Segment current assets	1,692	27,775	29,467
Segment liabilities	(420)	(1,241)	(1,661)

*earnings from trading activities before interest, tax, depreciation, amortisation, restructuring and non-recurring costs, share-based payments and realised and unrealised gains on investments.

During the year revenues from the following customers, all of which were generated by the Capital Markets segment, were greater than 10% of total revenue:

	2015 £000
Accumuli plc	754
Castleton Technology plc	663
Redcentric plc	320
365 Agile Group plc	303

Income streams originating outside of the United Kingdom comprised £nil (2015: £38,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 August 2016

4 OTHER INCOME

	2016 £000	2015 £000
Dividends received	**234**	–

5 OPERATING PROFIT

Operating profit is stated after charging to administrative expenses:

	2016 £000	2015 £000
Amortisation of intangible assets	**24**	–
Depreciation of owned assets	**88**	3
Depreciation of assets held under finance leases	**51**	–
Employee costs, excluding share based compensation (see note 6)	**2,554**	1,152
Share-based payments	**2,590**	–
Operating lease rentals	**157**	50
Restructuring and non-recurring costs (1)	**435**	604
Auditor's remuneration		
Audit of consolidated accounts	**21**	19
Audit of the Company's subsidiaries	**36**	21
Non-audit services:		
Taxation services	**16**	10
Other non-audit services	**19**	–

(1) Restructuring and non-recurring costs relate to the restructuring of the MXC Group (including the acquisition of MXC Holdings Limited in 2016 and the acquisition of MXC Capital Advisory LLP and the re-domicile to Guernsey in 2015) and certain costs in relation to the acquisition of investments.

6 PARTICULARS OF STAFF

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

	2016 **No**	2015 No
Fee earners and administration	**12**	7

The aggregate payroll costs of these persons were:

	2016 **£000**	2015 £000
Wages and salaries	**2,205**	1,014
Social security costs	**345**	134
Pension costs-defined contribution plan	**4**	4
Total payroll costs	**2,554**	1,152
Share-based payments (see note 22)	**2,590**	–
Total employment costs	**5,144**	1,152

DIRECTORS' REMUNERATION

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

	2016 **£000**	2015 £000
Short-term employee benefits	**405**	433
Share-based payments expense	**498**	–
	903	433

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

	2016 **£000**	2015 £000
Aggregate emoluments including short-term employee benefits	**300**	300
Share-based payments expense	**498**	–
	798	300

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

On 28 September 2015 the Group made awards to certain directors and employees under its recently established Long Term Incentive Plan ('LTIP'). Marc Young, a director of the Company is entitled to 2% of the shareholder value created under the scheme. For further details, see note 22.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 August 2016

7 FINANCE INCOME AND COSTS

	2016 £000	2015 £000
Finance Income		
Interest income on short-term bank deposits	**35**	23
Interest income on loans receivable	**56**	–
	91	23

	2016 £000	2015 £000
Finance Cost		
Interest payable on bank overdraft	**137**	–
Interest expense under finance lease obligations	**10**	–
Interest payable on other financial liabilities	**57**	–
Other interest payable	**15**	–
	219	–

8 TAXATION

(a) Tax on profit on ordinary activities

	2016 £000	2015 £000
Current tax		
Current year charge	**1,920**	–
Adjustment in respect of prior periods	**20**	–
	1,940	–
Deferred tax		
Reversal of temporary differences	**(1,239)**	161
Total tax charge	**701**	161

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

(b) Reconciliation of the total income tax charge

	2016 £000	2015 £000
Profit on ordinary activities before taxation	**4,530**	14,971
Tax using the applicable Guernsey income tax rate of 0% (2015: 0%)	**-**	–
UK corporation tax rate of 20% (2015: 20.58%) payable on UK profits/(losses)	**2,010**	156
Utilisation of tax losses	**(90)**	(156)
Prior year adjustment to current income tax	**20**	–
Deferred tax (credit)/charge re temporary differences	**(1,239)**	161
Total tax charge	**701**	161

(c) Deferred tax liability

	£000
At 31 August 2014 and 31 August 2015	–
Temporary difference in respect of fair value of investments	1,533
Credit to income statement	(1,239)
At 31 August 2016	**294**

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 the year is:

	2016 Number	2015 Number
Weighted average shares used to calculate basic EPS	**3,186,355,864**	2,088,266,583
Dilutive impact of share incentives	**238,940,391**	48,338,440
Weighted average shares used to calculate diluted EPS	**3,425,296,255**	2,136,605,023

POST PERIOD END SHARE TRANSACTIONS

At a General Meeting on 12 September 2016, the Company's resolution to purchase 83,399,424 Ordinary Shares by tender offer at a price of 3.6p per share was approved. The shares were subsequently purchased by the Company and cancelled.

On 22 September 2016 the Company issued 33,333,333 new Ordinary shares at a price of 3.0p each. On 7 October 2016 a further 20,000,000 Ordinary shares were issued at a price of 1.0p each to satisfy the exercise of share options by former employees.

10 BUSINESS COMBINATIONS

On 24 September 2015, the Company acquired the entire share capital of MXC Holdings Limited ('MXCH'), an investment holding company. The acquisition was satisfied by the issue of shares in MXC Capital Limited with a fair value of £18.3 million, being the mid-market price of the Company's shares on that date. The principal reason for the acquisition was to unify the MXC Group's organisation, management and investment interests into a single structure beneath an AIM quoted company, thereby aligning the interests of all of the shareholders of the Company and MXC Holdings. The directors concluded that this is not a common control transaction and hence it is in scope for IFRS 3. The consideration was settled via the issue of equity.

From the date of acquisition to 31 August 2016, the portion of MXCH and its subsidiaries ('MXCH Group') held within continuing activities generated revenue of £0.8 million and a loss before taxation of £0.1 million. As MXCH was acquired close to the start of the year, the revenue and profit before tax if MXCH had been consolidated for the full year would not be materially different. Acquisition costs incurred in the current year amount to £206,000. These costs are included in Administrative expenses in the statement of profit or loss.

The total provisional goodwill arising from the acquisition is the difference between the fair value of consideration less the provisional fair value of assets acquired:

	£000
Fair value of purchase consideration	18,300
Less fair value of assets acquired:	
Investments	(11,545)
Warrants	(8,840)
Property, plant and equipment	(202)
Trade and other receivables	(669)
Cash and cash equivalents	(326)
Trade and other payables	493
Current tax liabilities	976
Borrowings	4,461
Other financial liabilities	1,415
Deferred tax liability	1,534
Goodwill	5,597

On the acquisition of MXCH, the directors assessed the business acquired to identify any intangible assets. Other than through the sale of its investments, which have already been allocated a fair value on acquisition by the Group as shown in the table above, the MXCH Group does not generate positive cash flows or profits as a stand-alone entity and is therefore not considered by the Board to have any separable intangible assets. The entire excess of consideration over net assets has therefore been allocated as goodwill. This goodwill is attributable to the synergies from continuing operations and the benefits the Group will receive from the knowledge, ability and reputation of the staff of the MXCH Group.

11 INTANGIBLE ASSETS

	Goodwill £000	Customer contracts and related relationships £000	Total £000
Cost			
At 1 September 2014	–	–	–
Business combinations	5,927	73	6,000
At 31 August 2015	**5,927**	**73**	**6,000**
Business combinations	5,597	–	5,597
At 31 August 2016	**11,524**	**73**	**11,597**
Amortisation			
At 1 September 2014 and 31 August 2015	–	–	–
Charge for the year	–	24	24
At 31 August 2016	**–**	**24**	**24**
Net book value			
At 31 August 2016	**11,524**	**49**	**11,573**
At 31 August 2015	5,927	73	6,000

The amortisation charge is included in the profit for the year from continuing operations in the Consolidated Statement of profit or loss within administrative expenses.

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

CAPITAL MARKETS CGU

This goodwill arising from the acquisition of MXC Capital Markets LLP is allocated to this CGU. The value-in-use calculations use cash flow projections based on financial budgets approved by management until 31 August 2017. Cash flows for 4 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 is allocated to this CGU. The value-in-use calculations use cash flow projections over a 6 year period based on management-approved assumptions regarding the time an investment will be held for and the growth in value achieved. A growth rate of 5% per annum is assumed.

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

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

12 PROPERTY, PLANT AND EQUIPMENT

	Office equipment, furniture and fittings £000	Motor vehicles £000	Total £000
Cost			
At 1 September 2014	–	–	–
Additions	10	–	10
Business combinations	1	–	1
At 31 August 2015	**11**	**–**	**11**
Additions	226	115	341
Business combinations	5	197	202
Disposals	–	(97)	(97)
At 31 August 2016	**242**	**215**	**457**
Depreciation			
At 1 September 2014	–	–	–
Charge for the year	3	–	3
At 31 August 2015	**3**	**–**	**3**
Charge for the year	88	51	139
On disposal	–	(18)	(18)
At 31 August 2016	**91**	**33**	**124**
Net book value			
At 31 August 2016	**151**	**182**	**333**
At 31 August 2015	8	–	8

As at 31 August 2016, included in motor vehicles are assets held under finance leases with a carrying value of £182,000 (2015: £nil). The motor vehicle additions during the year were funded using finance leases.

13 INVESTMENTS

	Quoted company investments £000	Private company investments £000	Warrants £000	Total £000
Cost				
At 1 September 2014	–	–	–	–
Additions	6,190	–	–	6,190
Movement in fair value	8,111	–	1,792	9,903
At 31 August 2015	**14,301**	**–**	**1,792**	**16,093**
Additions	25,176	4,850	–	30,026
Business combinations	11,029	516	8,840	20,385
Disposals	(10,440)	–	–	(10,440)
Movement in fair value	3,627	1,677	1,392	6,696
At 31 August 2016	**43,693**	**7,043**	**12,024**	**62,760**

The Group's investments at 31 August 2016 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 a three-model approach which includes the production of a Black-Scholes valuation with estimates made in respect of items such as the achievability of performance criteria, share price volatility and exercise date. An external expert has been engaged for valuation purposes. 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 37.1% (2015: 74.3%).

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/Sales or EV/EBITDA as applicable) 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	Range
Market comparable companies	EBITDA multiple	9.9
	Revenue multiple	0.8 – 1.0

13 INVESTMENTS CONTINUED

There have been no transfers between levels 1,2 and 3 in 2016 or 2015. Categorisation of the fair values at 31 August 2016 was:

	Level 1 £000	Level 2 £000	Level 3 £000
Quoted equity securities	43,693	–	–
Unquoted equity securities	–	–	7,043
Derivatives – warrants	–	–	12,024
	43,693	**–**	**19,067**

Categorisation of the fair values at 31 August 2015 was:

	Level 1 £000	Level 2 £000	Level 3 £000
Quoted equity securities	14,301	–	–
Derivatives – warrants	–	–	1,792
	14,301	**–**	**1,792**

14 LOANS RECEIVABLE

	2016 £000	2015 £000
Loan notes	**1,679**	–
Other loans	**111**	–
	1,790	–

During the year, the Group made available a facility of up to £3.5 million 5% convertible unsecured loan notes to Castleton Technology plc. £1.5 million of the facility was drawn down as at 31 August 2016. At this date, accrued interest on the loan was £44,000 and the deferred fair value gain was £135,000. The maturity date of the loan is 31 January 2021 and the loan can be redeemed by Castleton at any time after the third anniversary of the issue date. The embedded derivative element of the loan is valued at £nil as at 31 August 2016.

15 TRADE AND OTHER RECEIVABLES

	2016 £000	2015 £000
Trade receivables	**516**	730
Prepayments and accrued income	**159**	289
Other receivables	**9**	1
	684	1,020

The ageing of trade receivables at 31 August was:

	2016 £000	2015 £000
Not past due	**410**	303
Up to 3 months past due	**79**	337
More than 3 months past due	**27**	90
	516	730

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

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

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

16 CASH AND CASH EQUIVALENTS

	2016 £000	2015 £000
Cash at bank and in hand (excluding overdrafts)	**11,232**	28,447

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

Credit rating	**2016 £000**	2015 £000
AA- and above	**11,232**	28,447

17 TRADE AND OTHER PAYABLES

	2016 £000	2015 £000
Current		
Trade payables	**109**	203
Other payables	**634**	353
Tax and social security	**1,045**	23
Accruals	**628**	1,082
	2,416	1,661

18 BORROWINGS

	2016 £000	2015 £000
Current		
Bank overdraft	**1,470**	–
Finance leases	**38**	–
Total current	**1,508**	–
Non-current		
Finance leases	**132**	–
Total non-current	**132**	–

OVERDRAFT FACILITY

The Group has an overdraft facility of £6 million with HSBC. Interest is payable at 3% above Bank of England base rate on the net debit balance of the Group's HSBC bank accounts. The overdraft is repayable on demand and is secured by a fixed and floating charge over all assets of the Group. At the balance sheet date £1.47 million of the facility had been utilised.

18 BORROWINGS CONTINUED

FINANCE LEASE LIABILITY

The present value of finance lease liabilities as at 31 August 2016 is as follows:

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

The Group had no finance lease liabilities as at 31 August 2015.

19 OTHER FINANCIAL LIABILITIES

The Group has a future obligation to purchase preferred ordinary shares issued in MXC Holdings Limited for a total of £1.35 million. The amortised cost of this obligation is £1.22 million which is analysed in the table below and is based on a discount rate of 3.5%, being the Group's borrowing rate at inception.

	2016 £000	2015 £000
Due within one year	**211**	–
Due after more than one year	**1,001**	–

20 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 and warrants. In addition, the Group holds cash and liquid resources as well as having receivables and payables that arise directly from its operations. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The main risks that the Group is exposed to are market risk (which includes currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

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

Principal financial instruments

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

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

	2016 £000	2015 £000
Financial assets		
Financial assets at fair value through profit or loss	**62,760**	16,093
Loans and receivables	**2,315**	731
Cash and cash equivalents	**11,232**	28,447
	76,307	45,271
Financial liabilities		
Trade and other payables – excluding statutory liabilities	**1,371**	1,633
Bank overdraft	**1,470**	–
Other financial liabilities	**1,212**	–
	4,053	1,633

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

	On demand £000	<3 months £000	1-5 years £000	**Total £000**
2016:				
Financial assets at fair value through profit or loss	62,760	–	–	**62,760**
Loans and receivables	–	525	1,790	**2,315**
Cash and cash equivalents	11,232	–	–	**11,232**
	73,992	**525**	**1,790**	**76,307**

	On demand £000	<3 months £000	1-5 years £000	Total £000
2015:				
Financial assets at fair value through profit or loss	16,093	–	–	16,093
Loans and receivables	–	731	–	731
Cash and cash equivalents	28,447	–	–	28,447
	44,540	731	–	45,271

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 a bank overdraft and leases. During the year the Group received interest of £35,000 on its cash and cash equivalents (2015: £23,000). The Group has issued loans and loan notes, which are interest bearing. During the year the Group charged interest of £56,000 (2015: £nil) on its loans and loan notes. All other assets and liabilities of the Group are non-interest bearing.

At 31 August 2016, cash and cash equivalents of £11,232,000 (2015: £28,447,000) 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.

20 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT CONTINUED

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 volatility of 9% has been observed during 2016 (2015: 14%). This volatility figure is considered to be a suitable basis to apply to all of the Group's investments for estimating how profit or loss and equity could have been affected by changes in other price risk that were reasonably possible at the reporting date. If the valuation of the Group's investments increased or decreased by that amount, profit or loss and equity would have changed by £5,648,000 million (2015: £2,253,000) in either direction.

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 receiveable. The Group's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at 31 August, as summarised in the 'Principal financial instruments' table above. The Group's management considers that all of the above financial assets that are not impaired or past due for each of the 31 August reporting dates under review are of good credit quality.

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

Liquidity risk analysis

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

Concentration risk analysis

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

CAPITAL MANAGEMENT

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

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

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

21 SHARE PREMIUM

Ordinary shares of no par value	Number of shares	Share Premium £000
At 1 September 2014	1,248,446,902	15,012
Issue of share capital	1,317,803,816	22,526
Cancellation of shares held in treasury	(899,726)	–
At 31 August 2015	**2,565,350,992**	**37,538**
Issue of share capital	876,329,763	25,251
Purchase of own shares	(22,303,894)	(853)
At 31 August 2016	**3,419,376,861**	**61,936**

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

B SHARES OF NO PAR VALUE

During the year the Company issued 1,049,089,816 B shares of no par value as part of the acquisition of MXC Holdings Limited. This is the total number of B shares in issue at 31 August 2016 (2015: nil). 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.

2016 ORDINARY SHARE ISSUES AND CANCELLATIONS

On 24 September 2015, the Company issued 600,000,000 Ordinary shares to acquire MXC Holdings Limited at a price of 3.05p per share. A further 274,509,820 Ordinary shares were issued on 31 May 2016 via an equity placing at a price of 2.55p per share, raising net proceeds of £6.9 million to increase the Company's investment ability.

1,803,277 Ordinary shares were issued to non-executive directors at a price of 2.55p per share on 15 December 2015 to satisfy a liability in respect of services provided, and 16,666 Ordinary shares were issued at a price of 1p per share on 29 February 2016 to satisfy the exercise of share options.

Following a tender offer to all shareholders, on 3 March 2016 22,303,894 Ordinary shares were purchased by the Company at a price of 3.6p per share and were subsequently cancelled.

2015 SHARE ISSUES AND CANCELLATIONS

In order to augment existing investment funds, on 2 June 2015 the Company completed a placing of 600,000,000 new ordinary shares at a price of 2.5p per share, raising gross proceeds of £15 million.

On 12 November 2014, the Company issued 104,089,816 1p ordinary shares to MXC Holdings Limited at a price of 1.7p per share pursuant to its investment in Castleton Technology plc.

On each of 18 December 2014 and 5 January 2015, the Company issued 5,357,000 1p ordinary shares at a price of 1.4p per share in settlement of consultancy services.

On 30 October 2014, the Company issued 3,000,000 1p ordinary shares at a price of 1p per share in settlement of consultancy services.

On 29 October 2014, the Company issued 600,000,000 1p ordinary shares to MXC Holdings Limited at a price of 1.0p per share pursuant to its acquisition of MXC Capital Markets LLP.

22 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:

	2016 Number of share options	**2016 Weighted average exercise price £**	2015 Number of share options	2015 Weighted average exercise price £
Outstanding at the beginning of the year	**66,660,842**	**0.01**	66,660,842	0.01
Exercised in the year	**(16,666)**	**0.01**	–	–
Outstanding at the end of the year	**66,644,176**	**0.01**	66,660,842	0.01
Exercisable at the end of the year	**66,644,176**	**0.01**	66,660,842	0.01

Share options with an option life of 10 years were granted in 2011 and 2013 and, as the performance criteria were achieved, all options have fully vested. Where applicable, the Board has exercised its discretion so that options granted to former employees continue to be exercisable.

Options outstanding under the Company's share option schemes at 31 August 2016 were as follows:

Name of scheme	**2016 No of options**	**2015 No of options**	**Calendar year of grant**	**Exercise period**	**Exercise price per share**
2011 Management incentive schemes	–	16,666	2011	2014-2021	£0.01
2013 Enterprise Management Incentive scheme	20,000,000	20,000,000	2013	2013-2016	£0.01
	26,644,176	26,644,176	2013	2013-2023	£0.01
	20,000,000	20,000,000	2013	2013-2023	£ nil

The weighted average remaining contractual life of these options is 4.9 years (2015: 5.9 years).

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

The inputs into the option pricing models are as follows:

	2016	2015
Weighted average exercise price	**£0.01**	£0.01
Expected volatility	**0.00%-86.81%**	0.00%-86.81%
Expected life	**0.0-7.1 years**	0.0-7.1 years
Risk free interest rate	**0.00%-2.69%**	0.00%-2.69%
Expected dividends	**Nil**	Nil

The volatility of the Company's share price on each date of grant was calculated as the average of annualised standard deviations of daily continuously compounded returns on the Company's stock, calculated over 1, 2, 3, 4, 5, 6 and 7 years back from the date of grant, where applicable.

The share-based payments charge in respect of these share options has been fully expensed in earlier years, in line with the vesting profile of these share options.

LONG TERM INCENTIVE PLAN ('LTIP')

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

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

During the year to 31 August 2016, initial awards over 11.25% of shareholder value created have been made.

The LTIP scheme has the following broad principles:

Participants at 31 August 2016 are entitled to share in a pool equivalent to 11.25% of shareholder value created in excess of the base value of the Company as at August 2014, subject to the share price performance of MXC. Share price performance will initially be 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 is 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 was £5,929,000, generating an expense for equity-settled share-based payments in respect of employee services received during the year to 31 August 2016 of £2,590,000. The significant inputs into the model were the LTIP expiry date of August 2020, the expected exercise date of within 12 months, the weighted average share price of 3.05 pence per share at the grant date, a risk free rate of 0.5% and an average volatility of 49.0% which is based on an average of the short and longer term historical volatility of the Company's share price.

23 OPERATING LEASE COMMITMENTS

At 31 August 2016, the Group had aggregate minimum lease payments under non-cancellable operating leases in relation to property as follows:

	2016 £000	2015 £000
Due within one year	**161**	–
Due from one to five years	**116**	–
	277	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 August 2016

24 NET CASH FLOWS FROM OPERATING ACTIVITIES

	2016 £000	2015 £000
Profit on ordinary activities before taxation	**4,530**	14,971
Adjustments for:		
Movement in fair value of investments	**(6,696)**	(9,903)
Profit on disposal of assets held for sale	**–**	(5,385)
Depreciation	**139**	3
Amortisation	**24**	–
Share-based payment charge	**2,590**	–
Net finance income/(charges)	**128**	(23)
Decrease/(increase) in trade and other receivables	**635**	(960)
Increase in trade and other payables	**172**	463
Cash generated from operations	**1,522**	(834)

25 RELATED PARTY TRANSACTIONS

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

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

	Profit and Loss 2016 £000	Profit and Loss 2015 £000	**Due 2016 £000**	Due 2015 £000
Sales:				
Castleton Technology plc	**381**	663	**76**	357
Redcentric plc	**155**	320	**28**	12
365 Agile Group plc	**157**	303	**251**	319
Coretx Holdings plc	**1,180**	–	**3**	–
Tax Systems plc	**2,140**	–	**34**	–
adept4 plc	**523**	–	**77**	–
Calyx Managed Services	**–**	10	**–**	–

In addition, the Group made a loan to Castleton Technology plc during the year, as disclosed in note 14. The amount outstanding at 31 August 2016 was £1,679,000.

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 £52,000.

The directors are not aware of any ultimate controlling party.

26 SUBSIDIARIES

At 31 August 2016 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 and intermediate holding company	England & Wales	100%
Mathian Limited*	Advisory services	England & Wales	100%
Mantin Capital Limited*	Non-trading	England & Wales	100%
Broca (3) Limited*	Dormant	England & Wales	100%
Broca (1) Limited*	Dormant	England & Wales	100%
Broca Communications Limited*	Dormant	England & Wales	100%
Lammtara Industries EBT Trustees Limited*	Dormant	England & Wales	100%
2ergo Inc*	Dormant	United States	100%
Georgia Holding Company Inc	Dormant	United States	100%
M-Invent Inc*	Dormant	United States	100%
Proteus Movil SA*	Dormant	Argentina	100%

*held indirectly

27 SUBSEQUENT EVENTS

PURCHASE OF SHARES

At a General Meeting on 12 September 2016, the Company's resolution to purchase 83,399,424 Ordinary Shares by tender offer at a price of 3.6p per share was approved. The shares were subsequently purchased by the Company and cancelled.

ISSUE OF SHARES

On 22 September 2016 the Company issued 33,333,333 new Ordinary shares at a price of 3.0p each. In October 2016 a further 20,000,000 Ordinary shares were issued at a price of 1.0p each to satisfy the exercise of share options by former employees.

POST YEAR END ANNOUNCEMENT BY INVESTEE COMPANY

The Group holds 8,692,988 warrants in Redcentric plc ('Redcentric'). At 31 August 2016 these warrants were included in the Group's Balance sheet at a fair value of £8.9 million.

On 7 November 2016, Redcentric announced to its investors that an internal review by its Audit Committee, in relation to its interim results for the six months ended 30 September 2016, had discovered misstated accounting balances in Redcentric's balance sheet. The board of Redcentric has commenced a forensic review of Redcentric's current and historic balance sheets. At the date of approval of MXC's consolidated financial statements, that review is still ongoing.

As a result of this announcement, Redcentric's share price has suffered a significant fall, which may have a material impact on the fair value of the warrants the Group holds in Redcentric. Given the current volatility of Redcentric's share price, caused by both the announcement itself and also by the uncertainty arising from the lack of detail available whilst the Redcentric board completes its investigation, it is too early to be able to estimate the financial effect of this event on the fair value of the Group's warrants in Redcentric – both in terms of the intrinsic value and also in respect of the achievement of the vesting conditions attached to the warrants. The Group expects to be able to assess the impact in its results for the half year ending 28 February 2017, once the full extent of the misstatements is identified by Redcentric and is subsequently factored in to its share price.

INVESTMENT PORTFOLIO

On 7 and 8 November 2016, the Group invested £4.9 million in increasing its investment in Redcentric plc.

28 RESTATEMENT OF 2015 FINANCIAL STATEMENTS

As detailed in note 1, in the consolidated financial statements for the year ended 31 August 2015, the Group's investments were classified as available-for-sale financial assets. During the current period, management made a comprehensive assessment of its investments. Given the relative size of the Group's holdings in its investee companies, particularly following the investments made in the period, the board considered that the more appropriate treatment and classification for the investments is at fair value through profit or loss. The investments must be designated at fair value through profit or loss on initial recognition and therefore the prior period consolidated financial statements have been restated to reflect the more applicable accounting treatment in accordance with IAS 8. Accordingly, the unrealised gains and losses recognised in other comprehensive income and reported within the fair value reserve within equity in the 2015 consolidated financial statements are now presented as part of the profit and loss account. The retained earnings, the fair value reserve, the profit and loss and earnings per share have therefore been restated.

A summary of the effect of the restatements is shown below:

Impact on Consolidated statement of profit or loss	Year to 31 August 2015 £000
Profit for the period as previously reported	4,907
Investments designated as fair value through profit and loss	9,903
Profit for the period as restated	14,810

Impact on equity	Year to 31 August 2015 £000
Fair value reserve as previously reported	9,903
Investments designated as fair value through profit and loss	(9,903)
Fair value reserve as restated	–

	Year to 31 August 2015 £000
Retained earnings as previously reported	25,418
Investments designated as fair value through profit and loss	9,903
Retained earnings as restated	35,321

Impact on Other comprehensive income	Year to 31 August 2015 £000
Other comprehensive income for the period as previously reported	10,074
Investments designated as fair value through profit and loss	(9,903)
Other comprehensive income for the period as restated	171

Impact on earnings per share	Year to 31 August 2015 pence
Basic earnings per share as previously reported	0.23p
Effect of investments designated as fair value through profit and loss	0.48p
Basic earnings per share as restated	0.71p

	Year to 31 August 2015 pence
Diluted earnings per share as previously reported	0.23p
Investments designated as fair value through profit and loss	0.46p
Diluted earnings per share as restated	0.69p

There was no impact on the Consolidated statement of cash flows as a result of the restatement.

APPENDIX

SOURCES OF INFORMATION AND BASES OF CALCULATION

1. The value of shares held in respect to each quoted business is calculated by reference to the mid-market opening prices on 1 September 2015 and 31 August 2016. Prices taken from Factset.

2. The value of the options and warrants held by the company is illustrated according to two alternate valuation models:
   i. The difference between the market price and exercise price. This model assumes that all options and warrants have fully vested and is the model used by the Group internally to monitor the performance of its options and warrants. This is the valuation used in the table on page 6 and the case studies on pages 8-11.
   ii. IFRS fair value, calculated using a three-tiered approach based on Black-Scholes and empirical models. This is the valuation used in the Group's audited financial statements.

Values of shares, options and warrants at 1 September 2015:

		i. Valued according to difference between market price and exercise price	**ii. IFRS fair value**
	Fair value of investments at 1 September 2015 £000	Options + warrants at 1 September 2015 £000	Options + warrants at 1 September 2015 £000
Castleton Technology plc	10,521	1,703	1,296
adept4 plc*	466	25	157
365 Agile Group plc	3,314	100	339
Redcentric plc	10,558	9,549	8,840
	24,859	10,997	10,632

*formerly Pinnacle Technology Group plc

Values of shares, options and warrants at 31 August 2016:

		i. Valued according to difference between market price and exercise price	**ii. IFRS fair value**
	Fair value of investments at 31 August 2016 £000	Options + warrants at 31 August 2016 £000	Options + warrants at 31 August 2016 £000
Castleton Technology plc	11,670	1,514	1,211
adept4 plc	4,470	156	317
365 Agile Group plc	1,028	0	14
Coretx Holdings plc	14,620	382	538
Tax Systems plc	11,819	548	965
Redcentric plc	87	9,223	8,979
	43,694	11,823	12,024

COMPANY INFORMATION

DIRECTORS
PETER RIGG
(Non-executive Chairman)

PAUL GUILBERT
(Non-executive Director)

MERIEL LENFESTEY
(Non-executive Director, appointed 27 October 2015)

MARC YOUNG
(Executive Director)

SECRETARY
Carey Commercial Limited

COUNTRY OF INCORPORATION AND REGISTRATION
Guernsey

COMPANY NUMBER
58895

REGISTERED OFFICE
1st & 2nd Floor
Elizabeth House
Les Ruettes Brayes
St Peter Port
Guernsey
GY1 1EW

NOMINATED ADVISER AND BROKER
Zeus Capital Limited
41 Conduit Street
London
W1S 2YQ

BANKERS
HSBC Bank plc
PO Box 31
St Peter Port
Guernsey
GY1 3AT

SOLICITORS
Carey Olsen
PO Box 98
Carey House
Les Banques
St Peter Port
Guernsey
GY1 4BZ

AUDITOR
Grant Thornton Limited
Chartered Accountants
PO Box 313
Lefebvre House
Lefebvre Street
St Peter Port
Guernsey
GY1 3TF

MXC | CAPITAL

LONDON'S TECHNOLOGY MERCHANT BANK