ADVANCED POWER COMPONENTS

Annual Report 2009

APC Hi-Rel distributes a variety of specialist electronic components into applications where component reliability is of paramount importance. Hi-Rel's franchised product lines include power semiconductors, power supplies, memory, wound and high voltage components.

APC Locator is the number one solutions provider for obsolete and hard-to-find parts, with 25 years' experience in the industrial and defence/aerospace markets across Europe.

APC Hero has a specialist team of Product Managers ready to assist with your next design, our key areas include LEDS/LAMPS, drivers, wireless devices and modules, Zigbee, specialist sensors and crystals (plus fast turn around on programming).

APC Go! provides a kitting and materials management service to companies wanting to outsource non core activities, offering services ranging from material procurement to full production management.

APC Displays+ provides dedicated technical and commercial support for a wide range of LCD's, standard, custom, TFT, e-signage, character, graphics, driver boards, IC's, single board computers and all related connectivity.

APC Novacom is a distributor and manufacturers' representative for RF and microwave frequency electronic components. The business is managed by a team of technical specialists with many years experience in the RF and Microwave industry.

APC Contech is a distributor of specialist data input devices for industrial, broadcasting and medical sectors providing technically advanced solutions for specific application areas.

APC KVAR is a manufacturer and distributor of power saving equipment which optimises the performance of electrical motors, leading to reduced energy consumption and cost savings.

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DIRECTORS, SECRETARY AND ADVISERS

Directors

William Nigel David, MA, FCA *(Non-executive Chairman)*
Mark Roger Robinson *(Chief Executive Officer)*
Phillip James Lancaster *(Operations Director)*
Amanda Jayne Parker *(Sales & Marketing Director)* (Resigned 8 October 2009)
David Henry Brown, MBA, FCIS, FCCA *(Finance Director & Company Secretary)*
Joseph Nigel David Stelzer *(Non-executive Director)*

Registered Office

47 Riverside, Medway City Estate, Rochester, Kent ME2 4DP
Company registration number: 01635609

Nominated Advisers

Strand Hanson Limited
26 Mount Row, London W1K 3SQ

Stockbroker

Astaire Securities
30 Old Broad Street, London EC2N 1HT

Auditors

Reeves + Neylan LLP
Montague Place, Quayside, Chatham Maritime, Chatham, Kent ME4 4QU

Solicitors

Ashurst LLP
Broadwalk House, 5 Appold Street, London EC2A 2HA

Principal Bankers

Bank of Scotland plc
8 Air Street, Brighton BN1 3FB

Registrars

Capita Registrars
Northern House, Woodsome Park, Fenay Bridge, Huddersfield, West Yorkshire HD8 0LA

Financial Public Relations

Redleaf Communications
11-33 St John Street, London EC1M 4AA

CHAIRMAN'S STATEMENT

The year ended 31 August 2009 proved to be a challenging one for APC as the continued implementation of the Company's growth strategy was significantly impeded by deteriorating trading conditions and other factors related to the well publicised issues in the wider economy.

Revenues during the year were £14.1m compared with £12.2m in 2008 with a pre tax loss of £0.5m compared with a pre tax profit of £0.7m in the previous year.

As anticipated, revenues increased during the period as a result of the full year contribution from Novacom Microwaves Limited and Contech Electronics Limited, both of which were acquired in 2008. However, the scale of the increase was less than planned in the main because of a reduction in some of the Company's more established revenue streams, primarily due to a significant deterioration in trading conditions which, as reported by the Electronic Components Supply Network, resulted in the market for electronic components contracting by approximately 13% during the period. The net effect of lower than anticipated revenues coupled with the significant exchange rate losses previously reported and increased operating costs as a consequence of the strengthening of our management team in the first half of the year resulted in a steep decline in profitability.

In response the Board implemented a number of steps designed to return the Company to profitability. During the second half of the year a number of cost reduction measures were introduced which incurred significant one off costs but realised annualised savings of circa £480,000. This more closely aligns the overhead of the business with current trading levels. Additionally, a complete review of the Company's accounting systems and processes has been undertaken and measures implemented to reduce any potential areas of vulnerability. This specifically included the creation of new mechanisms to reduce the Company's exposure to exchange rate movements.

In addition to taking measures to reduce operating costs and improve efficiencies, the Company also continues to develop opportunities for future growth. Agreements have been entered into with a number of new suppliers across different parts of the business which offer good long term growth opportunities. Accordingly, a review of the Company's other product ranges is being undertaken to ensure that sales and engineering resources are being invested in opportunities offering the greatest potential.

Good progress has also been made in the development of products which will be manufactured as part of the licensing agreement signed with the KVAR Energy Saving Corporation at the end of 2008. Whilst these products will not make an immediate significant positive impact on revenues they do present good opportunities for medium term growth.

At Board level the Company's Finance Director left the Company in May 2009 and the Sales & Marketing Director resigned in October 2009 to take up a non competitive post elsewhere in the electronics industry. This has provided the Board with the opportunity to review the executive management structure and we expect to announce new appointments early in 2010, providing the Company with the skills necessary to meet the challenges ahead.

As previously reported the Company's working capital was increased by £400,000 with the issue of convertible loan stock in February 2009. This position was subsequently improved further with an increase in the facilities provided by the Company's bankers in October 2009. While the Board is comfortable with the existing level of working capital taking into account current forecasts they will continue to monitor the Company's ongoing requirements closely in order to ensure that adequate working capital is available taking into account the uncertainty surrounding future trading conditions and the future need to fund growth in the new opportunities mentioned above.

Will David MA, FCA.
Chairman

15 December 2009

Financial results

Group revenue for the financial year was £14,091,000, compared with £12,164,000 in 2008, resulting in a net loss before tax of £491,000, compared with a pre-tax profit of £732,000 last year.

Basic earnings per share were (1.9p) in 2009, compared with 3.4p last year. At 31 August 2009, as the group was loss-making, the calculation is the same for both basic and diluted earnings per share as any share options and Convertible Loan Notes are considered to be anti-dilutive.

At the time of the Company's interim announcement in April, we reported a pre-tax loss of £281,000 in the first half-year. Since then the underlying performance of the Group has improved, although a second-half pre-tax loss of £210,000 was incurred, resulting from further year end provisioning following a review of financial systems and controls in the second half year.

The Group's total overheads increased from £3,228,000 in 2008 to £4,682,000 this year reflecting the impact of a full year of the Novacom and Contech acquisitions and the associated costs in the period to 31 August 2009.

Changes to the Board and corporate advisers

On 20 February 2009 Mr R. F. Thorne retired as Chairman and a Director of the Company. On 22 May 2009 Mr R. F. Muir resigned as Finance Director. On the same date Mr D. H. Brown was appointed as interim Finance Director and Mr J. N. D. Stelzer was appointed a non-executive Director.

In October 2008 the Board appointed Strand Hanson Limited as the Company's NOMAD and St Helen's Capital plc (now Astaire Securities) as stockbroker and we are pleased to report that our relationships with our new advisors are developing well.

Operations

During the year much emphasis has been placed on embedding our 2008 acquisitions, Novacom Microwaves Ltd and Contech Electronics Ltd, into the Group's operations in order to maximize the significant contributions we expect them to make to the Group's results.

In addition, the Board undertook a significant review of its financial systems and controls and also a substantial internal reorganization in order to reduce overheads.

Funding and cash flow

The Group's overall cash position showed an outflow of £668,000 in the year, compared with an inflow of £31,000 in 2008. Cash flow from operations showed a negative flow of £1,509,000 compared to a positive flow of £1,660,000 in 2008. This outflow occurred mainly due to a decrease in payables and an increase in receivables, as well as the loss for the year. The Group ended the year with a positive cash balance of £45,000.

Capital expenditure

Additional plant and equipment of £81,000 was acquired in 2009, compared with £189,000 last year. A significant proportion of those acquired in 2008 represented the assets of subsidiaries acquired during that year.

Treasury

Details of the Group's financial instruments are set out in note 23 to the financial statements.

Taxation

There is no tax charge due to the losses incurred during the year.

Share options

In previous years we have reported on the formation of the new 2003 Employee Share Option Scheme, which was approved by the Board in June 2003. This scheme, based on the Government's Enterprise Management Incentive ("EMI"), provides for options to be exercisable at a fixed price if certain performance conditions are met. The conditions are linked to the Group's growth in earnings per share at the pre-tax level. Further options were granted under this scheme in the year under review. Further details are contained in note 18.

Changes to capital structure

During the financial year there were no ordinary shares issued.

In February 2009 £400,000 Convertible Loan Notes were issued. The Notes mature on 10 February 2014 and carry a coupon of 8% per annum, payable quarterly in arrears until such time as they are repaid or converted in accordance with their terms. The holders of the Notes may convert all or part of the Notes held by them into new Ordinary Shares in the Company on delivery to the Company of a conversion notice, at the conversion rate, being the lower of the mid-market price on 10 February 2009 and the mid-market price for the 14 days following the conversion date. Further details are contained in note 17.

Current Trading

As a result of steps taken during the course of the year the Company is better placed for a return to profitability. Sales and overheads in the early months of the current financial year have met expectations and the immediate outlook is promising although future visibility remains limited.

Outlook

The Board remains confident that the Company's strategy to grow into the UK's foremost technical electronic component distribution organisation remains intact despite the setbacks of the last 12 months. This confidence is based on a number of significant manufacturers entrusting sales of their products to our various sales teams here in the UK. Accordingly, development of the Company's infrastructure, as referred to in last year's operational and financial review, has continued and will provide a solid platform for further long term growth.

M. R. Robinson
Chief Executive Officer

The directors have pleasure in presenting their report and the audited financial statements of the Group, for the year ended 31 August 2009.

Principal activity

The principal activity of the Group and Company in the year under review was the supply and distribution of electronic components.

Review of the business and future outlook

A review of the Group's activities during the year and future outlook is set out in the Chairman's Statement and the Business Review on pages 4 to 5. Key performance indicators are included in the Financial Results section of the Business Review.

Results for the year and dividend

The Group's loss on ordinary activities after taxation was £430,000 (2008 – £706,000 profit) and is dealt with as shown in the consolidated income statement on page 16. No interim dividend was paid and it is proposed that no final dividend will be paid this year (2008 – £nil).

Share capital

Details of the Company's share capital are set out in note 18 to the financial statements. No further shares were issued during the year.

Substantial Interests

As at 15 December 2009, the last practical date before publication of the Financial Statements, the Group has been notified of the following interests of three per cent or more in its issued capital:

	Number of shares	Percentage of issued capital
Roger Robinson and related family trusts	6,160,488	25.9%
John Mitchell and related family trusts	4,535,500	19.0%
John Edward Evans	1,090,950	4.6%

Directors

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

R. F. Thorne (retired 20 February 2009)
W. N. David
M. R. Robinson
P. J. Lancaster
R. F. Muir (resigned 22 May 2009)
A. J. Parker (resigned 8 October 2009)
J. N. D. Stelzer (appointed 22 May 2009)
D. H. Brown (appointed 22 May 2009)

In accordance with the Group's Articles of Association, Mr J. N. D. Stelzer and Mr D. H. Brown, having been appointed during the year, offer themselves for re-election. In addition Mr P. J. Lancaster retires by rotation and, being eligible, offers himself for re-election. Each of the above directors has a letter of appointment, as described in the Report of the Remuneration Committee on pages 11 and 12. Resolutions to reappoint the above directors will be proposed at the forthcoming Annual General Meeting **(Resolution 3, 4 and 5)**.

Biographies of non-executive directors

William David MA, FCA, aged 58. Will David has more than 20 years' experience working in corporate advisory and broking roles for small and mid cap companies. During his professional career he has worked on over 20 flotations for clients across a range of sectors. His experience also includes acquisitions and disposals, public takeovers and secondary fundraisings and provision of advice on corporate governance matters. Will is a non-executive director of Cello plc and Chairman of its Audit Committee. He has also worked at Investec Henderson Crosthwaite, PricewaterhouseCoopers, Hoare Govett & Co and The London Stock Exchange.

Joe Stelzer, aged 42. Joe Stelzer is an experienced electronics/technology industry CEO and business leader who has been responsible for successfully managing numerous growth, M&A and turnaround situations. He was responsible for bringing Polaron plc to AIM, following which he led the company through a period of rapid organic growth and several acquisitions until its acquisition by Cooper Industries (NYSE:CBE) in 2007. He was subsequently appointed Vice President of Cooper`s Global Lighting Controls business. In December 2008 he founded Silver Cloud Capital, a personal investment vehicle and advisory firm focused in the electronics/technology sector. He is also a Non-Executive Director of Stonewood Group Ltd, a market leading company specialising in providing hard disk encryption and aerospace engineering products.

Directors' interests

Details of the share options of the directors in the ordinary shares of the Group are set out in the Report of the Remuneration Committee.

Share option plan

In June 2003 the Board approved a new share option scheme, the 2003 Employee Share Option Scheme, which superseded the previous share option plan established in 1996. Details of the scheme are set out in note 18 to the financial statements.

Employment policies

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

Financial participation in the Group's growth and success is encouraged by means of the share option scheme, as set out in the Report of the Remuneration Committee on pages 11 and 12.

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

Policy and practice on payment of creditors

Whilst the Group does not have a formal payment code, the Group agrees payment terms with its suppliers when it enters into binding purchase contracts. It is the Group's policy to adhere to the payment terms agreed with its suppliers whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The ratio between the amounts invoiced to the Company by its suppliers during the year ended 31 August 2009 and the amounts owed to its trade creditors at the year-end was 64 days (2008 – 98 days).

Going concern

On the basis of current financial projections and available funds and facilities, the directors are satisfied that the Group has adequate resources to continue in operation for the foreseeable future and therefore consider it appropriate to prepare the financial statements on the going concern basis.

Research and development

The Group does not undertake research and development.

Donations

During the period £3,009 (2008 – £1,255) was donated to charities. There were no political donations.

Auditors

A resolution to re-appoint Reeves + Neylan LLP as the company's auditors will be proposed at the forthcoming Annual General Meeting **(Resolution 6)**.

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

Increase in authorised capital

In accordance with the Companies Act 2006, the directors are seeking your approval for an increase in the authorised share capital of the company to 60,000,000 ordinary 2p shares **(Resolution 7)**.

Section 551 authority and disapplication of Section 561

In accordance with general practice, the directors are seeking your authority in accordance with section 551 of the Companies Act 2006 to allot ordinary shares up to a nominal value of £317,656, being approximately two thirds of the Group's existing issued ordinary capital **(Resolution 8)**.

Also, in accordance with general practice and to give the directors greater flexibility, the directors are seeking your approval to enable the Group, within certain limits, to make issues of ordinary shares for cash other than to existing shareholders in proportion to their shareholdings. The authority will, if passed, give the directors a general authority to allot ordinary shares for cash, other than on a pre-emptive basis, up to a nominal value of £285,891, being approximately 60% of the Group's existing issued ordinary share capital **(Resolution 9)**.

The resolutions will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

The Annual General Meeting of the Company will be held on Friday 22 January 2010 at 12 noon at the offices of Reeves + Neylan LLP, Colechurch House, One London Bridge Walk, London SE1 2SX. The text of all of the proposed Resolutions is set out in the Notice of Annual General Meeting on page 39.

By Order of the Board

D. H. Brown
Secretary

15 December 2009

CORPORATE GOVERNANCE

Since November 2002 the Company's shares have been listed on the Alternative Investment Market (AIM). As an AIM listed company, the Company is not required to follow the provisions of the Combined Code as set out in the Financial Services Authority Listing Rules. Nevertheless, the Board is committed to high standards of corporate governance throughout the Group. The Board is accountable to the Company's shareholders for good governance and this statement describes which principles of good corporate governance have been applied by the Company.

The Board of Directors

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

During the year under review the Board consisted of four executive directors and two non-executive directors, one of whom, Will David, served as non-executive Chairman. The non-executive directors represent a strong and independent element and their views carry considerable weight in the Board's decision-making process.

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

Committees of the Board

The Audit Committee meets at least twice a year and considers the appointment of the external auditors as well as discussing with them the findings of the audit and any management letters arising from it. The Committee is also responsible for monitoring compliance with accounting and legal requirements and for reviewing the interim and annual reports before publication. The Audit Committee consists of Will David and Joe Stelzer with meetings attended by Chief Executive Officer Mark Robinson and Finance Director David Brown.

The Remuneration Committee operates under the chairmanship of Will David and is responsible for setting the remuneration of directors and senior management, as well as reviewing the remuneration policy throughout the Group. The Report of the Remuneration Committee is set out on pages 11 and 12.

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

Internal control

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

REPORT OF THE REMUNERATION COMMITTEE

The Remuneration Committee operates under the chairmanship of Will David. It was formed in order to review the remuneration of executive directors and senior management, together with remuneration policy for the Group as a whole, and to make recommendations to the Board.

Remuneration policy

Remuneration

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

Share options

The Advanced Power Components plc Company Share Option Plan was established on 7 October 1996 for the benefit of all employees of the Group employed at that date as well as certain of the directors. On 17 June 2003 the Board approved the establishment of a new plan, the 2003 Employee Share Option Scheme, which superseded the 1996 plan.

The 2003 Employee Share Option Scheme requires that certain performance conditions must be satisfied before options may be exercised. The performance conditions are based on growth in earnings per share (EPS) but the growth criteria are computed on a pre-tax basis.

Details of the share options granted to directors and outstanding as at 31 August 2009 are listed below:

	Date granted	Latest date Exercisable	Ordinary shares of 2p	Exercise price
M. R. Robinson	10/09/2004	09/09/2014	500,000	9p
	06/10/2004	05/10/2014	232,050	9p
P. J. Lancaster	10/09/2004	09/09/2014	500,000	9p
	06/10/2004	05/10/2014	117,000	9p
A. J. Parker	20/04/2006	19/04/2016	250,000	6.25p
	29/09/2006	28/09/2016	250,000	13.75p
D. H. Brown	20/02/09	19/02/2019	50,000	12.5p

In each case these options are exercisable in various proportions dependent upon the performance of the Company. The earliest date on which each proportion can be exercised is the date on which the results for the relevant financial year are announced.

Service contracts

Each of the executive directors has a service agreement that may be terminated by either party upon giving one year's written notice to expire at any time, apart from D. H. Brown whose agreement may be terminated at one month's notice. Non-executive directors have letters of appointment which are terminable at the will of either party but which contemplate a period of at least a further year.

Pensions

The Group makes contributions to defined contribution pension schemes for the benefit of the executive directors. The Group maintains health care insurance for the benefit of the executive directors and certain employees and their dependents.

Directors' emoluments

	Salary and fees	Bonus	Benefits in kind	Total emoluments (excluding pensions)		Pension contributions	
				2009	2008	**2009**	2008
	£000	£000	£000	**£000**	£000	**£000**	£000
R. F. Thorne	12	–	–	**12**	26	**–**	–
W. David	22	–	–	**22**	23	**–**	–
M. R. Robinson	95	–	29	**124**	139	**3**	3
P. J. Lancaster	75	–	14	**89**	95	**4**	4
R. F. Muir	93	–	2	**95**	94	**4**	1
A. J. Parker	84	–	1	**85**	92	**4**	5
J. N. D. Stelzer	5	–	–	**5**	–	**–**	–
D. H. Brown	16	–	–	**16**	–	**–**	–
	402	–	46	**448**	469	**15**	13

R. F. Muir's emoluments include £33,000 for compensation for loss of office. Benefits in kind shown in the table above comprise a motor car and private health insurance.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the group and parent company financial statements, in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

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

In preparing each of the group and parent company's 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 they have been prepared in accordance with IFRSs as adopted by the EU;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business;

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ADVANCED POWER COMPONENTS PLC

We have audited the Group and Parent Company financial statements (the "financial statements") of Advanced Power Components Plc for the year ended 31 August 2009, which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated and Company Cash Flow Statements, the Consolidated and Company Statements of Changes in Equity and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Sections 495 and 496 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 August 2009 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

David Turner FCCA (Senior statutory auditor)
For and on behalf of
Reeves + Neylan LLP
Statutory Auditor
Chartered Accountants
Chatham Maritime

15 December 2009

CONSOLIDATED INCOME STATEMENT
for the year ended 31 August 2009

	Note	2009 £000	2009 £000	2008 £000	2008 £000
Revenue	2				
Continuing operations		**14,091**		9,742	
Acquisitions		**–**	**14,091**	2,422	12,164
Cost of sales	3		**(9,815)**		(8,128)
Gross profit					
Continuing operations		**4,276**		3,370	
Acquisitions		**–**	**4,276**	666	4,036
Administrative expenses	3		**(4,682)**		(3,228)
Operating (loss)/profit	4		**(406)**		808
Finance costs	5		**(85)**		(76)
(Loss)/profit before taxation			**(491)**		732
Taxation expense	8		**61**		(26)
(Loss)/profit for the financial year			**(430)**		706
Basic earnings per share	9		**(1.9p)**		3.4p
Diluted earnings per share	9		**(1.9p)**		3.1p

CONSOLIDATED BALANCE SHEET
at 31 August 2009

	Note	**2009 £000**	2008 £000
Non-current assets			
Intangible assets	10	**2,580**	2,719
Property, plant and equipment	11	**296**	347
Other investments		**7**	–
Deferred tax asset	13	**68**	–
		2,951	3,066
Current assets			
Inventories	14	**1,565**	1,298
Trade and other receivables	15	**2,640**	2,248
Cash and cash equivalents	23	**45**	1,118
		4,250	4,664
Total assets		**7,201**	7,730
Current liabilities	16	**(4,350)**	(4,796)
Total assets less current liabilities		**2,851**	2,934
Non-current liabilities	17	**(385)**	(83)
Net assets		**2,466**	2,851
Equity attributable to equityholders of the company			
Called-up share capital	18	**446**	446
Share premium account		**336**	336
Share option valuation reserve		**177**	147
Other reserves		**15**	–
Retained earnings		**1,492**	1,922
Total equity		**2,466**	2,851

The financial statements on pages 16 to 38 were approved and authorised for issue by the Board of Directors on 15 December 2009 and were signed on its behalf by:

M. R. Robinson

P.J.Lancaster

Directors

ADVANCED POWER COMPONENTS plc
Registered No: 1635609

COMPANY BALANCE SHEET
at 31 August 2009

	Note	2009 £000	2008 £000
Non-current assets			
Intangible assets	10	**2,583**	2,722
Property, plant and equipment	11	**296**	347
Investments in subsidiaries	12	**2,537**	2,537
Other investments		**7**	–
Deferred tax asset	13	**68**	–
		5,491	5,606
Current assets			
Inventories	14	**1,565**	1,298
Trade and other receivables	15	**2,640**	2,248
Cash and cash equivalents	23	**45**	1,118
		4,250	4,664
Total assets		**9,741**	10,270
Current liabilities	16	**(4,350)**	(4,796)
Total assets less current liabilities		**5,391**	5,474
Non-current liabilities	17	**(3,148)**	(2,846)
Net assets		**2,243**	2,628
Equity attributable to equityholders of the company			
Called-up share capital	18	**446**	446
Share premium account		**336**	336
Share option valuation reserve		**177**	147
Other reserve		**15**	–
Retained earnings		**1,269**	1,699
Total equity		**2,243**	2,628

The financial statements on pages 16 to 38 were approved and authorised for issue by the Board of Directors on 15 December 2009 and were signed on its behalf by:

M. R. Robinson

P. J. Lancaster

Directors

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 August 2009

	Share capital £000	Share premium account £000	Share option valuation reserve £000	Other reserves £000	Retained earnings £000	Total £000
Group						
At 1 September 2007	403	–	63	–	1,216	1,682
Profit for the year	–	–	–	–	706	706
Total recognised income for the year	–	–	–	–	706	706
Issue of new shares	43	336	–	–	–	379
Share option charge	–	–	84	–	–	84
	43	336	84	–	–	463
At 31 August 2008	446	336	147	–	1,922	2,851
(Loss) for the year	–	–	–	–	(430)	(430)
Total recognised loss for the year	–	–	–	–	(430)	(430)
Issue of convertible loan notes	–	–	–	15	–	15
Share option charge	–	–	30	–	–	30
	–	–	30	15	–	45
At 31 August 2009	446	336	177	15	1,492	2,466
Company						
At 1 September 2007	403	–	63	–	1,102	1,568
Profit for the year	–	–	–	–	597	597
Total recognised income for the year	–	–	–	–	597	597
Issue of new shares	43	336	–	–	–	379
Share option charge	–	–	84	–	–	84
	43	336	84	–	–	463
At 31 August 2008	446	336	147	–	1,699	2,628
(Loss) for the year	–	–	–	–	(430)	(430)
Total recognised loss for the year	–	–	–	–	(430)	(430)
Issue of convertible loan notes	–	–	–	15	–	15
Share option charge	–	–	30	–	–	30
	–	–	30	15	–	45
At 31 August 2009	446	336	177	15	1,269	2,243

Share capital and premium

When shares are issued, the nominal value of the shares is credited to the share capital reserve. Any premium paid above the nominal value is taken to the share premium reserve. Advanced Power Components plc shares have a nominal value of 2p per share.

Share option valuation reserve

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

Other reserves

This reserve arises as a result of assessing the equity component of the Convertible Loan Notes issued during 2009.

Retained earnings

The retained earnings reserve records the accumulated profits and losses of the Group since inception of the business. Where subsidiary undertakings are acquired, only profits arising from the date of acquisition are included.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 August 2009

	Note	**Group 2009 £000**	Group 2008 £000	**Company 2009 £000**	Company 2008 £000
Net cash (outflow)/inflow from operating activities		**(1,509)**	1,660	**(1,509)**	2,269
Finance costs	5	**(85)**	(76)	**(85)**	(78)
Taxation paid		**(113)**	(16)	**(113)**	(16)
Net cash (used in)/from operating activities		**(1,707)**	1,568	**(1,707)**	2,175
Acquisition of subsidiary undertakings, net of cash acquired	24	**(876)**	(659)	**(876)**	(1,268)
Purchase of investments		**(7)**	–	**(7)**	–
Purchase of property, plant and equipment	11	**(81)**	(109)	**(81)**	(107)
Sale of property, plant and equipment		**18**	1	**18**	1
Net cash used in investing activities		**(946)**	(767)	**(946)**	(1,374)
Issue of shares		–	380	–	380
Issue of Convertible Loan Notes	17	**400**	–	**400**	–
Bank short-term loan facility	21	**1,594**	(1,147)	**1,594**	(1,147)
Repayment of finance lease	21	**(9)**	(3)	**(9)**	(3)
Net cash from/(used in) financing activities		**1,985**	(770)	**1,985**	(770)
(Decrease)/increase in net cash	22	**(668)**	31	**(668)**	31
Reconciliation of profit before tax to cash (outflow)/inflow from operating activities					
(Loss)/Profit before tax		**(491)**	732	**(491)**	597
Finance costs		**85**	76	**85**	78
Depreciation of property, plant and equipment		**104**	91	**104**	83
Loss/(profit) on disposal of property, plant and equipment		**10**	(8)	**10**	(1)
Share option valuation charge		**30**	84	**30**	84
(Increase) in inventories		**(267)**	(131)	**(267)**	(53)
(Increase)/decrease in trade and other receivables		**(392)**	709	**(392)**	774
(Decrease)/increase in trade and other payables		**(588)**	107	**(588)**	(459)
(Decrease) in non-current liabilities		–	–	–	1,166
Net cash (outflow)/inflow from operating activities		**(1,509)**	1,660	**(1,509)**	2,269

1. Accounting policies

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

Basis of preparation

These financial statements have been prepared in accordance with IFRS as adopted by the European Union, and with those parts of the Companies Acts applicable to companies reporting under IFRS.

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

A separate income statement for the parent company has not been presented as permitted by section 408(3) of the Companies Act 2006. The parent company earned a loss of £430,000 after tax (2008 – £597,000 profit).

New standards and interpretations not applied

The following standards and interpretations to existing standards have been published but are not yet effective or mandatory for the year ended 31 August 2009 and have not been applied by the Group during the year:

	Effective dates (periods beginning on or after)
Improvements to IFRSs	1 January 2009
IFRS 8 – Operating Segments	1 January 2009
IAS 1 Amendment – Presentation of financial statements	1 January 2009
IAS 23 Amendment – Borrowing Costs	1 January 2009
IAS 27 Amendment – Consolidated and separate financial statements	1 July 2009
IFRS 2 Amendment – Share-based payment: vesting conditions and cancellations	1 January 2009
IFRS 3 Revised – Business combinations	1 July 2009
IAS 32 and 1 Amendment – Puttable financial instruments and obligations arising on liquidation	1 January 2009
IFRS 7 Amendment – Improving Disclosures about Financial Instruments	1 January 2009
IAS 39 Amendment – Financial Instruments: Recognition and Measurement	1 July 2009
IFRIC 9 and IAS39 Amendment – Embedded Derivatives	1 July 2009

Exercise of significant judgements

In preparing these accounts the Directors have assessed the facts and made particular judgements in relation to the following matters:

a. After considering anticipated discounted cash flow analysis, the Directors do not consider that the goodwill recorded in the accounts has suffered any impairment.

b. Taking account of information at the balance sheet date, the Directors make judgements based on experience on the level of provision required to account for potential uncollectable receivables and the potential for unsaleable inventory.

Basis of consolidation

The consolidated income statement and balance sheet include the accounts of the Company and all its subsidiaries made up to 31 August 2009. The results of subsidiaries acquired are included in the consolidated income statement from the date control passes. Intra-group revenues and profits are eliminated fully on consolidation.

On acquisition of a business all of the acquired assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date. Once finalised, changes to those assets and liabilities and the resulting gains and losses are charged to the post acquisition income statement.

Goodwill

Goodwill arising on acquisition represents the difference between the fair value of identifiable assets and liabilities acquired and the fair value of the cost of the acquisition. In accordance with IFRS 1, the group has applied the exemption from retrospectively recalculating goodwill which arose on acquisitions prior to 1 September 2006. This goodwill is at deemed cost, being the amount recorded under UK GAAP as at 1 September 2006 (see note 10).

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

Revenue

Revenue represents net invoiced sales of goods to external customers at invoiced amounts less value added tax. Revenue is recognised when the goods are despatched to the customer.

Property, plant and equipment

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

Short leaseholds	–	over the remaining period of the lease
Plant and machinery	–	25% on reducing balance
Fixtures, fittings, tools and equipment	–	25% on reducing balance
Motor vehicles	–	25% on cost

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

Investments

Investments held as non-current assets are stated at cost less any provision for impairment.

Inventories

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

Taxation

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

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

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Resulting exchange differences are taken into account in arriving at the operating result.

Operating leases

Rentals paid under operating leases are charged to the income statement on a straight-line basis over the lease term.

Pensions

The group operates a defined contribution externally funded pension scheme covering certain of the directors and contributes to personal pension schemes of other directors and staff. Contributions are charged to the income statement when they fall due for payment or when the employee provides the services giving rise to the pension contribution.

Financial instruments

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

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

Financial assets and liabilities are recognised at fair value, which in the case of trade receivables and trade payables is similar to cost, and are detailed in note 23.

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

Invoice discounting

The Company has an agreement with Bank of Scotland plc whereby its trade receivables are invoice discounted, with recourse after 120 days. On the basis that the benefits and risks attaching to the debts remain with the Company, the gross debts are included as an asset within trade receivables and the proceeds received are included within bank loans and overdrafts as a liability.

Share options

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

2. Revenue and segmental information

The revenue, loss before taxation and net assets are attributable to the one principal activity of the group, the supply and distribution of electronic components, from the group's locations in the UK. Consequently the Group has one business and one geographical segment.

An analysis of revenue by geographical destination is given below:

	2009 **£000**	2008 £000
UK	**12,478**	9,742
North America	**436**	1,062
Far East, Europe and other	**1,177**	1,360
	14,091	12,164

3. Cost of sales and administration expenses

	2009 **£000**	2008 £000
Cost of sales		
Continuing operations	**9,815**	6,372
Acquisitions	–	1,756
	9,815	8,128
Administration expenses		
Continuing operations	**4,682**	2,822
Acquisitions	**–**	406
	4,682	3,228

4. Operating (loss)/profit

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

	2009 **£000**	2008 £000
Operating leases – short leaseholds	**136**	90
Operating leases – plant and machinery	**83**	67
Depreciation – owned assets	**104**	91
Loss on foreign exchange	**174**	73
Auditors' remuneration – audit (Company £30,000)	**30**	35
Auditors' remuneration – corporate finance (Company £51,000)	**51**	6
Directors' emoluments	**463**	482
Redundancy and related costs	**68**	–
Loss/(Profit) on disposal of fixed assets	**10**	(8)

In addition the auditors received corporate finance fees of £12,000 relating to the acquisitions of Novacom Microwaves Limited and Chyman Management Services Limited. These have not been charged to the income statement.

5. Finance cost

	2009 £000	2008 £000
Bank interest payable	**50**	64
Other interest payable	**35**	12
	85	76

6. Employee information

	2009 £000	2008 £000
Wages and salaries	**2,242**	1,737
Redundancy and associated costs	**68**	–
Social security costs	**266**	170
Private health costs	**35**	18
Other pension costs	**35**	36
Share option charge	**30**	84
Staff costs (including directors' emoluments)	**2,676**	2,045

The average monthly number of persons employed by the Group during the year was:

	2009 Number	2008 Number
Sales and distribution	**38**	27
Operations and administration	**33**	24
	71	51

7. Directors' emoluments

Directors' emoluments are included in the staff costs in note 6. The directors are considered to be the only key management personnel.

Details of the directors' emoluments are included in the Report of the Remuneration Committee on pages 11 and 12. Total directors' emoluments were £448,000 (2008 – £469,000), total pension contributions £15,000 (2008 – £13,000) and the highest paid director received emoluments of £124,000 (2008 – £139,000) and pension contributions of £3,000 (2008 – £3,000).

8. Taxation

	2009 £000	2008 £000
(a) Analysis of charge in period		
Current tax:		
UK corporation tax on profits for the current year	**–**	26
Adjustments in respect of prior years	**7**	–
Total current tax (note 8b)	**7**	26
Deferred tax (note 13)	**(68)**	–
Tax charge on profit on ordinary activities	**(61)**	26

The corporation tax rate for 2009 is 21% subject to marginal small companies' relief (2008 – 28% and 30%).

As referred to in the Business Review on pages 4 and 5, the result for the current year has created a loss for tax purposes which has been added to tax losses arising in past years.

(b) Factors affecting the tax charge in the period

The tax charge for the period is different to the standard rate of corporation tax in the UK. The rate of corporation tax for this purpose has been taken as 21% for 2009 (2008 – 28%).

The differences are explained below:

	2009 £000	2008 £000
(Loss)/ profit on ordinary activities before tax	**(491)**	732
Rate of corporation tax	**21%**	28%
Tax on (loss) profit based on standard rate	**(103)**	205
Effects of:		
Accelerated capital allowances	**(1)**	–
Expenses not deductible	**36**	42
Adjustments relating to prior year corporation tax	**7**	–
Current tax losses utilised	**–**	(221)
Total tax (credit)/charge for the period (note 8a)	**(61)**	26

There are at present no other factors which will influence the Group's taxation in future years.

9. Earnings per share

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

Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding by the dilutive effect of ordinary shares that the company may potentially issue relating to its convertible loan notes and its share option scheme. The (loss)/profit for the year is adjusted to add back the tax interest cost on the liability component of the convertible loan notes. Where the effect of the above adjustments is anti-dilutive, as is the case for 2009, they are excluded from the calculation of diluted earnings per share.

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

	Earnings £000	**2009 Weighted average number of shares**	**Per share amount pence**	Earnings £000	2008 Weighted average number of shares	Per share amount pence
Basic earnings per share						
(Loss)/profit attributable to ordinary shareholders	**(430)**	**22,324,257**	**(1.9p)**	706	20,735,186	3.4p
Effect of dilutive securities						
Share options and Convertible Loan Notes	**–**	**–**	**–**	–	2,293,864	(0.3p)
Diluted earnings per share	**(430)**	**22,324,257**	**(1.9p)**	706	23,029,050	3.1p

10. Intangible non-current assets

The Group's intangible assets consist entirely of goodwill. The balance at the beginning of 2007 arose partly on the acquisition of Silver Birch Marketing Limited and Go! Technology Limited in 2003 and partly on the acquisition of Hero Electronics Limited in 2006. Additional goodwill was acquired during 2008 through the acquisition of Novacom Microwaves Limited and Contech Electronics Limited.The company's goodwill arises on the transfer to the company of the net assets of the subsidiaries and represents the excess of the consideration for the transfer over the book value of the assets transferred.

The Directors have undertaken an impairment review of the carrying value of the Group's goodwill based on the current and anticipated performance of the businesses concerned. In preparing these projections the weighted average cost of capital has been used. A future growth rate of 5% (2008: 20%) has been assumed and the calculations are based on future operating cash flows derived using management's latest forecasts.

The movement in goodwill during the year arose as follows:

	Group £000	Company £000
Balance at 1 September 2008	2,719	2,722
Overprovision for earn-out consideration	(160)	(160)
Adjustments for current year expenditure	21	21
Balance at 31 August 2009	2,580	2,583

11. Property, plant and equipment

Group	Short leaseholds £000	Plant and machinery £000	Fixtures, fittings tools and equipment £000	Motor vehicles £000	Total £000
Cost					
As at 1 September 2007	125	339	688	36	1,188
Additions	5	2	63	46	116
Acquisitions through business combinations	–	–	55	18	73
Disposals	–	(1)	–	(15)	(16)
As at 31 August 2008	**130**	**340**	**806**	**85**	**1,361**
As at 1 September 2008	130	340	806	85	1,361
Additions	3	–	78	–	81
Disposals	–	(315)	(224)	(26)	(565)
As at 31 August 2009	**133**	**25**	**660**	**59**	**877**
Depreciation					
As at 1 September 2007	79	318	512	30	939
Charge for the year	15	2	59	15	91
Disposals	–	(1)	–	(15)	(16)
As at 31 August 2008	**94**	**319**	**571**	**30**	**1,014**
As at 1 September 2008	94	319	571	30	1,014
Charge for the year	16	1	75	12	104
Disposals	(5)	(299)	(228)	(5)	(537)
As at 31 August 2009	**105**	**21**	**418**	**37**	**581**
Net book value					
As at 31 August 2007	46	21	176	6	249
As at 31 August 2008	36	21	235	55	347
As at 31 August 2009	**28**	**4**	**242**	**22**	**296**

Company	Short leaseholds £000	Plant and machinery £000	Fixtures, fittings tools and equipment £000	Motor vehicles £000	Total £000
Cost					
As at 1 September 2007	125	339	688	36	1,188
Additions	5	2	54	46	107
Acquisitions through business combinations	–	–	58	16	74
Disposals	–	(1)	–	(15)	(16)
As at 31 August 2008	**130**	**340**	**800**	**83**	**1,353**
As at 1 September 2008	130	340	800	83	1,353
Additions	3	–	78	–	81
Disposals	–	(315)	(224)	(24)	(563)
As at 31 August 2009	**133**	**25**	**654**	**59**	**871**

Depreciation					
As at 1 September 2007	79	318	512	30	939
Charge for the year	15	2	53	13	83
Disposals	–	(1)	–	(15)	(16)
As at 31 August 2008	**94**	**319**	**565**	**28**	**1,006**
As at 1 September 2008	94	319	565	28	1,006
Charge for the year	16	1	75	12	104
Disposals	(5)	(299)	(228)	(3)	(535)
As at 31 August 2009	**105**	**21**	**412**	**37**	**575**
Net book value					
As at 31 August 2007	46	21	176	6	249
As at 31 August 2008	36	21	235	55	347
As at 31 August 2009	**28**	**4**	**242**	**22**	**296**

12. Investment in subsidiary undertakings

	2009 £000	2008 £000
Company		
Cost as at beginning of year	**2,537**	1,805
Additions	**–**	732
Cost as at end of year	**2,537**	2,537

Details of the Company's subsidiaries are as follows:

Name	Place of incorporation	Proportion of ownership	Principal activity
Silver Birch Marketing Limited	England and Wales	100%	Dormant
Go! Technology Limited	England and Wales	100%	Dormant
Hero Electronics Limited	England and Wales	100%	Dormant
Chyman Management Services Limited	England and Wales	100%	Dormant
Novacom Microwaves Limited	England and Wales	100%	Dormant
Contech Electronics Limited	England and Wales	100%	Dormant

13. Deferred tax asset

	Group 2009 £000	Group 2008 £000	**Company 2009 £000**	Company 2008 £000
Deferred tax	**68**	–	**68**	–

The following are the major deferred tax assets/ (liabilities) recognised by the group and company and the movements thereon during the current year:

Company and group	Accelerated tax depreciation £000	Tax Losses £000	Total £000
As at 1 September 2008	–	–	–
(Charge)/ credit to the group income statement	(11)	79	68
As at 31 August 2009	**(11)**	**79**	**68**

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

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related benefit through future taxable profits is probable.

14. Inventories

	Group 2009 £000	Group 2008 £000	**Company 2009 £000**	Company 2008 £000
Raw materials	**112**	129	**112**	129
Finished goods	**1,453**	1,169	**1,453**	1,169
	1,565	1,298	**1,565**	1,298

The cost of inventories recognised as expense and included in cost of sales amounted to £9,466,000 (2008 – £7,932,000).

15. Trade and other receivables

	Group 2009 £000	Group 2008 £000	**Company 2009 £000**	Company 2008 £000
Trade receivables	**2,483**	2,006	**2,483**	2,006
Other receivables	**25**	123	**25**	123
Prepayments	**132**	119	**132**	119
	2,640	2,248	**2,640**	2,248

The Company has established a flexible debt finance facility with Bank of Scotland plc through which the majority of its trade receivables are discounted, with recourse after 120 days. The gross amount of these trade receivables is shown above. The Company has drawn down advances totalling £1,906,000 which are shown in note 16 under bank loans and overdrafts.

16. Trade and other payables – current

	Group 2009 £000	Group 2008 £000	**Company 2009 £000**	Company 2008 £000
Trade payables	**1,449**	1,924	**1,449**	1,924
Corporation tax payable	**–**	106	**–**	106
Other taxes and social security	**90**	92	**90**	92
VAT payable	**245**	205	**245**	205
Finance leases	**–**	9	**–**	9
Bank loans and overdrafts	**1,906**	717	**1,906**	717
Deferred and contingent consideration on acquisition of subsidiary	**423**	1,356	**423**	1,356
Accruals and other payables	**237**	387	**237**	387
	4,350	4,796	**4,350**	4,796

Bank loans and overdrafts comprises the borrowing under the flexible debt finance and temporary overdraft facility referred to in note 15. These are secured over trade receivables and other assets of the Group.

17. Non-current liabilities

	Group 2009 £000	Group 2008 £000	**Company 2009 £000**	Company 2008 £000
Deferred and contingent consideration on acquisition of subsidiary	**–**	83	**–**	83
Convertible Loan Notes	**385**	–	**385**	–
Amounts due to subsidiary undertakings	**–**	–	**2,763**	2,763
	385	83	**3,148**	2,846

In February 2009 £400,000 Convertible Loan Notes were issued. The Notes mature on 10 February 2014 and carry a coupon of 8% per annum, payable quarterly in arrears until such time as they are repaid or converted in accordance with their terms. The holders of the Notes may convert all or part of the Notes held by them into new Ordinary Shares in the Company on delivery to the Company of a conversion notice, at the conversion rate, being the lower of the mid-market price on 10th February 2009 and the mid-market price for the 14 days following the conversion date.

The Convertible Loan Notes have been measured for fair value and a value of £15,000 has been assigned to the equity component. This is shown as Other Reserves in the balance sheet.

The amounts due to subsidiary undertakings arise as a result of the transfer to the Company of the net assets of its subsidiaries Silver Birch Marketing Limited and Go! Technology Limited on 31 August 2003, Hero Electronics Limited on 31 August 2006 and Novacom Microwaves Limited and Contech Electronics Limited on 31 August 2008. These amounts represent interest-free inter-company loans.

18. Share capital

		2009		2008
Group and company		**£000**		£000
Authorised:				
31,500,000 ordinary shares of 2p each		**630**		630
Allotted, issued and fully paid:	**No of shares**		No of shares	
At 31 August	**22,324,257**	**446**	22,324,257	446

Share options

The following options over the Company's ordinary shares were outstanding at 31 August 2009:

	Date Granted	Earliest Date Exercisable	Latest Date Exercisable	Ordinary Shares of 2p	Exercise Price
2003 Employee Share Option Scheme	10/9/2004	see note 2	9/9/2014	1,100,000	9p
	6/10/2004	see note 2	5/10/2014	912,000	9p
	31/5/2005	see note 2	30/5/2015	45,000	9p
	20/42006	see note 2	19/4/2016	750,000	6.25p
	29/9/2006	see note 2	28/9/2016	455,000	13.75p
	10/11/2006	see note 2	9/11/2016	310,000	14.75p
	23/1/2008	see note 2	22/1/2018	191,000	14.75p
	23/4/2008	see note 2	22/4/2018	414,700	18.5p
	10/7/2008	see note 2	9/7/2018	200,000	17p
	20/2/2009	see note 2	19/2/2019	260,000	12.5p
Non-executive Director	30/9/2003	see note 3	29/9/2013	75,000	17p
Professor A. Stevens	30/9/2003	see note 4	29/9/2013	50,000	17p
				4,762,700	

Notes:

1. On 17 June 2003 the Board approved a new share option scheme, the 2003 Employee Share Option Scheme. This scheme, which operates under the guidelines of the Government's Enterprise Management Incentive, provides for options to be exercisable at a pre-determined exercise price, subject to attainment of performance conditions over a three year period. Options are exercisable in tranches depending on the Group's cumulative growth in pre-tax earnings over a defined period. This process operates on a sliding scale for growth levels between RPI and RPI plus 16%.
2. Options granted under the 2003 Employee Share Option Scheme have performance conditions linked to the growth in the Company's earnings per share in the financial years following the grant of the option.
3. The options to the non-executive director were granted with exercise prices equal to the market price ruling on the respective dates of the grant. These options were not granted under the 2003 Employee Share Option Scheme, but are subject to the same performance conditions as the options granted under that scheme and are exercisable in tranches, as described in note 1 above.
4. The options to Professor Stevens were granted in respect of his position as a strategy consultant to the Company, with an exercise price of 17p, the market price ruling on 30 September 2003, the date of grant. These options were subject to the same performance conditions as the 2003 Employee Share Option Scheme and are exercisable in tranches, as described in note 1 above.
5. The middle market price of the Company's shares at 31 August 2009 was 9.25p. During the year under review the middle market price range was 8.50p to 18.75p.

No share options were exercised during the financial peiod.

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

Option pricing model used	Black Scholes
Share price is the same as exercise price at the time the option is issued.	
Expected volatility	55.36% – 60.95%
Expected life of option	0.85 to 3.85 years
Expected dividend yield	Nil
Risk free interest rate	4.44% – 4.95%

19. Pension commitments

The Group operates a defined contribution scheme for certain of the directors. The assets of the scheme are held separately from those of the Group in an administered fund. Contributions payable for the year by the Group to the fund amounted to £3,000 (2008 – £3,000).

In addition, the Group contributes to personal pension schemes in respect of other directors and certain employees. Contributions payable for the year by the Group amounted to £31,524 (2008 – £32,863).

20. Operating lease obligations

As at 31 August 2009 the Group had future aggregate commitments under operating leases expiring as shown below:

	Group 2009 £000	Group 2008 £000	**Company 2009 £000**	Company 2008 £000
Land and buildings				
On leases expiring between one and five years	**157**	284	**157**	284
On leases expiring in five years or more	**–**	–	**–**	–
	157	284	**157**	284
Motor vehicles				
On leases expiring in less than one year	**20**	–	**20**	–
On leases expiring between one and five years	**58**	92	**58**	92
	78	92	**78**	92

21. Analysis of net funds

	At 1 September 2008 £000	Cash Flow £000	Non-cash movement £000	**At 31 August 2009 £000**
Cash, comprising current accounts and overnight deposits	1,118	(1,073)	–	**45**
Overdraft facility	(405)	405	–	**–**
Bank short-term loan facility	(312)	(1,594)	–	**(1,906)**
Finance lease	(9)	9	–	**–**
Convertible loan notes	–	(400)	15	**(385)**
	392	(2,653)	15	**(2,246)**

22. Reconciliation of net cash flow to movement in net funds

	Group 2009 £000	Group 2008 £000	**Company 2009 £000**	Company 2008 £000
(Decrease)/increase in cash during the year	**(668)**	(578)	**(668)**	31
Acquired with subsidiary	**–**	609	**–**	–
Movement in borrowings	**(1,970)**	1,150	**(1,970)**	1,150
Increase/(decrease) in net funds resulting from cash flows	**(2,638)**	1,181	**(2,638)**	1,181
Net funds at 1 September	**392**	(789)	**392**	(789)
Net funds/(debt) at 31 August	**(2,246)**	392	**(2,246)**	392

23. Financial Instruments (Group and Company)

The Group purchases or issues financial instruments in order to finance its operations and to manage the interest rate and currency risks that arise from its operations. This is financed through the Group's operating cash flow. It is the Group's policy that no trading in financial instruments be undertaken.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and foreign currency risk.

The Group's borrowings comprise the flexible debt finance facility with Bank of of Scotland plc referred to below and the convertible loan notes referred to in note 17.

Credit risk

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

Liquidity risk

During the financial year the Group established borrowing facilities with Bank of Scotland plc as set out below.

Foreign currency risk

The Group has transactional currency exposures. These arise from sales or purchases in currencies other than the Group's functional currency, sterling.

Financial assets

The interest rate and currency profiles of the Group's financial assets comprising cash at bank and in hand at 31 August 2009 were

	2009 £000	2008 £000
Currency		
Denominated in sterling	**43**	1,022
Denominated in US dollars	**1**	72
Denominated in Euros	**1**	24
	45	1,118

All financial assets relate to loans and receivables and are all due within six months or less.

Cash and short term deposits are placed on the money market at available sterling and US Dollar rates. All accounts at banks, included in cash and cash equivalents, are with institutions with a credit rating of A or better.

Financial liabilities

The Group's financial liabilities at 31 August 2009 included deferred and contingent consideration payable to the vendors of Novacom Microwaves Limited amounting to £423,000. The deferred consideration is subject to a floating interest rate charge, being Bank of England base rate.

The following is an analysis of the maturities of the financial liabilities in both the Group and Company balance sheets:

	Carrying amount £000	**6 months or less £000**	**6 – 12 months £000**	**1 or more years £000**
2009				
Convertible loan notes	385	–	–	385
Deferred and contingent consideration	423	423	–	–
Overdraft facility	–	–	–	–
Flexible debt finance facility	1,906	1,906	–	–
Trade and other payables	2,021	2,021	–	–
	4,735	4,350	–	385
2008				
Convertible loan notes	–	–	–	–
Deferred and contingent consideration	1,439	572	784	83
Overdraft facility	405	405	–	–
Flexible debt finance facility	312	312	–	–
Trade and other payables	2,723	2,661	62	–
	4,879	3,950	846	83

Fair values of financial assets and liabilities

The fair value of the Group's financial assets and liabilities are not materially different from their book values.

Net foreign currency monetary assets

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

	2009 £000	2008 £000
Denominated in US dollars	**(144)**	(524)
Denominated in Euros	**(204)**	(204)
Denominated in Japanese Yen	**–**	(6)
	(348)	(734)

Borrowing facilities

The Group has a flexible debt finance facility with Bank of Scotland plc with a cap of £2.5 million, secured against trade receivables. Borrowing against this facility amounted to £1,906,000 at 31 August 2009. The debt finance facility incurs interest at the rate of 1.75% over the Bank of Scotland's base rate.

Since the end of the financial year the cap on the flexible debt finance facility has been increased to £3.0 Million. In addition further financing of £0.5 million under the Enterprise Finance Guarantee scheme has been secured.

Hedging

The company entered into a number of foreign exchange hedge transactions during the year in order to protect it against adverse foreign exchange movements. There were no outstanding transactions at the end of the financial year.

24. Acquisitions

On 14 April 2008 the Company purchased the entire share capital, business, assets and liabilities of Novacom Microwaves Limited. The total consideration was £1,625,000 comprising an initial cash payment to the vendors of £599,000, legal and professional fees of £45,000, deferred consideration of £481,000, payable in six instalments, and an additional earn-out consideration of a maximum of £500,000 linked to the gross profit and earnings before interest and tax of the subsidiary undertaking in the period to 30 April 2009.

The fair values of the assets and liabilities acquired are set out below:	Provisional fair value and book value £000
Property, plant and equipment	43
Inventories	56
Trade and other receivables	309
Cash and cash equivalents	237
Trade and other payables	(265)
Net assets acquired	380
Goodwill	1,245
Consideration	1,625
Consideration paid	599
Acquisition costs	45
Deferred consideration	481
Earn-out consideration	500
	1,625

There were no differences between the provisional fair value of the assets acquired and their book values at the date of acquisition. The goodwill arising on the acquisition is included in intangible fixed assets (see note 10).

In the financial year to 31 December 2007, Novacom Microwaves Limited earned revenues of £2,269,000 and made a profit after tax of £173,000. For the period from 1 January 2008 to 14 April 2008, the date of acquisition, the company earned revenues of £564,000 and made a loss after tax of £19,000.

From the date of acquisition to 31 August 2008, Novacom Microwaves Limited contributed £1,062,000 to the Group's revenue, £48,000 to the Group's operating profit and £47,000 to its profit after taxation.

On 3 June 2008 the Company purchased the entire share capital, business, assets and liabilities of Chyman Management Services Limited and its subsidiary Contech Electronics Limited. The total consideration was £1,018,000 comprising an initial cash payment to the vendors of £510,000, legal and professional fees of £50,000, deferred consideration of £392,000, payable in three instalments, and an additional earn-out consideration of £66,000 linked to the gross margin of the subsidiary undertaking in the period to 31 July 2008.The deferred consideration was not discounted as the directors did not consider this to be material.

The fair values of the assets and liabilities acquired are set out below:	Provisional fair value and book value £000
Property, plant and equipment	30
Inventories	17
Trade and other receivables	217
Cash and cash equivalents	413
Trade and other payables	(325)
Net assets acquired	352
Goodwill	666
Consideration	1,018
Consideration paid	510
Acquisition costs	50
Deferred consideration	392
Earn-out consideration	66
	1,018

There were no differences between the provisional fair value of the assets acquired and their book values at the date of acquisition. The goodwill arising on the acquisition is included in intangible fixed assets (see note 10).

In the financial year to 31 March 2008, Chyman Management Services Limited earned revenues of £63,000 and made a profit after tax of £8,000. For the period from 1 April 2008 the company was dormant.

In the financial year to 31 July 2007, Contech Electronics Limited earned revenues of £1,242,000 and made a profit after tax of £68,000. For the period from 1 August 2007 to 3 June 2008, the date of acquisition, the company earned revenues of £1,559,000 and made a profit after tax of £95,000.

From the date of acquisition to 31 August 2008, Contech Electronics Limited contributed £1,360,000 to the Group's revenue, £86,000 to the Group's operating profit and £62,000 to its profit after taxation.

25. Capital commitments

Capital expenditure commitments at 31 August 2009, authorised and contracted for but not provided for in these financial statements, were £nil (2008 – £nil).

26. Related party transactions

Key management information is included in the Report of the Remuneration Committee on page 11. In addition a motor vehicle was sold to R. F. Muir while he was a director at a market value of £8,500.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Advanced Power Components plc (the Company) will be held at the offices of Reeves + Neylan LLP, Colechurch House, One London Bridge Walk, London SE1 2SX on Friday 22 January 2010 at 12.00 noon, for the purpose of considering and, if thought fit, passing the following Resolutions which will be proposed as Ordinary Resolutions:

Ordinary Resolutions

1. To receive and, if thought fit, adopt the report of the directors and the financial statements for the year ended 31 August 2009, with the auditors' report thereon.

2. To approve the non-payment of a final dividend.

3. To elect Joseph Nigel David Stelzer as a director of the Company.

4. To elect David Henry Brown as a director of the Company.

5. To re-elect Philip James Lancaster as a director of the Company.

6. To re-appoint Reeves + Neylan LLP as auditors of the Company and to authorize the directors to fix their remuneration.

7. That with immediate effect the limit setting a maximum on the nominal amount of shares that may be allotted (that is by virtue of Section 28 of the Companies Act 2006 and paragraph 42, Schedule 2, the Companies Act 2006 (Commencement No 8, Transitional Provisions and Savings) Order 2008 now treated as a provision of the Company's Articles of Association) be and is hereby increased from £630,000 to £1,200,000 comprising 60,000,000 ordinary shares of 2p each.

8. That the Board be and it is hereby generally and unconditionally authorized to exercise all powers of the Company to allot relevant securities (within the meaning of Section 551 of the Companies Act 2006) up to an aggregate nominal amount of £317,656 provided that this authority shall expire on 21 January 2015 save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Board may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

Special Resolution

9. That subject to passing Resolution 8 above, the Board be and it is hereby empowered pursuant to Section 570 of the Companies Act 2006 to allot equity securities (within the meaning of Section 560 of the said Act) for cash pursuant to the authority conferred by the previous resolution as if sub-section (1) of Section 561 of the said Act did not apply to any such allotment provided that this power shall be limited:

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

   (b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal value of £285,891 and shall expire on 21 January 2015 save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Board may allot securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

By Order of the Board
D. H. Brown
Secretary

15 December 2009

Registered Office:
47 Riverside
Medway City Estate
Rochester
Kent
ME2 4DP

Notes

1. Only holders of ordinary shares, or their duly authorised representatives, are entitled to attend and vote at this meeting. A member so entitled may appoint one or more proxies to attend and (on a poll) vote instead of him. A proxy need not be a member of the Company. Forms of proxy need to be deposited with the Company's registrars, Capita Registrars, Proxy Department, P.O. Box 25, Beckenham, Kent, BR3 4BR not later than 48 hours before the time of the meeting. Completion of a form of proxy will not preclude a member attending and voting in person at the meeting.
2. A pre-paid Form of Proxy is enclosed for holders of ordinary shares.
3. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that, in order to have the right to attend and vote at the meeting (and also for the purpose of calculating how many votes a person entitled to vote and attend may cast), a person must be entered on the register of holders of the ordinary shares of the Company by no later than 6.00 p.m. on 20 January 2009, being 48 hours before the time fixed for the meeting. Changes to entries on the register after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

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