ADVANCED POWER COMPONENTS

Annual Report 2011

ADVANCED POWER COMPONENTS PLC

Advanced Power Components plc (APC) is one of the UK's leading distributors of specialist electronic components.

For more than 25 years we have worked in the UK`s defence, aerospace, transportation, medical and industrial sectors. As a result we have many long standing relationships with suppliers and customers who put significant value on the fact that we develop a deep understanding of their products which enables us to offer excellent technical support, resulting in a constant flow of new design wins.

We have a number of sales teams within the APC Group, each of which focuses on specific technologies and/or specific markets. Each of these sales teams operates independently but our central strategy is common across the entire Group. We sell specialist components based on solid relationships with our suppliers, great technical support and excellent customer service.

Our sales teams are:

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 technical sales team focussing on sensors and measurement, power management, communications & connectivity and embedded computing applications.

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 displays, driver boards, ICs, 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 imop™ is a manufacturer and distributor of power saving equipment which optimises the performance of electrical motors, leading to reduced energy consumption and cost savings.

QV Controls Limited is a designer, manufacturer and supplier of DALI-IP technology based lighting and energy management systems that improve energy efficiency and lighting performance within commercial, industrial and high end residential buildings.

HIGHLIGHTS

Advanced Power Components plc made significant progress in a number of areas during the year and is pleased to report that:

- Revenue increased by 7.5% from £13.4 million to £14.4 million.
- Order book increased from £3.8 million to £4.5 million.
- Profit before tax increased by 62.8% from £247,000 to £402,000.
- Cash inflow from operating activities £0.9 million in FY2011 building on the £1.0 million inflow in FY2010.
- Net debt reduced from £1.7 million to £1.2 million.
- Acquisition of lighting controls business and launch of QV Controls Limited.

CONTENT

DIRECTORS, SECRETARY AND ADVISERS

Will David, MA, FCA *(Non-executive Chairman)*

Will 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 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.

Mark Robinson *(Chief Executive Officer)*

Mark joined the Group in 1985 as a sales engineer and was appointed to the Board in 1992. In June 2001, Mark was appointed Managing Director and then Chief Executive Officer in September 2004. He has been responsible for the expansion into new business areas for the Group and has overseen the efforts to enhance operating efficiencies and increase market penetration in recent years.

Phil Lancaster *(Operations Director)*

Phil joined the Group in 1995 as a product manager and in June 2000 was appointed General Manager of APC's distribution business. He was responsible for developing APC as a dominant technically based sales presence in the UK's military and aerospace markets. Phil was appointed to the Board in September 2003 and then to Operations Director in April 2006. He has been responsible for improving operating efficiencies and for the successful integration of the Company's acquisitions.

Rob Smith, MSc, FCMA *(Finance Director)*

Rob joined the Group in January 2010 and was appointed as a Director in March 2010. He was previously Finance Director and Acting CEO at AIM listed Densitron Technologies plc a manufacturer and distributor of electronic displays. Rob has also served as Finance Director at AIM listed Curidium Medica plc, where he successfully led the sale of the business to Avacta Group plc in 2009, and Eco City Vehicles plc, where he led the business through the listing process in 2007. Rob's earlier career was spent principally in the electronic components industry working for GEC, Centronic and International Rectifier. Rob is also a non-executive Director and Trustee of Step by Step Partnership Ltd, a charity working with homeless young people facing adversity.

John (Ian) Davidson *(Non-executive Director)*

Ian has 40 years experience in the electronic components industry. He has led start-up and turnaround situations as well as running a number of substantial distribution businesses for Diploma PLC, Lex Electronics and most recently the Addtron group of companies. During his career he has worked with the most technically advanced products, been involved with companies such as Intel, NEC and Motorola and recognises the importance of differentiation and focus for business success.

Secretary and Registered Office

David Brown, MBA, FCIS, FCCA
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

Northland Capital Partners
60 Gresham Street, London, EC2V 7BB

Auditor

Reeves & Co 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
(part of Lloyds Banking Group plc)
33 Old Broad Street, London, BX2 1LB

Registrars

Capita Registrars
The Registry, 34 Beckenham Road, Beckenham Kent BR3 4TU

Financial Public Relations

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

CHAIRMAN'S STATEMENT

The year ended 31 August 2011 saw positive progress in sales, profitability and the continued strengthening in the Group's financial position. This has enabled us to continue to invest in developing a position in the clean-tech sector with further development of the imop™ product range and the acquisition of the assets of Quo Vadis Limited and launch of QV Controls Limited. We maintain a strong belief that this sector offers the most exciting opportunities for our business and foresee further investment in future years.

The growth in sales and profitability has resulted directly from the steps we have taken in the recent past to focus on winning design slots for products that we distribute exclusively or where our work is recognised and protected by our suppliers. This has been achieved by increased investment in the development of the Group's technical teams. As a sign of our long term commitment to this approach, the Group has hired a number of graduate students in the year who have enhanced the considerable strengths of the existing teams.

Revenues in the year were £14,419,000 compared with £13,410,000 in the prior year. Net profit before tax for the year was £402,000 compared with £247,000 in 2010. Gross profit margins increased to £4,327,000 (30.0%) compared with £3,833,000 (28.6%). Cash inflow from operating activities was £887,000 during the year compared with an inflow in 2010 of £957,000, which reflects our continued careful management of our working capital.

The efforts made to improve the Group's focus and efficiency continue to yield results and an improving order book gives us continued confidence in our ability to outperform the general economy. Encouragingly, the Group order book stood at £4,493,000 on 31 August 2011 compared with £3,773,000 on 31 August 2010 and has been maintained since the year end. However, the deteriorating economic conditions clearly present a challenging backdrop to the Group's activities and despite entering the year with a very healthy order backlog, the longer the current uncertainty in the market continues, the greater will be the effect on short term revenues and profitability.

The Board is increasingly confident that the decisions made to involve the Company in the green technology sector will have a positive effect on both revenues and profitability. Recent trials of the imop™ have shown very encouraging results and we are looking forward to increased deployment during 2012.

The Group is grateful for the enduring hard work of its employees who have delivered the return to profitability and for the support of its advisors, shareholders and Bank of Scotland plc.

Will David, MA, FCA
Chairman

29 November 2011

BUSINESS REVIEW

Financial results

Group revenue for the financial year was £14,419,000 compared with £13,410,000 in 2010, resulting in a net profit before tax of £402,000 compared with a profit before tax of £247,000 last year. Basic and diluted earnings per share for 2011 were 1.2p, compared with 0.7p per share in 2010.

The on-going growth in sales and profit in 2011 has allowed the Group to continue its investment in technical and sales staff and in the continuing development in green technology products. Sales of imop™ products increased in the year but are yet to achieve a significant level. Investment continues in this product range both in terms of improving our knowledgebase and underwriting the costs associated with a new venture; in total a loss of £177,000 was incurred in 2011 for this product range. The imop™ is distributed internationally by Minimise Limited a company in which APC has an equity interest. During the year Minimise received a further round of investment funding. As part of this recapitalisation APC agreed to swap £119,000 of trading and other receivables owed by Minimise Limited to APC in to new shares in Minimise Limited. As a result of this transaction APC now holds 18.49% of the share capital of that company.

In the year the Group acquired the business assets of Quo Vadis Limited (see note 26). The acquisition was made by a newly created subsidiary company, QV Controls Limited of which 70% of the share capital is owned by APC and 30% by Michael Stott the original founder of Quo Vadis Limited.

Changes to the Board

There were no changes to the board during the year.

Operations

The Group continues to focus on winning long run design in business on product lines where we are exclusive distributors. Our capabilities have been enhanced by recruiting sales and technical staff to support this focus. The Group's order book increased to £4,493,000 as at 31 August 2011 (31 August 2010: £3,773,000) and reflects the progress we have made in this respect. This effort is continuing and despite current market conditions we still see a good level of new enquiries and order intake.

The Group has made further improvements to its inventory management which has resulted in a reduction of inventory levels and increase in stock turns.

Funding and cash flow

Cash flow from operating activities showed a positive flow of £887,000 compared with a positive flow of £957,000 in 2010. This inflow occurred mainly due to improvements in inventory control, as well as the profit for the year. The Group ended the year with a positive cash balance of £49,000 (2010: £167,000).

The Group's overall cash position showed an outflow of £118,000 in the year, compared with an inflow of £122,000 in 2010. The outflow was the result of tighter cash management that has allowed the Group to keep lower levels of cash on hand and therefore reduce its day to day borrowings.

The Group's Net Debt reduced by £443,000 in the year to £1,243,000 at 31 August 2011. The Group has an invoice discounting facility with The Bank of Scotland of £3 million as at the 31 August 2011 £701,000 had been drawn down.

Key performance indicators

The directors set budgets for the year which are reviewed against the management accounts on a monthly basis. In addition to these results the directors review a number of key performance indicators to assess the performance of the Group and assist in decision making. The principal indicators monitored are:

Gross margin to sales ratio

The Board recognises the importance of growing the Group's turnover but believe that this should only be done at acceptable margins. To that end targets are set and monitored. The margin achieved in 2011 was 30.0% (2010: 28.6%) against a target of 29.5%. The directors were pleased that the result for the year saw an improvement on both target and prior year performance but noted that price pressure in the market was still significant.

Gross margin growth ratio

In addition to measuring the gross margin ratio the Board also recognise the importance of growing the absolute gross margin over the long term and performance is measured through the year against target. The directors were satisfied that the actual increase achieved in 2011 was 13.0% (2010: 4.5% decline) compared with a target increase of 6.1%.

Overheads to sales ratio

The Board recognises the importance of controlling administrative expenses in line with the overall level of business. As a technical sales company sufficient resources are required to provide the differentiation essential to enable the business to offer added value to our customers and to ensure that the business is developed to deliver profit both in the current period and future years. The Overheads to Sales Ratio in 2011 was 26.3% (2010: 25.3%) against a target of 24.0%. The Board considers that the overhead expenditure of the Group was well controlled in the current year and that additional investment in overheads, described elsewhere in the Business Review, is affordable and will result in future Growth of the business.

Profit before tax ratio

The Board recognise that delivering a profit before tax (PBT) is fundamental to the health of the business and monitors the PBT as a percentage of sales to ensure that an acceptable return is made. In 2011 the directors set a target of 2.7% and achieved an actual PBT to Sales Ratio of 2.8% (2010: 1.8%). The directors are satisfied with the progress made in 2011.

In addition to measures of the profitability of the business the Board measure working capital efficiency to ensure that the funds invested in the business are effectively managed to ensure that the business has sufficient liquidity to meet its near term obligations. The Key Performance Indicators used to monitor working capital performance are:

Inventory turns

The Group maintains inventory so that it can meet customer demand for scarce and long lead time items and to fulfil customer orders where deliveries are scheduled over a number of months or years. During 2011 the inventory turned over 13.3 times (2010: 9.1 times) compared with a target of 9.3 times. The Board is pleased with the improved inventory turns.

Trade receivables days

In line with other companies in the sector the Group extends credit facilities to customers that have a sufficiently good credit rating. As at 31 August 2011 the receivables days calculated on a count back basis was 53 days (2010: 46 days). The lengthening in receivables days has resulted from a change in the mix of customers and extended terms given in certain circumstances. The Board considers the change in receivables acceptable.

Trade payables days

The Group receives credit from a number of suppliers and recognises the importance of paying its suppliers in a timely manner. As at 31 August 2011 the payables days calculated on a count back basis was 41 days (2010: 47 days). The reduction in payables days has resulted from a change in the mix of suppliers. The Board considers the change in payables acceptable.

Capital expenditure

There was no significant capital expenditure during the financial year.

Risks and uncertainties

The directors recognise that risk is inherent in any business and seeks to manage risk in a controlled manner. The key business risks are set out as follows:

Economic

the Group is subject to many of the same general economic risks faced by other businesses and especially so during periods of economic downturn such have existed since the middle of 2008. The Group seeks to mitigate this risk by concentrating on defence, aerospace, transportation, medical and industrial sectors which have historically been less susceptible to short term economic fluctuations.

Commercial

the Group operates in a competitive marketplace and faces competition from a number of other companies. The risk is managed by giving primary focus on products where the Group is the sole UK distributor and where the specific designs are registered with the products manufacturer so that the Group is sole sourced for that particular application.

Supply chain

the Group represents and distributes a range of products from a number of different suppliers and a significant proportion of the Group's business is long-term and repeat business. To be able to deliver continuous supply to customers the Group is dependent on continuity of supply over the long term. To manage this risk the Group has established close working relationships with its key suppliers and diversified the range of products offered to the market.

Financing

The Group's funding requirements are met through a mixture of long term loans, convertible loan notes and short-term invoice discounting facilities. The board meets regularly with all its funders to ensure a good working relationship.

Financial

The Group has a specific exposure to credit risk, interest rate and exchange rate fluctuations. The Group has established a number of policies to mitigate the risks presented, further details of which are presented in note 22 to the financial statements.

In addition to monthly board meetings the Group holds regular Executive and Management Meetings at which business risks are reviewed. Any areas that are causing concern are discussed and actions are identified and taken to address specific concerns.

The risks outlined above are not an exhaustive list of risks faced by the Group and are not intended to be presented in any order of priority.

Current Trading

Current trading remains relatively steady despite the renewed economic uncertainty and the backlog for the first half of the year is broadly in line with expectations. The Group is continuing its focus on long term design in and will progressively develop its core business using this model.

Sales of imop™ products have not yet reached a material level. However, feedback from long term trials has been positive and an increased rate of deployment both in the UK and overseas is anticipated for the New Year. The increasing cost of energy and legislation designed to reduce carbon emissions is creating conditions that, the Board believe, will enable this line to reach its potential. The acquisition of the Quo Vadis business further deepens the Group's portfolio of green technology products. Whilst we do not anticipate significant volumes in the current year we are confident that QV Controls will make an important contribution in the future.

Outlook

The economic outlook for the UK is once again uncertain and most forecasters are predicting weak growth at best. This presents a challenge for all UK based businesses but the Board of APC believe that its approach of focussing its core electronic distribution business on long term design wins whilst developing opportunities in the green technology sector will enable the Group to outperform the general economy.

M. R. Robinson
Chief Executive Officer

REPORT OF THE DIRECTORS

The directors have pleasure in presenting their report and the audited financial statements of Advanced Power Components plc ("the Company") and its subsidiary undertakings (together "the Group") for the year ended 31 August 2011.

Principal activities

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

Results for the year and dividend

The Group's profit on ordinary activities after taxation was £295,000 (2010: £179,000) and is dealt with as shown in the consolidated statement of comprehensive income on page 18.

No interim dividend was paid and it is proposed that no final dividend will be paid this year (2010: £nil).

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 8.

Events after the reporting period

There have been no events following the year end that require further disclosure.

Share capital

Details of the Company's share capital are set out in note 18 to the financial statements. The following shares were issued as a result of conversion of a loan to equity.

Date	Reason for issue	Shares issued
19 October 2010	Conversion of loan	550,000

Substantial Interests

As at 29 November 2011, 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	24.0%
John Mitchell and related family trusts	4,535,500	17.6%
John Edward Evans	1,090,950	4.2%

Directors

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

W. David
M. Robinson
P. Lancaster
R. Smith
J. Davidson

Mr M. Robinson retires by rotation and, being eligible, offers himself for re-election. Mr Robinson's biography is set out in the Directors, Secretary and Advisers section on page 2 of this report. Mr Robinson has a letter of appointment, as described in the Report of the Remuneration Committee on pages 13 and 14. A resolution to reappoint Mr Robinson will be proposed at the forthcoming Annual General Meeting **(Resolution 2)**.

Directors' interests

Details of share options held by the directors over the ordinary shares of the 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 13 and 14.

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

Policy and practice on payment of creditors

Whilst the Group does not have a formal payment code, the Group agrees payment terms with its suppliers when it enters into binding purchase contracts. It is the Group's policy to adhere to the payment terms agreed with its suppliers whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The ratio between the amounts invoiced to the Group by its suppliers during the year ended 31 August 2011 and the amounts owed to its trade creditors at the year-end was 47 days (2010: 44 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

Research and development costs were £24,000 (2010: £nil). These costs have been treated as an intangible asset in the consolidated accounts and will be amortised over 4 years.

Donations

During the period £1,287 (2010: £1,510) was donated to charities. There were no political donations.

Auditor

Reeves & Co LLP have served as Auditor since initial appointment in 2005. In line with good business practice the Group decided to put the Audit services out to tender for the 2012 audit work. On completion of the tender process the Board have selected Baker Tilly UK Audit LLP and a resolution to appoint Baker Tilly UK Audit LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting (**Resolution 3**). The Board would like to thank Reeves & Co LLP for their work, support and assistance over the years and looks forward to working with Baker Tilly UK Audit LLP in the future.

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

Annual General Meeting

The Annual General Meeting of the Company will be held on Friday 20 January 2012 at 12 noon at the offices of Northland Capital Partners, 60 Gresham Street, London EC2V 7BB. The text of all of the proposed Resolutions is set out in the Notice of Annual General Meeting on page 47.

By Order of the Board

D. H. Brown
Secretary

29 November 2011

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 UK Code of Corporate Governance 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 three 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 reports to the management or those charged with governance arising from it. The Committee is also responsible for monitoring compliance with accounting and legal requirements and for reviewing the interim and annual reports before publication. The Audit Committee consists of Will David and Ian Davidson with meetings attended by Chief Executive Officer Mark Robinson and Finance Director Rob Smith.

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 13 and 14.

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.

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 were revised during the year and are based on achievement of budgeted profit before taxation.

Details of the share options granted to directors and outstanding as at 31 August 2011 are listed below:

	Date granted	Latest date exercisable	Ordinary shares of 2p	Exercise Price
M. Robinson	10/09/2004	09/09/2014	500,000	9.0p
	06/10/2004	05/10/2014	232,050	9.0p
P. Lancaster	10/09/2004	09/09/2014	500,000	9.0p
	06/10/2004	05/10/2014	117,000	9.0p
R. Smith	05/03/2010	04/03/2020	250,000	10.0p
	16/05/2011	15/05/2021	250,000	14.5p
J. Davidson	22/01/2010	21/01/2020	25,000	10.0p
W. David	29/09/2010	28/09/2020	25,000	11.25p

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

Service contracts

Each of the executive directors that served in the year had a service agreement that may be terminated by either party upon giving between six months and one year's written notice to expire at any time. Non-executive directors have letters of appointment which are terminable at the will of either party.

Pensions

The Group makes contributions to defined contribution pension schemes for the benefit of the executive directors. The Group maintains 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	
				2011	2010	**2011**	2010
	£000	£000	£000	**£000**	£000	**£000**	£000
W. David	23	1	–	**24**	25	**–**	–
M. Robinson	105	18	15	**138**	133	**3**	3
P. Lancaster	83	9	11	**103**	100	**4**	4
A. Parker	–	–	–	**–**	9	**–**	–
J. Stelzer	–	–	–	**–**	21	**–**	–
D. Brown	–	–	–	**–**	30	**–**	1
R. Smith	77	9	9	**95**	47	**4**	2
J. Davidson	39	–	–	**39**	3	**–**	–
	327	37	35	**399**	368	**11**	10

Benefits in kind shown in the table above comprise the provision of 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 financial statements for each financial year. Under that law the directors have elected to prepare the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and applicable law.

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 the profit or loss of the group for that period.

In preparing these 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 applicable IFRSs as adopted by the EU have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company’s transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and 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 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 financial statements of Advanced Power Components Plc for the year ended 31 August 2011, which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statement of Financial Position, the Consolidated and Company Statement of Changes in Equity, the Consolidated and Company Statement of Cash Flows 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, including the opinions, is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

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 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.

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. In addition, we read all the financial and non-financial information in the Report of the Directors to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2011 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the 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 & Co LLP
Statutory Auditor
Chartered Accountants
Chatham Maritime

Date: 29 November 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 August 2011

	Note	**2011 £000**	2010 £000
Revenue	2	**14,419**	13,410
Cost of sales		**(10,092)**	(9,577)
Gross profit		**4,327**	3,833
Administrative expenses		**(3,797)**	(3,398)
Operating profit	3	**530**	435
Finance costs	4	**(128)**	(188)
Profit before taxation		**402**	247
Taxation expense	7	**(107)**	(68)
Profit for the financial year		**295**	179
Attributable to:			
Equity holders of the parent		**302**	179
Non-controlling interests		**(7)**	–
		295	179
Basic earnings per share	8	**1.2p**	0.7p
Diluted earnings per share	8	**1.2p**	0.7p

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 August 2011

	Note	2011 £000	2010 £000
Non-current assets			
Intangible assets	9	**2,673**	2,580
Property, plant and equipment	10	**202**	212
Financial Assets	12	**358**	40
Deferred tax asset	13	**–**	55
		3,233	2,887
Current assets			
Inventories	14	**761**	1,053
Trade and other receivables	15	**2,547**	2,310
Cash and cash equivalents	23	**49**	167
		3,357	3,530
Total assets		**6,590**	6,417
Current liabilities			
Trade and other payables	16	**(2,130)**	(1,845)
Financial liabilities	16	**(901)**	(1,272)
Current tax liability	16	**(49)**	–
		(3,080)	(3,117)
Total assets less current liabilities		**3,510**	3,300
Non-current liabilities			
Financial liabilities	17	**(391)**	(581)
Deferred tax liability	13	**(3)**	–
Net assets		**3,116**	2,719
Equity attributable to equity holders of the company			
Called-up share capital	18	**514**	503
Share premium account		**577**	519
Share option valuation reserve		**254**	219
Other reserves		**11**	13
Retained earnings		**1,767**	1,465
Equity attributable to shareholders of Advanced Power Components		**3,123**	2,719
Non-controlling interests		**(7)**	–
Total equity		**3,116**	2,719

The financial statements on pages 18 to 46 were approved and authorised for issue by the Board of Directors on 29 November 2011 and were signed on its behalf by:

M. R. Robinson
Director

R. S. Smith
Director

ADVANCED POWER COMPONENTS plc
Registered No: 01635609

COMPANY STATEMENT OF FINANCIAL POSITION
as at 31 August 2011

	Note	2011 £000	2010 £000
Non-current assets			
Intangible assets	9	**2,583**	2,583
Property, plant and equipment	10	**188**	212
Investment in subsidiaries	11	**390**	225
Financial Assets	12	**291**	40
Deferred tax asset	13	**–**	55
		3,452	3,115
Current assets			
Inventories	14	**761**	1,053
Trade and other receivables	15	**2,574**	2,310
Cash and cash equivalents	23	**41**	167
		3,376	3,530
Total assets		**6,828**	6,645
Current liabilities			
Trade and other payables	16	**(2,107)**	(1,845)
Financial liabilities	16	**(901)**	(1,272)
Current tax liability	16	**(49)**	–
		(3,057)	(3,117)
Total assets less current liabilities		**3,771**	3,528
Non-current liabilities			
Financial liabilities	17	**(615)**	(805)
Deferred tax liability	13	**(14)**	–
Net assets		**3,142**	2,723
Equity attributable to equity holders of the company			
Called-up share capital	18	**514**	503
Share premium account		**577**	519
Share option valuation reserve		**254**	219
Other reserves		**11**	13
Retained earnings		**1,786**	1,469
Total equity		**3,142**	2,723

The financial statements on pages 18 to 46 were approved and authorised for issue by the Board of Directors on 29 November 2011 and were signed on its behalf by:

M. R. Robinson
Director

R. S. Smith
Director

CONSOLIDATED AND COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 August 2011

	Share capital £000	Share premium account £000	Share option valuation reserve £000	Other reserves £000	Retained earnings £000	Total £000
Group						
At 31 August 2009	446	336	177	15	1,286	2,260
Profit for the year	–	–	–	–	179	179
Total comprehensive income	–	–	–	–	179	179
Transactions with owners						
Issue of new shares	57	183	–	–	–	240
Convertible loan notes	–	–	–	(2)	–	(2)
Share option charge	–	–	42	–	–	42
	57	183	42	(2)	–	280
At 31 August 2010	503	519	219	13	1,465	2,719
Profit for the year	–	–	–	–	295	295
Total comprehensive income	–	–	–	–	295	295
Transactions with owners						
Issue of new shares	11	58	–	–	–	69
Convertible loan notes	–	–	–	(2)	–	(2)
Share option charge	–	–	35	–	–	35
	11	58	35	(2)	–	102
At 31 August 2011	514	577	254	11	1,760	3,116
Company						
At 31 August 2009	446	336	177	15	1,063	2,037
Profit for the year	–	–	–	–	406	406
Total comprehensive income	–	–	–	–	406	406
Transactions with owners						
Issue of new shares	57	183	–	–	–	240
Convertible loan notes	–	–	–	(2)	–	(2)
Share option charge	–	–	42	–	–	42
	57	183	42	(2)	–	280
At 31 August 2010	503	519	219	13	1,469	2,723
Profit for the year	–	–	–	–	317	317
Total comprehensive income	–	–	–	–	317	317
Transactions with owners						
Issue of new shares	11	58	–	–	–	69
Convertible loan notes	–	–	–	(2)	–	(2)
Share option charge	–	–	35	–	–	35
	11	58	35	(2)	–	102
At 31 August 2011	514	577	254	11	1,786	3,142

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 crystallises, but the reserve may equally rise or see any reduction offset, as new potentially dilutive share options are issued.

Other reserves

The 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 AND COMPANY STATEMENT OF CASH FLOWS
for the year ended 31 August 2011

	Note	**Group 2011 £000**	Group 2010 £000	**Company 2011 £000**	Company 2010 £000
Cash flows from operating activities					
Profit for the financial year		**295**	179	**317**	406
Taxation		**107**	68	**118**	68
Finance costs		**128**	188	**128**	188
Finance income		**–**	–	**–**	(2,539)
Amounts written off – investments in subsidiaries		**–**	–	**–**	2,312
Operating profit		**530**	435	**563**	435
Share-based payments		**35**	42	**35**	42
Profit on disposal of property, plant and equipment		**–**	(8)	**–**	(8)
Depreciation of property, plant and equipment		**78**	83	**78**	83
Change in inventories		**292**	251	**292**	251
Change in trade and other receivables		**(237)**	330	**(264)**	330
Change in trade and other payables		**189**	(176)	**166**	(176)
Net cash from operating activities		**887**	957	**870**	957
Cash flows from investing activities					
Acquisition of property, plant and equipment	10	**(63)**	(15)	**(54)**	(15)
Proceeds on sale of property, plant and equipment		**–**	24	**–**	24
Acquisition of subsidiary undertakings, net of cash acquired		**–**	(333)	**(69)**	(333)
Acquisition of assets through business combinations	26	**(45)**	–	**–**	–
Acquisition of for sale investments	12	**(119)**	(33)	**(119)**	(33)
Inception of loans	12	**(132)**	–	**(132)**	–
Eligible development costs capitalised	9	**(24)**	–	**–**	–
Net cash used in investing activities		**(383)**	(357)	**(374)**	(357)
Cash flows used in financing activities					
Finance costs		**(126)**	(184)	**(126)**	(184)
Issue of shares	18	**–**	69	**–**	69
Bank short-term invoice discounting facility	20	**(371)**	(834)	**(371)**	(834)
Inception of bank loan facility	20	**–**	500	**–**	500
Repayment of bank loan facility	20	**(125)**	(104)	**(125)**	(104)
Inception of short term loan	20	**–**	100	**–**	100
Repayment of short term loan	20	**–**	(25)	**–**	(25)
Net cash used in financing activities		**(622)**	(478)	**(622)**	(478)
(Decrease)/increase in net cash	21	**(118)**	122	**(126)**	122

1. Accounting policies

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

General

Advanced Power Components plc is a public limited company ("the Company") incorporated in the United Kingdom under the Companies Act 2006 (registration number 01635609).

The Company is domiciled in the United Kingdom and its registered address is 47 Riverside, Medway City Estate, Rochester, Kent ME2 4DP. The Company's Ordinary Shares are traded on the Alternative Investment Market ("AIM") of the London Stock Exchange. The Group's principal activity is the distribution of specialist electronic components.

Basis of preparation

Statement of compliance

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

A separate statement of comprehensive income for the parent company has not been presented as permitted by section 408(3) of the Companies Act 2006. The parent Company earned a profit after tax of £317,000 (2010: £406,000).

Functional and presentational currency

These consolidated financial statements are presented in UK Sterling, which is the Company's functional currency. All financial information presented in UK Sterling has been rounded to the nearest thousand unless otherwise stated.

Use of estimates and judgements

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

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 the information at the statement of financial position date, the Directors make judgements based on experience on the level of provision required to account for potential uncollectable receivables and the potential for un-saleable inventory.

Changes in accounting policies

New standards, interpretations and amendments effective for the first time

The following new standards, interpretations and amendments, applied for the first time, have had an effect on the financial statements:

- **Revised IFRS 3 'Business combinations':** Much of the basic approach to business combination accounting required under the previous version of IFRS 3 'Business combinations' has been retained in this revised version of the standard. However, in some respects the revised standard may result in very significant changes to the account treatments previously adopted, including: The requirement to write off all acquisition costs to profit or loss instead of including them in the cost of investment (which will have a consequent effect on the value of goodwill recognised); the requirement to recognise an intangible asset even if it cannot be reliably measured; and, an option to gross up the balance sheet for goodwill attributable to non-controlling interests (known formerly as 'minority interests') on a combination-by-combination basis. There are also some significant changes in the disclosure requirements of the revised standard. Contingent consideration in an IFRS 3(R) business combination will also now fall within the scope of IAS 39 and be measured initially and subsequently at fair value with remeasurement differences being recognised in profit or loss. Changes in the value of contingent consideration in a business combination falling within the scope of the old IFRS3 continue to be treated as adjustments to goodwill.

The revised standard does not require the restatement of previous business combinations and, in consequence, the Group's acquisition of the assets of Quo Vadis Limited (see note 26) is the first business combination to fall within the scope IFRS 3(R). The principal effect of the adoption of IFRS 3(R) on that acquisition is the recognition of £12,000 of acquisition expenses in the "Administrative expenses" line within the consolidated statement of comprehensive income; this has had an immaterial effect on the EPS calculation for the year.

- **Amendments to IAS 27 Consolidated and Separate Financial Statements:** This Amendment affects in particular the treatment of non-wholly-owned subsidiaries. Transactions which increase or decrease the Group's interest in a subsidiary without altering control will no longer give rise to changes in the carrying value of the subsidiary's assets or liabilities (including its associated goodwill) and will not give rise to a gain or loss. Any difference between the consideration paid or received and the adjustment to the carrying value of the non-controlling interest will be recognised directly in equity. In addition, total comprehensive income must now be attributed to owners of the parent and to the non-controlling interests even if this results in the non-controlling interest having a deficit balance. Previously, unfunded losses in such subsidiaries would be attributed entirely to the Group.

  The Amendment does not require the restatement of previous transactions but has had an effect on the current financial year, whereby the current year loss incurred by QV Controls Limited (a subsidiary formed to acquire the business of Quo Vadis Limited and in which the Group holds 70% of the issued share capital) attributable to non-controlling interests has been identified in the consolidated statement of comprehensive income and consolidated statement of financial position.

None of the other new standards, interpretations and amendments effective for the first time, have had a material effect on the financial statements.

New standards, interpretations and amendments not yet effective

There are a number of standards and interpretations issued by IASB that are effective for financial statements after this reporting period. The following have not been adopted by the Group:

- IAS 24 Related party disclosures (revised) (effective for accounting periods starting on or after 1 January 2011).
- IFRS 7 Amendment to Financial instruments: Disclosures on derecognition (effective for accounting periods starting on or after 1 July 2011).
- IAS 12 Amendment to income taxes on deferred tax (effective for accounting periods starting on or after 1 January 2012).
- IFRS 9 Financial instruments (effective for accounting periods starting on or after 1 January 2013).

The application of these standards and interpretations is not expected to have a material effect on the Group's financial statements.

Revenue

Revenue represents invoiced sales of goods, net of discounts, returns and rebates, to external customers at invoiced amounts less value added tax. Revenue is recognised when the goods are despatched to the customer. Commission income is recognised when payment has been received from the principal.

Basis of consolidation

The consolidated statement of comprehensive income and statement of financial position include the accounts of the Company and all its subsidiaries made up to 31 August 2011. The results of subsidiaries acquired are included in the consolidated statement of comprehensive income from the date control passes. Intra-group revenues and profits are eliminated fully on consolidation.

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date control ceases.

Goodwill

Goodwill represents the excess of the cost of a business combination over, in the case of business combinations completed prior to 1 January 2010, the Group's interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired and, in the case of business combinations completed on or after 1 January 2010, the total acquisition date fair value of the identifiable assets, liabilities and contingent liabilities acquired.

For business combinations completed prior to 1 January 2010, cost comprises the fair value of assets given, liabilities assumed and equity instruments issued, plus any direct costs of acquisition. Changes in the estimated value of contingent consideration arising on business combinations completed by this date are treated as an adjustment to cost and, in consequence, result in a change in the carrying value of goodwill.

For business combinations completed on or after 1 January 2010, cost comprised the fair value of assets given, liabilities assumed and equity instruments issued, plus the amount of any non-controlling interests in the acquiree plus, if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree. Contingent consideration is included in cost at its acquisition date fair value and, in the case of contingent consideration classified as a financial liability, re-measured subsequently through profit or loss. For business combinations completed on or after 1 January 2010, direct costs of acquisition are recognised immediately as an expense.

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the consolidated statement of comprehensive income. Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the consolidated statement of comprehensive income on the acquisition date.

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

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	–	Parent company – 25% on reducing balance Subsidiary company – straight line between 3 and 5 years
Motor vehicles	–	Straight line over 4 years
Exhibition and demonstration equipment	–	Straight line between 2 and 3 years

Property, plant and equipment are measured at historical cost less accumulated depreciation.

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

Investments

Investments in subsidiary undertakings held as non-current assets are stated at cost less any provision for impairment. Investment in assets available for sale are carried at fair value, any movement in fair value is recognised in the statement of comprehensive income.

Inventories

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

Taxation

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

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

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rate of exchange ruling at the statement of financial position date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transactions. Resulting exchange differences are taken into account in arriving at the operating result.

Operating leases

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

Pension

The Group operates a stakeholder defined contribution scheme for directors and staff and also contributes to personal pension schemes of other directors and staff. The assets of the scheme are held separately from those of the Group in an independently administered fund. Contributions are charged to the statement of comprehensive income when they fall due for payment or when the employee provides the services giving rise to the pension contribution.

Financial instruments

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

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

Financial assets and liabilities are recognised at fair value, which in the case of trade receivables and trade payables is similar to cost, and are detailed in note 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 the 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 statement of financial position date. The fair value is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest, with the corresponding credit to equity.

2. Revenue and segmental information

The majority of the Group's activity arises in the United Kingdom from the Group's principal activity. The directors manage and monitor all operations of the business on a unified basis and consider that all of the Group's operations are in similar markets and face similar risks. Consequently, the directors consider the Group has one business and one business segment.

An analysis of revenue by geographical destination is given below:

	Group 2011 £000	Group 2010 £000	**Company 2011 £000**	Company 2010 £000
UK	**12,495**	10,944	**12,489**	10,944
North America	**333**	369	**333**	369
Far East, Europe and other	**1,591**	2,097	**1,591**	2,097
	14,419	13,410	**14,413**	13,410

3. Operating profit

The operating profit is stated after charging:

	2011 £000	2010 £000
Operating leases – short leaseholds	**112**	109
Operating leases – plant and machinery	**91**	76
Depreciation – owned assets	**78**	83
(Gain)/Loss on foreign exchange	**(9)**	28
Auditors' remuneration – audit (Company £30,000)	**31**	32
Auditors' remuneration – taxation (Company Nil)	**–**	2
Auditors' remuneration – other (Company £7,000)	**7**	8
Directors' emoluments	**410**	378
(Profit)/Loss on disposal of fixed assets	**–**	(8)

4. Finance cost

	2011 £000	2010 £000
Bank interest payable	**53**	70
Convertible loan note interest payable	**23**	27
Other interest payable	**6**	11
Other finance costs	**46**	80
	128	188

5. Employee information

	2011 £000	2010 £000
Wages and salaries	**2,091**	1,880
Social security costs	**236**	194
Private health costs	**37**	31
Other pension costs	**41**	39
Share option charge	**35**	42
Staff costs (including directors' emoluments)	**2,440**	2,186

The average monthly number employees comprised:

	2011 Number	2010 Number
Sales and distribution	**29**	29
Operations and administration	**29**	29
	58	58

6. Directors' emoluments

Directors' emoluments are included in the staff costs in note 5. The directors are considered to be the only key management personnel.

Details of directors' emoluments are included in the Report of the Remuneration Committee on pages 13 and 14. Total directors' emoluments were £399,000 (2010: £368,000), total pension contributions £11,000 (2010: £10,000) and the highest paid director received emoluments of £138,000 (2010: £133,000) and pension contributions of £3,000 (2010: £3,000).

7. Taxation

	2011 £000	2010 £000
(a) Analysis of charge in period		
Current tax:		
UK corporation tax on profits for the current year	**49**	–
Adjustments in respect of prior years	**–**	–
Total current tax (note 7b)	**49**	–
Deferred tax (note 13)	**58**	68
Tax charge on profit on ordinary activities	**107**	68

(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 26% for 2011 (2010: 21%).

The differences are explained below:

	2011 £000	2010 £000
Profit/(loss) on ordinary activities before tax	**402**	247
Rate of corporation tax	**26%**	21%
Tax on profit/(loss) based on standard rate	**104**	52
Effects of:		
Research and development allowance	**(7)**	–
Accelerated capital allowances	**1**	–
Expenses not deductible for tax purposes	**26**	16
Marginal relief	**(1)**	–
Adjustments relating to change in tax rate	**(16)**	–
Total tax charge/(credit) for the period (note 7a)	**107**	68

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

8. 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 profit/(loss) 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 they are excluded from the calculation of diluted earnings per share.

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

	2011 £000	2010 £000
Earnings – profit attributable to equity holders of the parent	**302**	179
Weighted average number of shares	**25,627,092**	24,257,672
Diluted number of shares	**26,131,274**	24,257,672
Earnings per share	**1.2p**	0.7p
Diluted earnings per share	**1.2p**	0.7p

9. Intangible non-current assets

The Group's intangible assets consist of development costs and goodwill.

The goodwill balance at the beginning of 2010 arose partly on the acquisition of Silver Birch Marketing Limited and Go! Technology Limited in 2003, partly on the acquisition of Hero Electronics Limited in 2006 and partly through the acquisition of Novacom Microwaves Limited and Contech Electronics Limited in 2008. Additional goodwill was acquired during 2011 through the acquisition of the business assets of Quo Vadis Limited. The Company's goodwill arises on the transfer to the Company of the net assets of wholly owned subsidiaries and represents the excess of the consideration for the transfer over book value of the assets transferred.

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 Group's marginal interest rate 8% (2010: 8%) has been used as the discount rate. A future growth rate of 5% (2010: 5%) has been assumed and the calculations are based on future operating cash flows derived using management's latest forecasts. The outcome of the impairment review was subjected to a sensitivity analysis based on the Internal Rate of Return of the businesses concerned.

Development costs represent acquired development expenditure on assets where it is probable that the future economic benefits that are attributable to the asset will flow to the entity; and the cost of the asset can be measured reliably. Development costs acquired in the year relate to lighting controls developed for QV Controls Limited and based on products previously sold by Quo Vadis Limited. Development cost are amortised over their estimated useful economic lives currently expected to be 4 years.

The movement in intangible assets during the year arose as follows:

Group	Development costs £000	Goodwill £000	Total £000
Cost			
Balance at 1 September 2009	–	2,580	2,580
Balance at 31 August 2010	**–**	**2,580**	**2,580**
Balance at 1 September 2010	–	2,580	2,580
Additions through business combinations	–	69	69
Eligible development costs capitalised	24	–	24
Balance at 31 August 2011	**24**	**2,649**	**2,673**
Amortisation			
Balance at 1 September 2009	–	–	–
Balance at 31 August 2010	**–**	**–**	**–**
Balance at 1 September 2010	–	–	–
Balance at 31 August 2011	**–**	**–**	**–**
Net book value			
As at 31 August 2010	–	2,580	2,580
As at 31 August 2011	**24**	**2,649**	**2,673**

Company	Development costs £000	Goodwill £000	Total £000
Cost			
Balance at 1 September 2009	–	2,583	2,583
Balance at 31 August 2010	**–**	**2,583**	**2,583**
Balance at 1 September 2010	–	2,583	2,583
Additions through business combinations	–	–	–
Eligible development costs capitalised	–	–	–
Balance at 31 August 2011	**–**	**2,583**	**2,583**
Amortisation			
Balance at 1 September 2009	–	–	–
Balance at 31 August 2010	**–**	**–**	**–**
Balance at 1 September 2010	–	–	–
Balance at 31 August 2011	**–**	**–**	**–**
Net book value			
As at 31 August 2010	–	2,583	2,583
As at 31 August 2011	**–**	**2,583**	**2,583**

10. Property, plant and equipment

Group	Short leaseholds £000	Plant and machinery £000	Fixtures, fittings tools and equipment £000	Motor vehicles £000	Total £000
Cost					
As at 1 September 2009	133	25	660	59	877
Additions	–	–	15	–	15
Disposals	–	–	(9)	(59)	(68)
As at 31 August 2010	**133**	**25**	**666**	**–**	**824**
As at 1 September 2010	133	25	660	–	818
Additions	–	–	63	–	63
Acquired through business combinations	–	–	5	–	5
Disposals	–	–	(2)	–	(2)
As at 31 August 2011	**133**	**25**	**726**	**–**	**884**
Depreciation					
As at 1 September 2009	105	21	418	37	581
Charge for the year	12	1	63	7	83
Disposals	–	–	(8)	(44)	(52)
As at 31 August 2010	**117**	**22**	**473**	**–**	**612**
As at 1 September 2010	117	22	467	–	606
Charge for the year	12	1	65	–	78
Disposals	–	–	(2)	–	(2)
As at August 2011	**129**	**23**	**530**	**–**	**682**
Net book value					
As at 31 August 2009	28	4	242	22	296
As at 31 August 2010	16	3	193	–	212
As at 31 August 2011	**4**	**2**	**196**	**–**	**202**

Company	Short leaseholds £000	Plant and machinery £000	Fixtures, fittings tools and equipment £000	Motor vehicles £000	Total £000
Cost					
As at 1 September 2009	133	25	654	59	871
Additions	–	–	15	–	15
Disposals	–	–	(9)	(59)	(68)
As at 31 August 2010	**133**	**25**	**660**	**–**	**818**
As at 1 September 2010	133	25	660	–	818
Additions	–	–	54	–	54
Acquired through business combinations	–	–	–	–	–
Disposals	–	–	(2)	–	(2)
As at 31 August 2011	**133**	**25**	**712**	**–**	**870**
Depreciation					
As at 1 September 2009	105	21	412	37	575
Charge for the year	12	1	63	7	83
Disposals	–	–	(8)	(44)	(52)
As at 31 August 2010	**117**	**22**	**467**	**–**	**606**
As at 1 September 2010	117	22	467	–	606
Charge for the year	12	1	65	–	78
Disposals	–	–	(2)	–	(2)
As at August 2011	**129**	**23**	**530**	**–**	**682**
Net book value					
As at 31 August 2009	28	4	242	22	296
As at 31 August 2010	16	3	193	–	212
As at 31 August 2011	**4**	**2**	**182**	**–**	**188**

11. Investment in subsidiary undertakings

Company	**2011 £000**	2010 £000
Cost as at beginning of year	**225**	2,537
Additions	**165**	–
Amount written off investments (see below)	**–**	(2,312)
Cost as at end of year	**390**	225

The amounts written off investments in 2010 were due to the hiving up of profits in subsidiary undertakings to the parent Company. This resulted in a write down in investments matched by a corresponding dividend from subsidiary undertakings.

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
Novacom Microwaves Limited	England and Wales	100%	Dormant
Contech Electronics Limited	England and Wales	100%	Dormant
Fleetfield Ltd	England and Wales	100%	Dormant
QV Controls Limited	England and Wales	70%	Supply of lighting controls

12. Financial assets

	Group 2011 £000	Group 2010 £000	**Company 2011 £000**	Company 2010 £000
Unlisted available for sale investments	**159**	40	**159**	40
Loans	**132**	–	**132**	–
Loans acquired through business combinations	**67**	–	**–**	–
	358	40	**291**	40

The financial asset designated as available-for-sale relates to an investment in Minimise Limited a company engaged in the sales and marketing of the Group's imop™ products. It is an unlisted company and as such is classified as a level 3 fair value measurement under IFRS 7. The carrying value of the investment is at historic cost which approximates to the fair value of the asset. In making this estimate of the fair market value the directors have considered the historic, current and future trading prospects of Minimise and the valuation ascribed to the company by new investors, see below.

The Group owns 18.49% (2010: 17.27%) of the ordinary share capital of Minimise Limited and under IFRS it has concluded that the asset is designated as available-for-sale. The movement in the year represents a further investment of £119,000 that was made by swapping trade debt owed by Minimise Limited to the Group for equity in Minimise Limited. The investment was made at the same time as Minimise Limited secured additional equity investment from existing and new shareholders.

Loans and loans acquired through business combinations represent loans made to Mr Michael Stott who is an employee of the Group and who owns 30% of the share capital of QV Controls Limited. The loans carry an interest rate equivalent to the HMRC beneficial rate, currently 4% and are secured against Mr Stott's shares in QV Controls Limited.

13. Deferred tax asset

	Group 2011 £000	Group 2010 £000	Company 2011 £000	Company 2010 £000
Deferred tax (liability)/asset	**(3)**	55	**(14)**	55

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

Company	Accelerated tax depreciation £000	Tax Losses £000	Total £000
As at 1 September 2009	(11)	134	123
(Charge)/credit to the group statement of consolidated income	–	(68)	(68)
As at 1 September 2010	(11)	66	55
(Charge)/credit to the group statement of consolidated income	(3)	(66)	(69)
As at 31 August 2011	**(14)**	**–**	**(14)**

Group	Accelerated tax depreciation £000	Tax Losses £000	Total £000
As at 1 September 2009	(11)	134	123
(Charge)/credit to the group statement of consolidated income	–	(68)	(68)
As at 1 September 2010	(11)	66	55
(Charge)/credit to the group statement of consolidated income	(6)	(52)	(58)
As at 31 August 2011	**(17)**	**14**	**(3)**

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 2011 £000	Group 2010 £000	**Company 2011 £000**	Company 2010 £000
Raw materials	**115**	167	**115**	167
Finished goods	**646**	886	**646**	886
	761	1,053	**761**	1,053

The cost of inventories recognised as expense and included in cost of sales amounted to £9,815,000 (2010: £9,350,000). During the year there was a net reduction in inventory provisions of £9,000 (2010: £26,000 net reduction).

15. Trade and other receivables

	Group 2011 £000	Group 2010 £000	**Company 2011 £000**	Company 2010 £000
Trade receivables	**2,433**	2,076	**2,433**	2,076
Amounts owed by subsidiary undertakings	**–**	–	**29**	–
Other receivables	**4**	78	**2**	78
Prepayments	**110**	156	**110**	156
	2,547	2,310	**2,574**	2,310

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 £701,000 (2010: £1,072,000) which are shown in note 16 under short term bank borrowings under invoice discounting facility.

16. Current liabilities

	Group 2011 £000	Group 2010 £000	**Company 2011 £000**	Company 2010 £000
Trade payables	**1,435**	1,380	**1,413**	1,380
Corporation tax payable	**49**	–	**49**	–
Other taxes and social security	**93**	83	**93**	83
VAT payable	**172**	140	**172**	140
Short term bank borrowings under invoice discounting facility	**701**	1,072	**701**	1,072
Other short term borrowings	**75**	75	**75**	75
Current portion of bank loan	**125**	125	**125**	125
Accruals and other payables	**430**	242	**429**	242
	3,080	3,117	**3,057**	3,117

Short term bank borrowings under invoice discounting facility comprise borrowings under the flexible debt finance facility referred to in note 15. These are secured over the whole assets of the Company.

Other short term borrowings comprise an unsecured short term loan from R&J Robinson, shareholders with a substantial interest in the Company. The loan carries an interest rate of 8% per annum paid monthly in arrears.

The current portion of the bank loan is the repayments due in the next 12 months under the fixed term loan agreement with Bank of Scotland plc referred to in note 17.

17. Non-current liabilities

	Group 2011 £000	Group 2010 £000	**Company 2011 £000**	Company 2010 £000
Convertible Loan Notes	**245**	310	**245**	310
Bank Loan	**146**	271	**146**	271
Amounts due to subsidiary undertakings	**–**	–	**224**	224
	391	581	**615**	805

In February 2009 £400,000 Convertible Loan Notes were issued. The Notes mature on the 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. On the 7 January 2010 Loan Notes valued at £50,000 were converted to new Ordinary Shares at a conversion rate of 8.1 pence, on 17 June 2010 Loan Notes valued at £31,250 were converted to new Ordinary Shares at a conversion rate of 12.5 pence and on 19 October 2010 Loan Notes valued at £68,750 were converted to new Ordinary Shares at a conversion rate of 12.5 pence.

The Convertible Loan Notes have been measured for fair value and a value of £11,000 (2010: £13,000) has been assigned to the equity component. This is shown as Other Reserves in the statement of financial position.

In October 2009 the Group entered into a fixed term bank loan agreement with Bank of Scotland plc secured by the Government's Enterprise Finance Guarantee scheme. The loan value at inception was £500,000 and is repayable in monthly instalments over five years. Interest is charged at 5.30% over Bank of England base rate on the balance of the loan. Throughout the entirety of the year under review Bank of England base rate was 0.50%. The current portion of the fixed term bank loan was £125,000 and the non-current portion was £146,000 at the 31 August 2011. Further details regarding the fixed term bank loan are disclosed in note 23.

The amounts due to subsidiary undertakings arise as a result of the transfer to the Company of 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

		2011		2010
Group and company		**£000**		£000
Authorised:				
60,000,000 ordinary shares of 2p each		**1,200**		1,200
	No of shares		No of shares	
Allotted, issued and fully paid:				
At 31 August	**25,700,928**	**514**	25,150,928	503

Share options

The following options over the Company's ordinary shares were outstanding at 31 August 2011:

	Date granted	Earliest date exercisable	Latest date exercisable	Ordinary shares of 2p	Exercise price
2003 Employee Share Option Scheme	10/09/2004	see note b	09/09/2014	846,950	9.00p
	06/10/2004	see note b	05/10/2014	861,000	9.00p
	31/05/2005	see note b	30/05/2015	45,000	9.00p
	29/09/2006	see note b	28/09/2016	180,000	13.75p
	10/11/2006	see note b	09/11/2016	310,000	14.75p
	23/01/2008	see note b	22/01/2018	191,000	14.75p
	23/04/2008	see note b	22/04/2018	275,000	18.50p
	10/07/2008	see note b	09/07/2018	200,000	17.00p
	20/02/2009	see note b	19/02/2019	210,000	12.50p
	22/01/2010	see note b	21/01/2020	300,000	10.00p
	05/03/2010	see note b	04/03/2020	250,000	10.00p
	29/09/2010	see note b	28/09/2020	250,000	11.25p
	25/02/2011	See note b	24/02/2021	1,250,000	12.75p
	16/03/2011	See note b	15/03/2021	50,000	13.62p
	04/04/2011	See note b	03/04/2021	75,000	14.50p
	16/05/2011	See note b	15/05/2021	325,000	14.50p
Former non-executive Director	30/09/2003	see note c	29/09/2013	75,000	17.00p
Non-executive Director	22/01/2010	see note d	21/01/2020	25,000	10.00p
Non-executive Director	29/09/2010	see note d	28/09/2020	25,000	11.25p
				5,743,950	

The weighted average price of options over the Company's ordinary shares at 31 August 2011 was 12.06p (2010: 11.85p).

Reconciliation of movement in share option outstanding

	Ordinary shares of 2p
Share options outstanding as at 31 August 2010	3,943,950
Issued	1,975,000
Exercised	–
Lapsed	(175,000)
Share options outstanding as at 31 August 2011	**5,743,950**

Notes:

(a) On 17 June 2003 the Board approved a new share option scheme, the 2003 Employee Option Scheme. The 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 three year period. This process operates on a sliding scale for growth levels between RPI and RPI plus 16%.

(b) On the 19 April 2011 the Board of Director's amended the performance criteria of the 2003 Employee Share Option Scheme Options granted under the 2003 Employee Share Option Scheme so that shares would vest over a five year period following grant depending on achievement of the Group's budgeted profit before tax previously performance conditions linked to the growth in the Company's earnings per share in the financial years following the grant of the option. The change was made to ensure that the performance criteria was more easily understood by employees and was more directly related to employee performance.

(c) The options to the former non-executive director were granted with exercise prices equal to the market price ruling in 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 a above.

(d) Share options granted to non-executive directors are not 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 a above. The options granted to J. Davidson on 22 January 2010 were granted prior to his appointment as non-executive director with exercise prices equal to the market price ruling in the respective dates of the grant.

(e) The middle market price of the Company's shares at 31 August 2011 was 10.75p. During the year under review the middle market price range was 9.50p to 17.00p.

During the year under review the following Ordinary Shares of 2p each were issued by the Company:

Reason for issue	Date	Shares	Price
Conversion of loan note	19/10/2010	550,000	12.5p
Total Shares issued in year		550,000	
Shares in issue at the 31 August 2010		25,150,928	
Shares in issue at the 31 August 2011		**25,700,928**	

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	62.23% – 64.22%
Expected life of option	1.74 to 7.77 years
Expected dividend yield	Nil
Risk free interest rate	1.3% to 3.7%

19. Operating lease obligations

As at the 31 August 2011 the Group had future aggregate commitments under leases expiring as shown below:

	Group 2011 £000	Group 2010 £000	**Company 2011 £000**	Company 2010 £000
Land and buildings				
On leases expiring between one and five years	**37**	71	**37**	71
On leases expiring in five years or more	**323**	383	**323**	383
	360	454	**360**	454
Motor vehicles				
On leases expiring in less than one year	**8**	7	**8**	7
On leases expiring between one and five years	**161**	185	**161**	185
	169	192	**169**	192

20. Analysis of net debt

	At 1 September 2010 £000	Cash Flow £000	Non-cash movement £000	**At 31 August 2011 £000**
Cash, comprising current accounts and overnight deposits	167	(118)	–	**49**
Bank invoice discounting facility	(1,072)	371	–	**(701)**
Bank loan	(396)	125	–	**(271)**
Short term shareholder loan	(75)	–	–	**(75)**
Convertible loan notes	(310)	–	65	**(245)**
	(1,686)	378	65	**(1,243)**

21. Reconciliation of net cash flow to movement in net debt

	Group 2011 £000	Group 2010 £000	**Company 2011 £000**	Company 2010 £000
Increase/(decrease) in cash during the year	**(118)**	122	**(126)**	122
Movement in borrowings	**561**	438	**561**	438
Increase/(decrease) in net funds resulting from cash flows	**443**	560	**435**	560
Net (debt)/funds at 1 September	**(1,686)**	(2,246)	**(1,686)**	(2,246)
Net (debt) at 31 August	**(1,243)**	(1,686)	**(1,251)**	(1,686)

22. Financial instruments (Group and Company) – risk management

The Group's overall risk management programme seeks to minimise potential adverse effects on the Group's financial performance.

The Group's financial instruments comprise cash and liquid resources and various items such as trade payables and receivables that arise directly from its operations. The Group is exposed to the following risks:

- Credit risk
- Foreign currency risk
- Liquidity risk
- Fair value interest rate risk

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risk management policies. The objective of the Board is to set policies that seek to reduce the risk as far as possible without unduly affecting the Group's competitiveness and effectiveness.

Further details of these policies are set out below:

Credit risk

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

The Group assesses the risk associated with each customer based on independent credit rating agency reports and on its own experience with the customer before entering into binding contracts. Each customer account is reviewed on an on-going basis based on available information and payment history.

The maximum exposure to credit risk is represented by the carrying values in the consolidated and company statement of financial position as shown in note 15.

The credit risk on liquid funds is limited as the funds are held at banks with high credit ratings assigned by international credit rating agencies.

Foreign currency risk

The Group has exposure to transactional and translational currency exposures.

Transactional currency exposure risk arises when the Group enters into contracts in currencies other than the Group functional currency. Transactional risk is mitigated by a) the creation of a natural hedge between buying and selling currencies, b) use of currency hedging contracts and c) the inclusion of a foreign currency price escalation clause in sales contracts.

Translational currency exposure risk arises when financial instruments valued in the consolidated and company statement of financial position are denominated in a currency other than the Group's functional currency. Translation risk is mitigated by the Group entering into currency option contracts.

Liquidity risk

The Group has established borrowing facilities with Bank of Scotland plc for working capital finance through an invoice discounting facility and a short term shareholder loan. The Group maintains near term cash flow forecasts that enables it to identify its near term borrowings requirement so that remedial action can be taken if necessary.

Fair value interest rate risk

All borrowing is approved by the Board of Directors to ensure that it is conducted at the most competitive rates available to it. As the Group has fixed rate convertible loan notes and a short term loan at a fixed rate it is exposed to fair value interest risk. The Group reviews these loans on an on-going basis and has the option to convert the loans into the Company's ordinary shares or repay the loans at its sole discretion should it decide that the interest rates are in excess of market rates that may be obtained by the Group.

23. Financial Instruments

Financial assets

Details of financial assets are set out in notes 12 and 15.

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

	Group 2011 £000	Group 2010 £000	**Company 2011 £000**	Company 2010 £000
Currency				
Denominated in sterling	**47**	167	**39**	167
Denominated in euros	**2**	–	**2**	–
	49	167	**41**	167

Cash at banks, included in cash and cash equivalents, are with institutions with credit ratings of A or better. It is the Company's policy to maintain cash at a level to meet liabilities immediately due for payment so that the amount drawn from the invoice discounting facility is kept to a minimum.

The maximum exposure to credit risk from trade receivables at the 31 August 2011 is disclosed in note 15. The following table shows an analysis of trade receivables for the Group and Company.

	2011 £000	**2011 %**	2010 £000	2010 %
Current	**1,523**	**62.6%**	1,109	53.5%
31 – 60 days	**759**	**31.2%**	723	34.8%
61 – 90 days	**94**	**3.9%**	231	11.1%
91 – 120 days	**5**	**0.2%**	10	0.5%
Over 120 days	**52**	**2.1%**	3	0.1%
	2,433	**100.0%**	2,076	100.0%

The Group reviews trade receivables balances on a routine basis and makes provision for any amounts where it believes the receivable is likely to be uncollectable. In 2011 the bad debt provision was increased by a net £1,000, in 2010 a net decrease in bad debt provision of £28,000 was made.

Financial liabilities

The following is an analysis of the maturities of the financial liabilities in the Consolidated statement of financial position:

	Carrying amount £000	**6 months or less £000**	**6 – 12 months £000**	**1 or more years £000**
2011				
Convertible loan notes	245	–	–	245
Invoice discounting finance facility	701	701	–	–
Bank Loan	271	63	62	146
Short term shareholder loan	75	75	–	–
Trade and other payables	2,179	2,179	–	–
Deferred tax liability	3	–	–	3
	3,474	**3,018**	**62**	**394**
2010				
Convertible loan notes	310	–	–	310
Invoice discounting finance facility	1,072	1,072	–	–
Bank Loan	396	63	62	271
Short term shareholder loan	75	75	–	–
Trade and other payables	1,845	1,845	–	–
	3,698	3,055	62	581

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 and (liabilities)

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

	2011	2010
	£000	£000
Denominated in US dollars	**216**	(264)
Denominated in Euros	**(155)**	(184)
	61	(448)

Borrowing facilities

The Group has a flexible debt finance facility with Bank of Scotland plc with a cap of £3 million, these are secured over the whole assets of the Company. Borrowing against this facility amounted to £701,000 at 31 August 2011 (2010: £1,072,000). The debt finance incurs interest at a rate of 1.75% over the Bank of England's base rate.

The Group has a fixed term loan with Bank of Scotland plc secured by the Enterprise Finance Guarantee scheme. The loan at inception was £500,000 and at 31 August 2011 the balance of the loan was £271,000 (2010: £396,000). The bank loan incurs interest at a rate of 5.30% over the Bank of England base rate.

The Group has received a short term unsecured loan from R&J Robinson, shareholders with a substantial interest in the Company. The loan at inception was £100,000 and at 31 August 2011 the balance of the loan was £75,000 (2010: £75,000) The loan incurs interest at 8% per annum and is payable on demand.

Hedging

The Group maintains a natural hedge between buying and selling currencies and from time to time enters into foreign exchange hedge transactions to protect it against adverse currency movements. In addition, from time to time, the Company enters into currency options to protect it against translation risk of the net foreign currency assets and liabilities.

24. Capital commitments

Capital expenditure commitments at 31 August 2011, authorised and contracted for but not provided for in these financial statements, were £nil (2010: £nil).

25. Related party transactions

Key management information is included in the Report of the Remuneration Committee on pages 13 and 14.

(a) Transactions with Minimise Limited

In the ordinary course of business the Group has entered into transactions with Minimise Limited, a company in which the Group owns 18.49% of the ordinary share capital. See note 12 concerning the relationship.

The transactions and resulting balances for the year ended 31 August 2011 are summarised as follows:

	Group 2011 £000	Group 2010 £000	**Company 2011 £000**	Company 2010 £000
Sales	**152**	59	**152**	59
Purchases	**17**	15	**17**	15
Working capital loan	**–**	77	**–**	77
Amounts owed by Minimise Limited	**111**	35	**111**	35
Amounts owed to Minimise Limited	**10**	2	**10**	2
Debts converted to equity (see note 12)	**119**	–	**119**	–

(b) Loans from R&J Robinson

On 10 February 2009 R&J Robinson, shareholders with a substantial interest in the ordinary share capital of the Company, subscribed to convertible loan notes issued to the company to the value of £100,000. The convertible loan notes carry a coupon rate of 8% paid quarterly in arrears.

On 8 September 2009 R&J Robinson lent the Group £100,000 to meet short term working capital requirements; in February 2010 £25,000 of this short term loan was repaid by the Group. The short term loan carries an interest rate of 8% per annum paid monthly in arrears.

The transactions and resulting balances for the year ended 31 August 2011 are summarised as follows:

	Group 2011 £000	Group 2010 £000	**Company 2011 £000**	Company 2010 £000
Interest paid				
– Convertible loan note	**8**	8	**8**	8
– Short term unsecured loan	**6**	7	**6**	7
Total interest paid	**14**	15	**14**	15
Amount owed to R&J Robinson	**175**	175	**175**	175

(c) Loan from J Mitchell

On 10 February 2009 J Mitchell, a shareholder with a substantial interest in the ordinary share capital of the Company, subscribed to convertible loan notes issued to the company to the value of £50,000. The convertible loan notes carry a coupon rate of 8% per annum paid quarterly in arrears.

The transactions and resulting balances for the year ended 31st August 2011 are summarised as follows:

	Group 2011 £000	Group 2010 £000	**Company 2011 £000**	Company 2010 £000
Interest paid	**4**	4	**4**	4
Amount owed to J Mitchell	**50**	50	**50**	50

26. Acquisition in year

On 28 June 2011 the Group acquired the business assets of Quo Vadis Limited ("Quo Vadis"). The acquisition was made through a newly created subsidiary QV Controls Limited ("QV Controls") in which the Company owns 70% of the share capital. The remaining 30% of the share capital of QV Controls is owned by Mr Michael Stott who founded Quo Vadis. The Quo Vadis business, which has now been re-branded as QV Controls, employs 3 staff in the United Kingdom and develops and markets leading edge lighting control products that can significantly reduce the electricity consumption related to lighting in buildings. Further details of the QV Controls business can be found at www.qvcontrols.com.

The consideration paid for Quo Vadis is made up of:

	£000
Cash consideration paid during the year ended 31 August 2011	45
Cash consideration paid subsequent to the year ended 31 August 2011	96
Total consideration	**141**

There were no fair value adjustments arising on the acquisition. The goodwill arising on acquisition relates to the skills and talents of the acquired business workforce and the benefits of future market expansion. These benefits are not recognised separately from goodwill as the future economic benefits cannot be reliably measured.

	Book value pre acquisition £000	Fair value adjustments £000	Fair value of net assets £000
Tangible fixed assets	5	–	5
Directors loan	67	–	67
	72	–	72
Goodwill arising on acquisition			**69**
Total consideration (as above)			**141**

The goodwill arising on acquisition of £69,000 will be deductible for tax purposes in full once it is amortised or impaired.

In the period after acquisition of the business assets of Quo Vadis Limited, QV Controls Limited had revenue of £6,000 and incurred a loss after taxation of £22,000.

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 Northland Capital Partners, 60 Gresham Street, EC2V 7BB on Friday 20 January 2012 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 2011, with the auditor's report thereon.

2. To re-elect Mark Roger Robinson as a director of the Company.

3. To appoint Baker Tilly UK Audit LLP as auditors of the Company and to authorise the directors to fix their remuneration.

By Order of the Board
D. H. Brown
Secretary

29 November 2011

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, PXS, 34 Beckenham Road, BECKENHAM, BR3 4TU 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 18 January 2012, 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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