

Midwich
Group Plc

ANNUAL REPORT & ACCOUNTS 2016

A SPECIALIST AUDIO VISUAL AND DOCUMENT SOLUTIONS DISTRIBUTOR TO THE TRADE MARKET

WE OPERATE IN THE UK AND IRELAND, FRANCE, GERMANY, AUSTRALIA AND NEW ZEALAND

STRATEGIC REPORT

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Introduction

HIGHLIGHTS

OPERATIONAL



Improved revenue and net profits across all territories driven by impressive growth in the audio visual business and the continued roll-out of technical brands overseas



Acquisition of a majority stake in Holdan Limited – a trade-only distributor of professional video products



Successfully floated on AIM in May 2016, positioning the Group well for its next stage of development and providing a strong platform for future growth



Launch with significant new vendors SMART Technologies in the UK and Ireland, and Biamp in Australia

FINANCIAL

Revenue

£370m

2015 – £314m

Revenue % growth

17.8%

15.1% constant currency

Gross profit %

15.3%

2015 in 14.9%

Adjusted operating profit

£18.5m¹

2015 – £15.2m

Adjusted operating profit % growth

22.2%

19.7% constant currency

Adjusted profit after tax

£14.4m²

2015 – £11.7m

Net debt

£15.0m

2015 – £29.8m

Final dividend

7.09p³

2015 – N/A

¹ 2016 adjusted operating profit is operating profit of £14.5 million adjusted for amortisation of £2.7 million, exceptional charges of £1.3 million and share-based payments of £0.1 million.

2015 is operating profit of £12.6 million adjusted for amortisation of £2.5 million exceptional charges of £0.1 million

² 2016 adjusted profit after tax is profit after tax of £8.6 million adjusted for amortisation of £2.7 million, exceptional charges of £1.3 million, non operational finance costs of £1.8 million and share-based payments of £0.1m.

2015 is profit after tax of £5.8 million adjusted for amortisation of £2.5 million exceptional charges of £0.1 million, non operational finance costs of £3.5 million less a tax adjustment of £0.1 million.

³ Total dividend of 8.62 pence for the 8 months post flotation to December 2016.

The Midwich Group at a glance

OUR BUSINESS

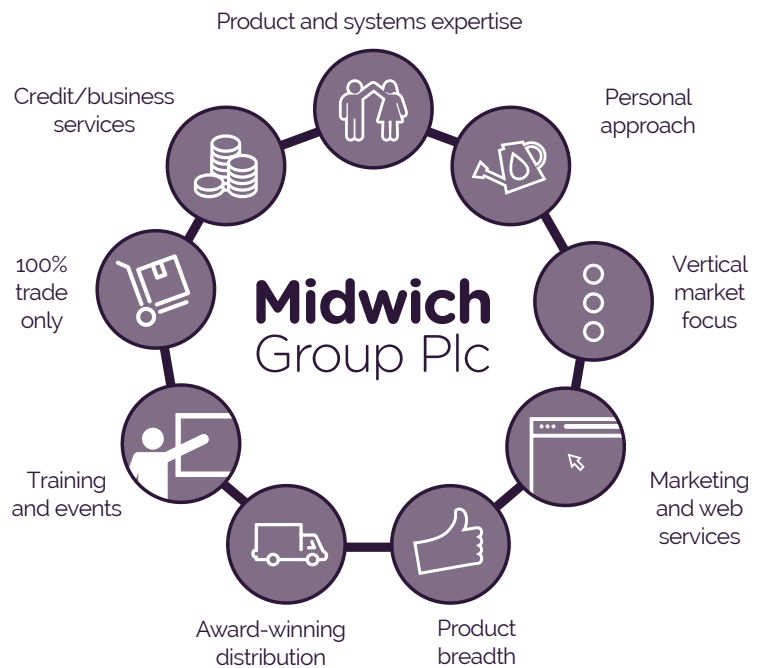
The Midwich Group is a specialist Audio Visual (AV) and Document Solutions distributor to the trade markets, proudly operating across the UK, Ireland, France, Germany, Australia and New Zealand.

The Group's staff of over 500, who operate out of 12 offices, are dedicated to continually enhancing our technical expertise, building extensive product knowledge and delivering strong customer service.

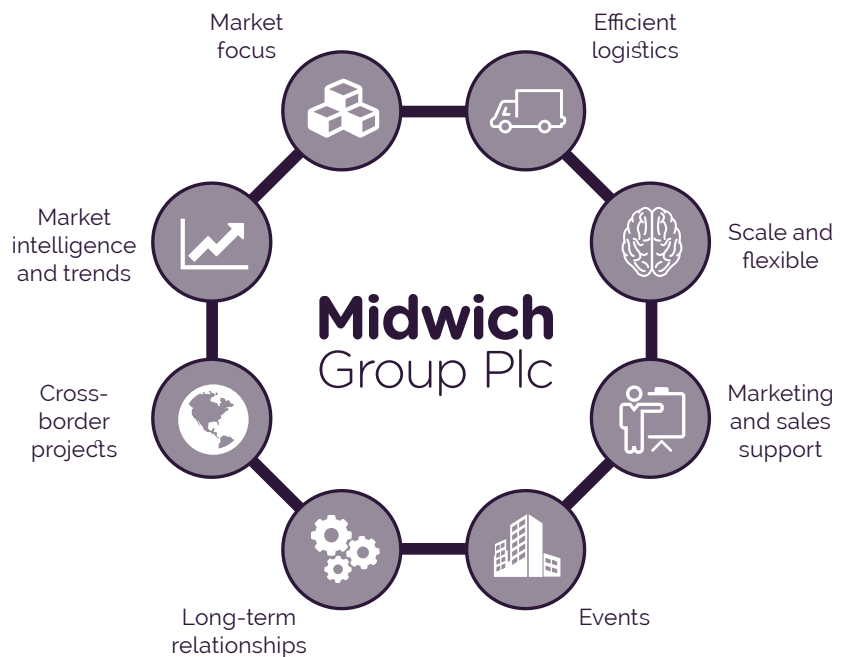
We have a large and diverse base of approximately 10,000 customers and long-standing relationships with over 300 vendors, including blue-chip organisations.

The Group supports a comprehensive product portfolio across major technology categories such as large format displays, projectors, digital signage and document solutions.

WHY OUR CUSTOMERS CHOOSE US



WHY OUR VENDORS CHOOSE US



- 
09
showrooms/demo facilities

- 
12
offices

- 
06
countries of operation

- 
+10,000
accounts serviced in 2016

- 
523
staff members

- 
£370m
turnover 2016

INTERNATIONAL PLATFORM



UK & IRELAND

£247m **401**

revenue (2015 – £221m) employees

Midwich

The UK's leading trade-only distributor of technology solutions to the AV and IT channels

Invision

One of the UK's fastest growing trade-only distributors of integrated AV solutions for residential, commercial and marine applications

PSCo

Trade-only rental supplier and specialist distributor of LED technologies

Owl

Specialist AV distributor for the leisure and hospitality markets

Square One

Trade-only AV and Document Solutions distributor in Ireland

Holdan

Distributor of professional video streaming and broadcast equipment

midwich **invision**

PSCo **OWL**
VISUAL
owlvisual.co.uk

squareone
a Midwich Group company

holdan

sidev
sidev.fr

KERN & STELLY

midwich
Australia

midwich
New Zealand

FRANCE

£33m **43**

revenue (2015 – £24m) employees

Sidev

Lyon-based trade-only distributor of AV solutions throughout France

GERMANY

£64m **47**

revenue (2015 – £51m) employees

Kern & Stelly

Germany's premier distributor of AV products and solutions, based in Hamburg

AUSTRALASIA

£26m **32**

revenue (2015 – £18m) employees

Midwich

Distributor of AV technology in Australia and New Zealand

Chairman's statement

A STRONG START

ANDREW HERBERT

Chairman

“Midwich has delivered a strong set of results in its first year as a public company.”



This is my first statement since joining the Board and becoming Chairman as part of the Group's IPO in May 2016. I am pleased to report that Midwich has delivered a strong set of results in its first year as a public company, achieving both revenue and profit growth across all of its markets and geographies and carrying good momentum into 2017. Revenue growth for this year of 15.1% at constant currency to £370.1 million reflects an impressive level of organic growth across the business along with the successful acquisition of Holdan Limited contributing from part way through the year.

I was delighted to be asked to join the Board of Midwich and have enjoyed working with the team this year. Midwich is a leading business in its markets with an impressive track record of consistent growth while delivering excellent service to both its customers and vendors. As a Board, we are focused on delivering profitable growth and enhancing the capabilities and reach of the Group in its core business areas.

Strategy

As stated at the time of IPO, the Group's strategy for growth is both organic and inorganic, reflecting the contributors to the successful growth track record in recent years.

The Group's organic growth strategy is focused on the provision of market-leading support to its customers and vendors. As a distributor, the Group neither develops product nor does it sell to the end users of those products. The Group's expertise is the provision of services which provide the greatest assistance to vendors in pushing product out into the market, and to help customers provide the highest level of support to their end users.

Underpinning the Group's growth strategy is its success in sourcing, executing and integrating its chosen acquisitions. The Group takes a disciplined approach to acquisitions, seeking to add capital value without an adverse impact on the existing business. Acquisitions remain a fundamental aspect of the Group's strategy and it continues to pursue a strong pipeline of opportunities.

Dividend

Since IPO in May 2016, the Board has adopted a progressive dividend policy to reflect the Group's strong earnings and cash flow while maintaining an appropriate

level of dividend cover to allow the Board to invest in the Group's long-term growth.

The Board has recommended a final dividend of 709 pence per share (2015 – nil) which, if approved will be paid on 23 June to shareholders on the register on 26 May. With the interim dividend declared in September 2016, this represents a total dividend for the period The Midwich Group has been listed to 31 December 2016 of 8.62 pence per share.

Board

Michael "Mike" Ashley and I joined the Board as Non-Executive directors at the time of the IPO in May 2016. Since that time, we have worked closely with the executive members of the Board and The Midwich Group's senior management team to help with the transition to being a public company. I believe we have been successful in establishing a strong corporate governance framework within the business, and that The Midwich Group has an experienced Board and management team in place to help grow the business to the benefit of our customers, our vendors, our employees and our shareholders.

People

The success of any company is down to the quality of its leadership and its people. I am very impressed with the skill, commitment and drive of all of The Midwich Group's people and they continue to be the key to the Group's strong track record and continued future success. I would like to thank everyone, across all levels and markets on behalf of the Board for their commitment and hard work that has been the key to delivering these impressive results.

Initial public offering and change of name

On 6 May 2016, the Company was admitted to trading on the AIM market of the London Stock Exchange marking a new chapter in the Group's history. The successful flotation has provided the Group with a stable capital base on which to progress further its growth objectives. As part of the process towards delivering a successful initial public offering of the Group, on 15 April 2016, the Company changed its name from Jade 320 Limited to Midwich Group Limited. On the same date the Company re-registered from a Private to a Public Limited Company, becoming Midwich Group Plc.

Andrew Herbert

Chairman

Managing Director's review

DELIVERING OUR GROWTH PLANS

STEPHEN FENBY
Managing Director

“ I am delighted to present my first review of The Midwich Group on the AIM market. ”

2016 was an important and transformative year for The Midwich Group, with the business continuing to build on its leading position as a trade-only distribution partner in all its key markets as well as joining the AIM market as a public company. I am very pleased to report that we have been successful in delivering good growth across all the Group's businesses and regions at both a revenue and profit level. As well as impressive organic growth, we have also been successful in using targeted acquisitions to drive future growth as well as build our expertise in a broader range of markets and products.

Strong financial performance

The Midwich Group has delivered a strong growth performance in 2016 with revenue for the year increasing by 15.1% on a constant currency basis to £370.1 million (2015 – £314.3 million). This resulted from revenue growth across all regions within the Group, but particularly strong growth in Germany, France and Australia.

Group gross profit increased by 20.2% to £56.5 million (2015 – £47.0 million). Growth in gross profit represented a further increase in the Group's gross margin from 14.9% to 15.3%. This increase was delivered through the Group's focus on margins and driving improvement through improving product mix and working closely with vendors and customers alike to add value to both in the supply chain. The growth in Technical Video, LED and Rental sectors also helped improve margins. Midwich has now successfully increased the Group gross margin every year for the last 10 years.

Our adjusted operating profit margin improved from 4.8% to 5.0%. Adjusted profit after tax increased 22.4% to £14.4 million (2015 – £11.7 million) and adjusted earnings per share increased 19.5% to 18.6 pence (2015 – 15.6 pence). Reported profit before tax was £12.1 million (2015 – £8.6 million) and reported earnings per share increased to 10.9 pence (2015 – 7.1 pence).

Our business model

The Midwich Group is a specialist distributor serving only the trade market and specialising on AV equipment and Document Solutions. With initial operations in the UK, the Group has expanded its footprint to include Ireland, France, Germany and Australasia. In 2006 the Group started a programme of acquiring smaller businesses which provided it with access to new product, sector or geographical markets. Our general strategy was to acquire businesses which not only added to the Group's capabilities, but which provided exciting opportunities for growth. We continue to have significant success with this strategy.

We believe that our primary role as a distributor is to facilitate growth in the markets in which we operate. We help our manufacturer partners to gain access and grow their businesses in geographical and vertical markets.

The Group's long-standing relationships with over 300 vendors, including blue-chip organisations such as Samsung, LG, Epson and NEC, supports a comprehensive product portfolio across major AV categories such as large format displays, projectors, digital signage and printers. The Group operates as the sole or largest-in-country distributor for a number of its vendors in their respective product sets. We attribute this position to the Group's technical expertise, extensive product knowledge and strong customer service offering built up over a number of years.

The Group offers a range of support to our customers, including demonstrating products, training their staff, providing technical assistance through to logistics and post-sales support. We have a large and diverse base of over 10,000 customers, most of which are professional AV integrators and IT resellers serving sectors such as corporate, education, retail, residential and hospitality. Although the Group does not sell directly to end users, we believe that the majority of our products



Managing Director's review continued

are used by commercial and educational establishments rather than consumers.

Midwich has an established track record of acquiring complementary businesses and then assisting them to grow significantly. Over the past 4 years around one third of turnover and profit growth has derived from acquired businesses, with the majority of growth being organic. Between 2006 and 2008 our acquisition strategy was focused primarily on adding more technical businesses into the UK company. From 2009 onwards the focus turned to expanding the business outside the UK, with a primary drive to have a presence in the 3 largest European AV markets (the UK, France and Germany). The Group trades as Sidev in France, Kern & Stelly in Germany and Square One Distribution in Ireland.

A continually evolving and growing market sector

Our addressable market in professional AV solutions covers areas such as sound, video, lighting, display and projection systems, and are prevalent and relied upon in many areas of daily life – at home, in transit, at the workplace and in a wide range of retail, leisure and recreational uses. The application of AV systems is found in areas such as collaborative conferencing, and digital signage solutions, with end users broadly covering the corporate, events, government, education, retail, hospitality, healthcare and residential markets. The increased use of all this technology is being driven by a number of inter-related factors, such as an increased pace of both technological advancements and technology adoption, changes to working day practices, continued technology convergence, and evolving social and consumer trends. Economic recovery since the global recession has also been beneficial for the AV market, albeit even a more benign corporate and consumer investment environment failed to significantly dampen growth in the market.

In addition to this increased use of our core product sets by end users, the recent trend in the AV market has been towards increased use by large manufacturers of distributors as intermediaries in the AV supply chain, driven by economic factors (vendors trying to reduce costs and financial risk) and growth aspirations (vendors seeking to maximise growth prospects for expanded product lines by an increased distribution reach).

Key events in 2016

This year has seen a number of important events for our business. In May, The Company's shares were admitted to AIM in order to provide the Group with a stable independent ownership structure and a long-term framework to support future growth and investment. Furthermore, the IPO has positioned the Group for its next stage of development by:

- Enhancing the Group's public profile and status with vendors and customers;
- Ensuring stability as a result of independent ownership as a public company, which the Directors considered will be beneficial to employees, vendors and customers;
- Assisting in the incentivisation and retention of key management and employees;
- Providing the Group with access to the capital markets as necessary in the future;
- Providing long-term liquidity in the Company's shares; and
- Providing selling shareholders with an opportunity to realise a portion of their long-term investment in the Group and allowing the Company to secure a more diverse shareholder base.

We are delighted that our first year on the market has lived up to expectations.

The issue of new Ordinary Shares at the time of the IPO raised approximately £24.2 million after commissions, fees and expenses. These net proceeds have strengthened the balance sheet of the Group and provided increased capacity to finance growth.

In September part of the proceeds of the IPO were used in the acquisition of Holdan Limited and the acquisition of the trade and assets of Wired Limited.

Holdan is a value-added distributor of technology solutions focused on the broadcast, professional video and traditional AV markets. Holdan is a leader within the UK broadcast market, and has a significant and growing export business and increases the Group's exposure to this growing market segment. Wired is a small New Zealand-based AV distributor with offices in Wellington and Auckland specialising in HD distribution solutions for the domestic and commercial market. The acquisition augments The Midwich Group's existing market position and capability in the Australian and New Zealand markets.

Operational review

The Group operates on a geographical basis with entities in the relevant jurisdiction to service the local market.

UK and Ireland

The UK and Ireland segment is our most established Division. We improved turnover by 11.5%, helped by the acquisition of Holdan in September 2016, and the full year impact of the acquisition of PSCo in April 2015. Underlying revenue growth was 6.1%. Revenue decline in the Document Solutions product set was largely compensated for by an improvement in the gross margin percentage.

The displays product set (comprising principally large format, LED and interactive displays and televisions) grew significantly. The strongest growth was achieved in the interactive display business, helped by the launch of the SMART brand in the second half of the year.

France

In France, Sidev had a very successful year, improving revenue by 39.3% to £33.4 million (2015 – £24.0 million). A significant proportion of the sales growth was in large format displays, although the lower gross margin in this product set contributed to a small decline in the Division's overall gross margin percentage. As this business grows we hope to be able to improve the gross margin through additional buying economies and careful vendor selection. The growth in revenue, combined with an improvement in operating leverage, led to underlying operating profit more than doubling to £1.1 million (2015 – £0.5 million).

Germany

In Germany, Kern & Stelly ("K&S") performed very strongly, with revenue growth of 26.0% to £64.3 million (2015 – £51.0 million). A focus on higher-end projectors and technical products helped to improve the gross margin percentage. Sales of displays increased at a faster rate than for the Company as a whole, as K&S grows its share of this faster expanding segment. Adjusted operating profit improved by 34.5% to £3.9 million (2015 – £2.9 million).

Australasia

Midwich Australia achieved a 42.8% growth in sales from £17.9 million to £25.5 million. Growth was achieved in all major product categories, but particularly in the higher margin technical and audio areas. The acquisition of the small Wired business in New Zealand is helping to build the critical mass of our operation in that country. Adjusted operating profit in Australasia increased by 124.5% from £0.7 million to £1.6 million.

Product offering

The Group distributes and provides technical support for a comprehensive range of technologies. The range of products varies across the geographies with the UK and Ireland offering the largest suite of product options.

Technologies

Displays is the largest technology category for the Group, accounting for 40.4% of the Group turnover in 2016 (2015 – 37.0%). It grew 28.8% in the year, with particularly impressive levels of growth seen in Germany, France and Australasia.

Projection represents 23.9% of the Group turnover (2015 – 25.8%) and grew 9.4% in the year, thanks mainly to double digit growth in Germany and France.

At 11.5% of the Group sales (2015 – 15.6%), Document Solutions (printers, scanners and consumables) which is only sold in the UK and Ireland, is the Group's third largest technology. Revenues in this technology declined by 13.4% in the year.

Sales of Technical products which include the Audio, Security, Broadcast and Technical Commercial and Technical Consumer AV categories, rose 52.2%, partly thanks to the acquisition of Holdan but also thanks to very strong growth in this category in Australasia, Germany and France. Technical products constituted 14.5% of Group sales in the year (2015 – 11.2%).

Overview of the Group strategy

The Group's growth strategy has and continues to be both organic and inorganic. Our success in sourcing, executing and integrating our chosen acquisitions underpins this growth strategy. The Group takes a disciplined approach to acquisitions, seeking to add capital value without an adverse impact on the existing business. We have a strong ongoing pipeline of opportunities.

Our overall strategy focuses on:

- Technology, product and vendor selection in established markets, in order to maximise the value we can add to customers;
- Gaining profitable market share in developing markets; and
- Identifying profitable new markets (whether geographical, customer or technology) which the Group can enter, either through acquisition or through a new start-up.

Outlook

We continue to see exciting growth opportunities across all of our markets and geographies driven by increasing demand from end users as well as continued innovation and new products from our manufacturer partners. There is also a continued trend in the increasing use and need for high-quality distributors such as The Midwich Group to support the professional AV and Document Solutions market. As a result, we continue to exploit a significant number of organic growth opportunities from targeting new vendors while continuing to grow our customer base.

We are pursuing acquisition opportunities that would fit within our strategic focus of adding new product ranges, capabilities or geographies to our existing portfolio.

The Board is continuing to pursue the strategy detailed at the time of the IPO, and is pleased with the progress made since Admission. Trading in the first few months of 2017 has built on the good growth we saw through last year giving the Board confidence in delivering results in 2017 in line with its expectations.

Stephen Fenby
Managing Director



THE GLOBAL AV MARKET IS WELL POSITIONED TO CONTINUE GROWING STRONGLY

The Global Pro AV market has consistently achieved year-on-year growth for a number of years.

AV market characteristics

The Pro AV market comprises the manufacturers, dealers, systems integrators, consultants, programmers, presentation professionals and technology managers of AV products and services. AV products cover areas such as sound, video, lighting, display and projection systems, and are prevalent and relied upon in many areas of daily life – at home, in transit, at the workplace and in a wide range of leisure and recreational uses. The application of AV systems is found in areas such as collaborative conferencing, and digital signage solutions, with end users broadly covering the corporate, events, government, education, retail, hospitality, healthcare and residential markets.

Market trends in AV distribution

Recent trends in the AV market have been towards increased use of distributors as intermediaries in the AV supply chain utilised by large manufacturers, driven by economic factors (vendors trying to reduce costs and financial risk) and growth aspirations (vendors seeking to maximise growth prospects for expanded product lines by an increased distribution reach). A vendor may not have the logistics capability or back-office infrastructure in place to be able to trade directly with the large number of small customers that a distributor such as The Midwich Group is able to.

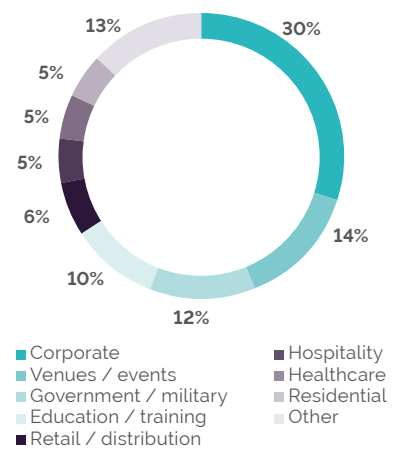
A vendor may choose to use one primary distributor in order to benefit from core expertise and brand loyalty or may choose to use a group of distributors segregated on the basis of target markets or resellers served. The skills of a successful distributor include the nature of their understanding of a vendor's strategy and how they fit into the delivery of such strategy, the ability to provide high level tangible and intangible services to a vendor, and having the flexibility to accommodate changes in vendor channel strategies.

Growth in the European market is being driven by a number of inter-related factors, such as an increased pace of both technological advancements and technology adoption, changes to working day practices, continued technology convergence, and evolving social and consumer trends. Economic recovery since the global recession has also been beneficial for the AV market, albeit even a more benign corporate and consumer investment environment failed to significantly dampen growth in the market.

An indicator of the size and growth of the AV market, particularly in Europe is the ISE trade show. The first such show was held in 2004 and attracted 120 exhibitions and 3,500 visitors. In February 2017, the show hosted 1,200 exhibitions and welcomed over 73,000 visitors – an increase of 12% on the previous year.

MARKET SPLIT BY END USER TYPE

The Directors believe that the ultimate users of its products are broadly in line with InfoComm's market analysis.



AV market size and growth drivers

InfoComm, the international trade association representing the professional AV and IT communications industries, has estimated end user spending in the global Pro AV market to have been \$75.5 billion in 2012, increasing to \$114.2 billion in 2016, a CAGR of 11%. This compares to low single digit growth in global GDP over the same period. In its latest report, InfoComm believe that Europe would represent 17.7% of the global AV market in 2016, with Western Europe accounting for approximately 80% of the overall European segment (\$16.2 billion). European growth was projected to be 8% between 2014 and 2016, with Northern Europe (primarily the UK, Germany and Benelux) growing at a faster rate according to InfoComm.

AV products

The 3 largest product segments in Europe are displays, projectors, and AV acquisition and delivery equipment (e.g. recording media and storage devices). InfoComm analysis has shown the displays category to be the largest segment and one of the fastest growing behind software, and alongside storage and recording media devices. Projectors have underperformed in recent years resulting in a loss of market share. There has been a decline in sales of low-end projectors in recent years as users have migrated across to displays.

Displays

This segment of the AV market has been a strong performer, with InfoComm data showing displays growing at a CAGR of 8% from 2012 to 2014 and expected growth of 9% from 2014 to 2016. This growth is a function of strong demand for larger and higher resolution displays, although the market is also being driven by increasing adoption of the available applications of display products.

The Group's key markets in the UK, Germany and France are the 3 largest components of the European displays market, collectively expected to account for 41.0% of total sales in the 2017 calendar year. Futuresource Consulting (leading AV market consultants) forecasts for the three markets indicate strong historic and forecast growth.

The Directors anticipate a continuation of the strong growth experienced in recent years across the displays product categories.

Projection

Projection has been trailing behind other product verticals in terms of technological advancement as users increasingly expect their devices to be smart, connected and intuitive – features not typically associated with projectors. InfoComm have estimated the European projector market to have remained at a broadly constant size of c. \$1.9-2.0 billion between 2012 and 2016, with the lack of growth driven by competition from the displays product vertical, with larger and cheaper displays and videowalls causing some end users to switch technologies. The development of solid state lampless projectors has helped to grow the high-end projector market.

Whilst representing just a portion of the wider European AV market, these figures provide a useful proxy for the Group's target markets and highlight the large market opportunity available in its 3 largest jurisdictions (the UK, Germany and France). This data also indicates that the Group has the potential to increase its addressable share of the European market to over 75% through entry into a handful of other jurisdictions.

Document solutions

Whilst generally representing mature and lower margin product groups than the AV segments, Document Solutions' operations act as a key component of the deep and diversified relationship the Group has with its key vendors and customers, many of whom operate across both Document Solutions and AV.

The Directors anticipate the overall Document Solutions market in the geographies it addresses is likely to continue to exhibit signs of gradual and long-term decline. This will be mainly driven by the decline of single function product ("SFP"). This will be offset to some degree by the growth in multi-function devices ("MFP"), particularly inkjet printers which are primarily sold in the retail channel. It is also anticipated that A3 and A4 Laser MFPs will continue to deliver solid performance, particularly colour print devices.

Investment case

WHAT MAKES US DIFFERENT



In our 35-year history it's been our passion to understand our customer's business, helping them to drive their business forward.



KEY STRENGTHS



PROVEN BUY AND BUILD CAPABILITIES

Entering new geographies and product markets through acquisition and then substantially growing the acquired businesses.



STRONG FINANCIAL TRACK RECORD AND DELIVERY OF GROWTH STRATEGY

For each of the last 10 years, the Group has delivered revenue growth and gross margin improvement.



FOCUS ON THE AV AND DOCUMENT SOLUTION MARKETS

Depth of expertise and focus ensures the Group is at the forefront of the market and technological developments.



KEY LONG-TERM, VALUE-ADD RELATIONSHIPS WITH MAJOR VENDORS AND CUSTOMERS

Expertise and consistent delivery of high value-add services provide long-term significant value to both vendors and customers, supplemented by highly effective sales and marketing operations and efficient logistics.



HIGH VALUE-ADD DISTRIBUTION WITH SPECIALISMS AND BESPOKE SERVICE OFFERING, ACTING AS A KEY DIFFERENTIATOR

The Group's focus on products and technologies that are in their early to mid-growth phase increases its ability to provide a value-add service and enhances the value that vendors and customers can gain from the Group's offering.



LEADING COMPETITIVE POSITION AND ESTABLISHED INTERNATIONAL PLATFORM FOR FUTURE GROWTH, UNDERPINNED BY COMPELLING MARKET DRIVERS

With strong market positions in most of its product and geographical markets, the Group is well placed to take advantage of the opportunities presented by increased demand for AV products and the development of new technologies.



EXPERIENCED MANAGEMENT TEAM WITH LONG-STANDING INDUSTRY EXPERTISE

Senior management team with an average of 18 years' experience in the AV and/or Document Solutions markets.

Key performance indicators

HOW WE PERFORMED

FINANCIAL

Revenue growth



Why it is measured

Revenue growth is often an indicator of the health of the Group. It may indicate the Group is participating in a growing market or has gained market share, or both.

Comment

- The Group continued to grow strongly in 2016 with Australia growing 43%, France 39%, Germany 26% and UK 12%.

Change in gross profitability



Why it is measured

An increase in gross profitability would suggest an improved competitive positioning from year to year either through carrying a greater range of products that require a technical sale, stronger relations with customers and vendors, or greater buying power, or a combination of each.

Comment

- 2016 continued our record of increasing gross margin % year by year. Gross profitability was helped in 2016 by an improved mix of products sold. The growth in the Technical Video, LED and Rental sectors contributed to this trend.

Cash flow conversion



Why it is measured

Cash flow conversion measures the ability of the Group to generate cash from its operations as a function of turning its stock and debtors quickly. It gives an indication as to the ability of the Group to pay its dividend and self-fund investments.

Comment

- Overall the Group's cash conversion has been strong over the last 2 years. 2015 saw a particularly strong result driven by some one-off items around the year end which reversed in Q1, correspondingly impacting 2016.

A SOLID ALL ROUND PERFORMANCE

“ We are pleased that our maiden financial statements have been underpinned by strong performances in all territories. ”

ANTHONY BAILEY

Finance Director

Trading results

The Group enjoyed a solid first year as a public company.

Turnover of £370.1 million (2015 – £314.3 million) represented growth of 178%. With the gross profit margin rising 0.4% to 15.3%, the Group generated absolute growth in gross profit of £9.5 million. This translated into adjusted operating profit of £18.5 million, growth of £3.4 million or 22.2% year on year. Before adjustments, operating profit grew from £12.6 million to £14.5 million.

A weakening sterling, primarily against the Euro and especially in the second half of the year, boosted our overseas earnings. On a constant currency basis, our growth in turnover and PAT were 15.1% and 20.0% respectively.

Segmental review

Each of the trading segments performed strongly.

UK & Ireland

£m	Year to 31 December 2016	Year to 31 December 2015
Revenue	247.0	221.4
Adjusted operating profit	12.0	11.0

UK revenue grew 11.5% to £247.0 million, generating gross profit of over £39.3m at a gross profit margin of 15.9% and adjusted operating profit of £12.0 million, representing growth of 9.1%. Organic revenue growth was 6.0%.

Germany

£m	Year to 31 December 2016	Year to 31 December 2015
Revenue	64.3	51.0
Adjusted operating profit	3.9	2.9

Revenue in Germany grew 26.0% to £64.3m with Kern & Stelly's operating profit growing 34.5% to £3.9 million including the benefit of a 0.7% rise in gross profit margin to 13.2%. In constant currency, revenue and operating profit grew 18.0% and 26.0%, respectively.

France

£m	Year to 31 December 2016	Year to 31 December 2015
Revenue	33.4	24.0
Adjusted operating profit	1.1	0.5

Sidev, in France, was able to double its adjusted operating profit on revenue growth of 39.3% and despite the gross profit margin falling 0.2% to 13.5%. In constant currency, revenue and operating profit grew 30.0% and 91.0%, respectively.



Australasia

£m	Year to 31 December 2016	Year to 31 December 2015
Revenue	25.5	17.9
Adjusted operating profit	1.6	0.7

Midwich Australia's adjusted operating profit grew 124.0% to £1.6 million as a result of revenue growth of 43.0% to £25.5 million and an increase in gross profit margin of 1.9% to 16.2%. In constant currency, revenue and operating profit grew 34.0% and 111.0%, respectively.

Profit before tax

Profit before tax for the year increased by 41.4% to £12.1 million (2015 – £8.6 million), while adjusted profit before tax for the year increased by 22.8% to £17.9 million (2015 – £14.6 million).

Tax

The effective tax rate was 22.7% in 2016, representing a small increase on 2015. Sidev, which is based in France, exhausted its cumulative losses in the course of 2016 and began to pay a full rate of corporate tax in the year however, the Group benefitted from a positive adjustment to tax payable brought forward into the year in PSCo (UK) and in Midwich Australia.

Earnings per share

Basic earnings per share is calculated on the total profit of the Group attributable to shareholders. Basic EPS for the year was 10.9p (2015 – 7.1p), representing growth of 52.9%. Diluted EPS was 10.9p (2015 – 7.1p).

Dividend

The Board has proposed a final dividend of 709p per share which, together with the interim dividend of 1.53p paid in October 2016 gives a final dividend of 8.62p for the 8 months since listing. If approved by shareholders at the general meeting, the final dividend will be paid on 23 June 2017 to those shareholders on the register on 26 May.

Cash flow

£m	Year to 31 December 2016	Year to 31 December 2015
Adjusted operating profit	18.5	15.2
Add back depreciation	1.2	0.8
Adjusted EBITDA	19.8	16.0
Increase in stock	(8.4)	(1.3)
Increase in debtors	(5.9)	(3.2)
Increase in creditors	3.3	9.1
Adjusted cash flow from operations	8.8	20.6
EBITDA cash conversion	44.5%	128.8%

Following the strong trading result in the year, the Group's adjusted operating cash flow conversion, calculated comparing adjusted cash flow from operations with adjusted EBITDA, dropped to 44.5% compared to 128.8% for the prior year. The reduction in the year was expected and was primarily a result of an abnormally low level of net working capital in the 2015 year-end position of the Group, particularly in Germany. The reversal of this in the first quarter of 2016 caused the apparent shift in use of cash. The Board is content that this was a timing issue and that, over a 2-year period, cash flows are normal.

Gross capital spend was £2.3 million including approximately £0.8 million which was incurred in the last quarter by Holdan for the freehold acquisition of its new site. Rental assets accounted for £0.7 million of this spend. Excluding these 2 items, capital spend was £0.8 million.

Net debt

At 31 December 2016, the Group had net debt of £15.0m (2015 – £29.8 million). The Group has a strong balance sheet with closing net debt/EBITDA ratio of just 76%. This, combined with the Group's underlying cash generation, equips the Group well to fund short-term swings in working capital as the Group delivers organic growth as well as to continue its buy and build strategy where appropriate opportunities arise. Borrowings of £35.1 million at 31 December 2016 compare to facilities totalling £55.2 million at that date.

Goodwill and intangible assets

The Group's goodwill and intangible assets of £23.4 million (2015 – £22.8 million) arise from the various acquisitions undertaken. Each year the Board reviews goodwill for impairment and, as at 31 December 2016, the Board believes there are no indications of impairment. The intangible assets arising from business combinations – for exclusive supplier contracts, customer relationships and brands – are amortised over an appropriate period.

Financial review continued

Adjustments to reported results

	2016 £000	2015 £000
Operating profit	14,487	12,641
IPO and acquisition costs	1,300	54
Share based payments	75	–
Amortisation	2,680	2,473
Adjusted operating profit	18,542	15,168
Profit before tax	12,102	8,558
IPO and acquisition costs	1,300	54
Share based payments	75	–
Amortisation	2,680	2,473
Finance costs – put and call option	1,729	2,988
Finance costs – interest on loan notes and preference shares	26	509
Adjusted profit before tax	17,912	14,582
Profit after tax	8,560	5,812
IPO and acquisition costs	1,300	54
Share based payments	75	–
Amortisation	2,680	2,473
Finance costs – put and call option	1,729	2,988
Finance costs – interest on loan notes and preference shares	26	509
Tax impact – at 20% / 20.25%	(5)	(103)
Adjusted profit after tax	14,365	11,733
Profit after tax	8,560	5,812
Non-controlling interest	344	807
Profit after tax attributable to owners of the parent	8,216	5,005
Number of shares for EPS	75,247,380	70,070,235
Reported EPS – pence	10.92	714
Adjusted EPS – pence	18.63	15.59

Principal risks

Dependence on key personnel

The Group is dependent upon key senior management personnel who have extensive experience and knowledge of the Group, the Group's markets, product and service offering, vendor portfolio and customer base. The successful delivery of the Group's strategy depends on the continuing availability of senior management and the Group's ability to attract, motivate and retain other qualified employees.

The Group actively measures the retention of talent within the business, actively engages with employees by focusing on training and development and conducts an annual assessment of remuneration packages to ensure market position is maintained. In addition the Group has adopted share plans to align the interests of senior management and the broader employee workforce with those of shareholders.

Expected benefits from acquisitions may not be realised

The Group intends to continue executing its strategy of entering into new jurisdictions through carefully targeted acquisitions. The Group also intends to pursue targeted acquisitions in its current markets in order to bolster product offerings and sector penetration, increase scale of gain access into new market segments.

Acquisitions give rise to inherent execution and integration risk. The process of integration may produce unforeseen operating difficulties and expenditures and may absorb significant attention of the Group's management. They also may involve unforeseen liabilities, difficulties in realising costs or revenues, loss of key employees and customer relationship issues. A poorly implemented acquisition could damage the Group's reputation, brand and financial position.

The Group only enters into acquisitions after a thorough due diligence exercise which will involve a detailed review of operational, resource and financial trends and forecasts as well as a thorough analysis of the target's compliance record. Numerous personal visits to the target will take place in order to establish the viability of accommodating it and its senior management into the Group. The structure of most acquisitions will involve a significant financial incentive for departing shareholders to perform toward certain financial targets in the first 3 years after acquisition in order to maximize their disposal value.

Loss of key customers

Most of the Group's customers contract with the Group on a deal by deal basis with no formal ongoing purchasing commitment. As such they have a voluntary right to terminate their contractual relationships with the Group without notice or penalties. There is therefore a lack of certainty in respect of the retention of existing customers who may elect not to continue contracting with the Group.

The Group does have a very large customer base of approximately 10,000 AV integrators and IT resellers many of whom have long-term relationships with it. The diversity of the Group's customer base is demonstrated by the fact that no customer accounted for more than 2.4% of overall Group revenues for the year ended 31 December 2016. By providing a best-in-class service in terms of stock availability, logistics and credit capacity, the Group intends to continue to keep our customer base satisfied.

Loss of key vendors

There is no formal ongoing contractual commitment to the Group by the majority of vendors. As such they have a right to terminate their contractual relationships with the Group without notice or penalties. In addition certain vendors provide the Group with incentives in the form of rebates, marketing development funds, early payment discounts and price protections which enable the Group to manage it profitably. There can be no assurance that the Group will continue to receive the same level of income in future.

Many of the Group's vendor relationships are long term, established and now cover a number of territories. By bringing projects to our vendors and enabling them to fulfill their market share aspirations the Group will continue to maintain strong relationships with its vendors.

There is an analysis of the key financial risks facing the Group in the Directors' Report.

The strategic report comprising the Chairman's Statement, Managing Director's Review and Financial Review was approved by the Board on 13 March 2017 and signed on its behalf by:

Andrew Herbert
Chairman

Board of directors

EXPERIENCED MANAGEMENT



ANDREW HERBERT

(aged 57) – Non-executive Chairman

Andrew was Group Finance Director of Domino Printing Sciences plc from 1998 until the sale of the company to Brother Industries in 2015. He joined the business in 1986 and held senior Finance, Operational and General Management roles prior to joining the Board of Domino Printing Sciences plc. He has extensive experience of managing profitable growth in a global business, including acquisition and disposal strategy and line management of overseas subsidiaries.

Andrew has a B.A. in Business Studies from Hatfield Polytechnic and is a Fellow of the Chartered Institute of Management Accountants.



STEPHEN FENBY

(aged 53) – Managing Director

After qualifying as a Chartered Accountant with Ernst & Young, Stephen joined Deloitte and worked for 16 years in the corporate finance team, latterly in the Cambridge office. Stephen joined The Midwich Group as Finance Director in 2004 and became Managing Director in 2010. He has led the Group's acquisition and development programme.

Stephen has a B.Sc. in Accounting and Financial Analysis from the University of Warwick and is an associate of both the Institute of Chartered Accountants in England and Wales and the Chartered Institute of Management Accountants.



ANTHONY BAILEY

(aged 50) – Group Finance Director

Tony joined The Midwich Group as Finance Director in September 2011. He is qualified as a Chartered Certified Accountant.

Previously Tony was Finance Director at Kettle Foods for 7 years, having been promoted from Financial Controller. He was involved in the sale of the business to Lion Capital, a private equity firm, in 2006. After this transaction, he was appointed Group Head of Treasury, UK and USA. In addition to his core role, Tony was involved in the sale of Kettle Foods to Nasdaq listed Diamond Foods in 2010. Tony has also held roles at Mills & Reeve and Lakeside Foods of Norfolk.

Tony has an M.A. in French and German from the University of St. Andrews.



MIKE ASHLEY

(aged 49) – Non-executive Director

Mike joined retailer Wickes, owned by Travis Perkins PLC, in 2014 as Chief Commercial Officer. Prior to this Mike led the turnaround of Harvard International PLC (formerly Alba PLC) as Chief Executive Officer, culminating in the successful sale to a listed Chinese consumer electronics business. Mike was a member of the Executive Board for 5 years with 30 months as Chief Executive Officer, experiencing and driving several corporate transactions.

Mike has extensive retail and consumer experience through senior commercial, marketing and strategic roles at Boots, Argos and Dixons Retail Group.

Mike completed retail M.B.A. modules at Manchester Business School sponsored by Home Retail Group.

Chairman's corporate governance statement

ANDREW HERBERT

Chairman



The Midwich Group Plc Board was formed in April 2016 in anticipation of the successful flotation of the Group that completed in May 2016. Mike Ashley and I joined Managing Director Stephen Fenby and Finance Director Anthony Bailey as Directors. Neither Mike nor I had any prior connection with the Group or its management and our appointments were made based on management's desire to add complementary skills and independent perspective. My role as Chairman is separate to and independent of that of the Managing Director.

As Midwich Group Plc is quoted on AIM, it is not required to and does not comply with, the UK Corporate Governance Code. There is no prescribed corporate governance regime in the UK for AIM companies but the Board recognises the importance of sound governance commensurate with the size and nature of the Group and the interests of all shareholders. To that end the Board has adopted the QCA Code, the set of corporate governance principles and guidelines for AIM companies published by the Quoted Companies Alliance.

The initial work of the Board has been to establish an appropriate governance structure, including matters reserved for the Board, delegation of authority and the establishment of committees. Details of these can be found in the Investor Relations section of the Group's website.

The full Board is scheduled to meet at least 7 times per annum, approximately once every 2 months, and committee meetings are scheduled as necessary with Audit and Remuneration Committee meetings held at least twice per annum. Additional meetings both in person and by telephone are held as circumstances require. A full set of Board papers containing information on the business and matters requiring Board consideration are circulated in advance of meetings allowing all Board members to make effective contributions to the business of the Group. At least one meeting each year is set aside for detailed consideration of business strategy.

The Board maintains a regular dialogue with Investec, the Company's nominated adviser and obtains advice as necessary to ensure compliance with AIM rules and good governance practices.

The Board evaluates its performance through a process of regular dialogue, considering whether members have the expertise and experience necessary to provide effective leadership and management of the Group. A more formal annual evaluation process will be introduced in 2017.

Executive Directors hold service contracts with a 9-month notice period. Non-executive Directors are appointed for an initial period of 3 years with a 3-month notice period on either side. It is the intention of the Board that all Directors will be required to retire and submit themselves for re-election at each Annual General Meeting.

Andrew Herbert
Chairman

Corporate governance report

The Board meets physically seven times a year and conducts meetings remotely five times a year. The Board receives a full reporting pack once a quarter which details Group and entity-trading performance and contains individual reports from each of the Executive Directors and the entity Managing Directors. It is the Board's responsibility to formulate, review and approve the Group's strategy, budgets and major items of expenditure.

Board Committees

The Board has established three committees, the Audit, Nominations and Remuneration Committees, each having written terms of reference.

Attendance at Board and committee meetings

Board meetings are scheduled in advance for each calendar year. The scheduled Board meetings and attendance during the 7 months (from listing) ended 31 December 2016 were as follows:

	Board meetings	Audit	Remuneration	Nomination
Andrew Herbert (Chairman)	5	2	1	1
Mike Ashley	5	2	1	1
Stephen Fenby	5			1
Anthony Bailey	5			

Audit Committee

The Audit Committee consists of the two Non-executive Directors and is scheduled to meet at least three times a year. Andrew Herbert is the Chairman of the Audit Committee having a relevant background. The current terms of reference of the Audit Committee were published in May 2016.

The main roles of the Audit Committee are:

- To monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports and trading updates;
- To review and challenge where necessary the consistency of, and any changes to, accounting policies both on a year-on-year basis and across the Company/Group;
- To keep under review the effectiveness of the Company's internal controls and risk management systems; and
- To consider and make recommendations to the Board, to be put to shareholders for approval at the Annual General Meeting, in relation to the appointment, re-appointment and removal of the Company's external auditor.

Nominations Committee

The Nominations Committee consists of the two Non-executive Directors and the Managing Director and is scheduled to meet at least once a year. Andrew Herbert is the Chairman of the Nominations Committee. The current terms of reference of the Nominations Committee were published in May 2016.

The main roles of the Nominations Committee are:

- To lead the process for Board appointments and make recommendations to the Board;
- Evaluate the structure, size and composition (including the balance of skills, knowledge and experience);
- Keep under review the leadership needs of the organisation, both Executive and Non-executive; and
- Be responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise.

Remuneration committee

The Remuneration Committee consists of the two Non-executive Directors and is scheduled to meet at least twice a year. Mike Ashley is the Chairman. The current terms of reference of the Remuneration Committee were published in May 2016.

The main roles of the Remuneration Committee are:

- To determine the framework and broad policy for setting remuneration for the Chief Executive and all Executive Directors;
- To recommend and monitor the level and structure of remuneration for senior management;
- To review the establishment of all share incentive plans for approval by the Board and shareholders and determine each year whether awards will be made, and if so, the overall amount of such awards and the individual awards per person to Executive Directors and other senior management; and
- To produce an Annual Report on the Company's remuneration policy.

Statement from the Chairman of the Remuneration Committee

“ We are committed to a responsible and transparent approach in respect of executive pay. ”

MIKE ASHLEY

Chairman of the Remuneration Committee



I am pleased to present the Directors' Remuneration Report for the financial year ended 31 December 2016.

The Annual Report on Remuneration provides details of the amounts earned in respect of the year ended 31 December 2016 and how the Directors' remuneration policy will be operated for the year commencing 1 January 2017.

Review of the 2016 financial year

The Company has experienced strong levels of growth in 2016 as a result of improved revenues and net profits across all territories. This was achieved in a year when the Company was successfully floated on AIM in May and continues its acquisition strategy with Holdan Limited being added to the group.

The 2016 annual bonus agreed ahead of the IPO was subject to an operating profit performance metric. Based on the 2016 underlying operating profit of £18.5m the MD and FD will receive 51% and 49% of their salary as a bonus payment respectively. Further details are set out on page 21.

No long-term incentives were granted in 2016 given the substantial shareholdings of both Stephen and Anthony.

Outlook for the 2017 financial year

Details in relation to the application of the Directors' remuneration policy in 2017 are set out on page 21, however, the key elements will be as follows:

- Executive Directors' salaries will increase by 9% (MD) and 5% (FD) respectively. Salaries were reviewed by the Remuneration Committee once established post IPO. Salaries have been increased with reference to a market median benchmark for executives at the equivalent sized AIM listed companies with similar levels of responsibility and in recognition of the increased complexity and responsibilities of the Directors of this expanding business.
- The MD's and FD's maximum annual bonus opportunity will be increased to 100% of salary in line with practice within the AIM market. Financial and strategic performance criteria linked to the Group's business strategy will apply against this potential reward, and are detailed on page 22.
- Long-term incentive awards will not be granted in 2017 given the shareholding of the executives.
- Non-executive fees will be reviewed in 2017.

Summary

We are committed to a responsible and transparent approach in respect of executive pay. The Committee will continue to monitor the remuneration policy to ensure it remains aligned to the business strategy and delivery of shareholder value.

Mike Ashley

Chairman of the Remuneration Committee

Directors' remuneration report

Single figure of remuneration

The table below details the elements of remuneration receivable by each Director for the financial year ended 31 December 2016 and for the financial year ended 31 December 2015.

£000	Salary and fees	Benefits	Annual bonus	Pension	Total remuneration 2016	Total remuneration 2015
Executive Directors						
S Fenby	197	11	100	12	320	293
A Bailey*	153	12	108	9	282	272
D Lewitt**	-	-	-	-	-	8
A Ward**	-	-	-	-	-	15
Non-executive Directors						
A Herbert	35	-	-	-	35	-
M Ashley	22	-	-	-	22	-

* Appointed as a Director on 15 December 2015, however full year remuneration figures for 2015 are presented.

** Resigned during 2015.

The pension contributions received for the year ended 31 December 2016 were Company pension contributions of 6% of basic salary. These were payable into defined contribution schemes. The taxable benefits received in 2016 were principally car allowances and private medical insurance.

Individual elements of remuneration

Base salary and fees

The base salaries for 2016 and 2017 are set out below:

£000	2016 base salary	2017 base salary	% increase
S Fenby	197	215	9.2%
A Bailey	153	161	5.2%

Details of Non-executive Directors' fees for 2016 and 2017 are set out below:

£000	2016 fee	2017 fee	% increase
A Herbert	46	46	0.0%
M Ashley	29	29	0.0%

Note – 2017 fees are subject to review in April 2017.

Annual bonus plan

The bonus scheme for the Managing Director and Finance Director was already in place at the time of the IPO and it was deemed appropriate to leave the scheme unchanged. Bonus payments made were based on the delivery of operating profit targets. For the year ended 31 December 2016, £100,000 was payable to the Managing Director (51% of base salary) and £75,000 was payable to the Finance Director (49% of base salary).

Long-term incentives

No long-term incentives were granted or vested in 2016.

Directors' remuneration report continued

Statement of Directors' shareholding and share interests

The interest of the Directors and their immediate families in the Company's Ordinary Shares as at 31 December 2016 were:

	31 December 2016
Executive Directors	
S Fenby	28.04%
A Bailey	4.00%
Non-executive Directors	
A Herbert	0.03%
M Ashley	0.00%

The Executive Directors are subject to a lock-in agreement as follows:

For the first year after the IPO, the Executive Directors were not able to sell any shares apart from any shares sold at the time of the IPO itself. For the second year after the IPO, they are obliged to retain a shareholding equal to 60% of the shares held prior to the IPO. For the third year after the IPO, they must retain a shareholding equal to 40% of the shares prior to the IPO. For the fourth year after the IPO, they must retain a shareholding equal to 20% of the shares prior to the IPO.

Implementation of Directors' remuneration policy for the financial year commencing 1 January 2017

The Remuneration Committee sets the overall policy on remuneration and other terms of employment of the Executive Directors. The policy aims to ensure that the remuneration packages offered are competitive and designed to attract, retain and motivate directors of the right calibre, as well as being aligned to the Group's corporate objectives.

The Group's remuneration policy in respect of the Non-executive Directors is to pay annual fees which are market competitive and designed to reflect their duties and responsibilities. The remuneration of the Non-executive Directors is set by the Board.

Information on how the Company intends to implement the Directors' remuneration policy for the financial year commencing 1 January 2017 is set out below:

Salary/fees

Base salaries were not increased at the time of the IPO pending the establishment of a Committee. In recommending base salary increases for 2017 the Committee took into account the performance and growing complexity of the business and the development of a Group management structure. The base salaries set for 2017 better reflect the responsibilities of the Executive Directors.

Base salary increases have been set with reference to market median across the comparator group.

It is the Committee's intention to ensure the overall compensation of Executive Directors remains competitive and appropriate as the business develops and achieves its growth plans.

Non-executive Directors' basic fees will be subject to review in April 2017.

Annual bonus plan

Based on independent benchmarking reports for market practice amongst AIM companies, the maximum bonus opportunity for the Managing Director and Finance Director will be set at 100% of base salary, and pay-out will be subject to a combination of key financial and strategic performance conditions.

Pay-out of the bonus will be based upon performance on a sliding scale up to a maximum level against each of the following 3 elements:

- 60% of the bonus will be payable for achievement of profit growth targets
- 20% of the bonus will be payable for achievement of the cash conversion rate
- 20% of the bonus will be payable for the achievement of certain strategic targets

Long-term incentives

It is not intended that any long-term incentive awards will be granted during 2017. It is possible the Directors will participate in this scheme in future years.

Pension

Company pension contributions will remain at 6% of base salary.

Consideration by the Directors of matters relating to Directors' remuneration (not audited)

The Remuneration Committee is composed of the Company's independent Non-executive Directors, Mike Ashley (Chair of the Committee) and Andrew Herbert (Non-executive Chairman). Executive Directors attend only by invitation.

The Committee's key responsibilities are:

- Reviewing the ongoing appropriateness and relevance of remuneration policy.
- Reviewing the performance of the Executive Directors.
- Reviewing and approving the remuneration packages of Executive Directors.
- Monitoring the level and structure of remuneration of the senior management.
- Production of the Annual Report on the Directors' remuneration.

Adviser

During the financial year the Committee received independent financial advice from Deloitte LLP. Deloitte is a founder member of the Remuneration Consultants Group and voluntarily operates under its code of conduct in its dealings with the Committee.

Approval

This report is approved by the Board on 13 March 2017 and signed on its behalf by

Mike Ashley

Chairman of the Remuneration Committee

Directors' report for the year ended 31 December 2016

The Directors present their report and the financial statement of the Group for the year ended 31 December 2016.

Results and dividends

The profit for the period, after taxation and equity minority interests, amounted to £8.6 million (2015 – £5.8 million).

The Company paid a dividend in the year of £1,210,000 (2015 – £nil).

Change of name

On 15 April 2016, the Company changed its name from Jade 320 Limited to Midwich Group Limited. On the same date the Company re-registered from a Private to a Public Limited Company, becoming Midwich Group Plc.

Going concern

The Board takes all reasonable steps to review and consider any factors that may affect the ability of the Group to continue as a going concern. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group is able to generate sufficient liquidity to continue in operational existence for the foreseeable future. At the end of 2016 the Directors considered the working capital of the business to be adequate for its needs, and the Group therefore continues to adopt the going concern basis in preparing consolidated financial statements.

Financial risk management and policies

The Group uses various financial instruments such as loans, invoice discounting, trade receivables and trade payables that arise directly from its operations. The main purpose of the financial instruments is to provide working capital for the Group's operations.

The main financial risks arising from the Group's operations are credit risk, interest rate risk, currency risk and liquidity risk. The Directors review and agree policies for managing each of these risks and they are summarised below.

Credit risk

The Group's principal financial assets are cash and trade receivables.

In order to manage credit risk the Directors prioritise the credit control function, and clear procedures are in place to manage and mitigate the impact of slow payers. The Group is a significant purchaser of credit insurance cover.

Interest rate risk

The Group's borrowing facilities, including its invoice discounting facility, are linked to either LIBOR or base rate. An increase in these benchmarks would impact the Group's cost of borrowing which, in turn, would affect the Group's financial performance.

The Group regularly monitors its exposure to interest rate movements and, where appropriate, will consider risk management products to mitigate this risk.

Currency risk

The Group companies largely source their goods and supply their customers in their domestic currency. In addition, many foreign currency denominated payments or receipts are hedged naturally with each other.

In the event of a long term and material exposure to a movement in currency the Group takes out risk management products to reduce the risk.

Liquidity risk

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

Short-term flexibility is achieved by an invoice finance facility.

Directors

The Directors of the Company during the year and their beneficial interest in the Ordinary Shares of the Company at 31 December 2016 are set out below:

	Ordinary Shares		A Ordinary Shares		B1 Ordinary Shares	
	2016	2015	2016	2015	2016	2015
Mr A M G Bailey	3,178,230	–	–	6,000	–	41,786
Mr S B Fenby	22,280,000	396,000	–	–	–	–
Mr M Ashley (appointed 13 April 2016)	1,442	–	–	–	–	–
Mr A C Herbert (appointed 13 April 2016)	20,000	–	–	–	–	–
	25,479,672	396,000	–	6,000	–	41,786

None of the Directors held any interests in share options of the Company during the periods presented.

Directors' remuneration

The following table sets out an analysis of the pre-tax remuneration for the year ended 31 December 2016 for the individual Directors who held office in the Company during the year.

	2016 Salary/fees £000	2016 Pension £000	2016 Benefits in kind £000	2016 Share- based payment £000	2016 Total £000	2015 Total £000
Mr S B Fenby	297	12	11	–	320	293
Mr A M G Bailey ¹	261	9	12	–	282	272
Mr D P Lewitt ²	–	–	–	–	–	8
Mr A C Ward ²	–	–	–	–	–	15
Mr M Ashley ³	22	–	–	–	22	–
Mr A C Herbert ³	35	–	–	–	35	–
	615	21	23	–	659	588

1 Appointed as a director on 15 December 2015, however full year remuneration figures for 2015 are presented.

2 Resigned during 2015.

3 Appointed 13 April 2016.

Directors' and officers' liability insurance

The Company maintains insurance cover for the Directors and key personnel against liabilities which may be incurred by them while carrying out their duties.

Employee involvement and policies

We recognise the importance of our staff to the success of the business, since our product sales rely on the excellent service provided by our team. We aim to attract, motivate and retain the best people in our industry, regardless of race, age or disability. The Group provides its employees with information and consults with staff on matters of concern to them.

The Group gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person. Where existing employees become disabled, it is the Group's policy whenever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

The Board would like to thank our staff for the support, commitment and enthusiasm shown last year.

Directors' report for the year ended 31 December 2016 continued

Substantial shareholders

The Company has been notified of the following interests of 3% or more in its issued share capital as at 27 January 2017:

Shareholders	Number of shares	Percent (%)
Midwich Group Plc Directors and related parties	25,479,672	32.07
Schroder Investment Mgt	7,362,233	9.27
Standard Life Investments	6,130,208	7.72
Hargreave Hale	4,856,320	6.11
Mr Lee Baker	3,265,680	4.11
Old Mutual Global Investors	2,658,511	3.35
Mr Stuart Mizon	2,457,120	3.09

Directors' responsibilities statement

The Directors are responsible for preparing the Strategic Report, Report of the Directors and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial period. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws including FRS 101 Reduced Disclosure Framework). 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 Company and the Group 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 have been followed, subject to any material departures disclosed and explained in the consolidated financial statements;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Company financial statements; and
- Prepare the financial statement on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Provision of information to auditor

Each of the persons who are Directors at the time when this Directors' Report is approved has confirmed that:

- So far as that Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- That Director has taken all steps that ought to have been taken as a Director in order to be aware of any information needed by the Company's auditor in connection with preparing its report and to establish that the Company's auditor is aware of that information.

Auditor

The auditor, Grant Thornton UK LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

Annual General Meeting

The notice convening the Annual General Meeting (the "AGM") is set out on pages 74 to 76. Resolutions 1 to 7 set out in the notice of the meeting deal with the ordinary business to be transacted at the meeting. The special business to be transacted at the meeting is set out in resolutions 8 and 9.

Resolutions 1, 2, 3, 4, 5, 6, 7 and 8 are being proposed as ordinary resolutions (and therefore need the approval of a simple majority of those shareholders who are present and voting in person or by proxy at the AGM) and resolution 9 is being proposed as a special resolution (and therefore needs the approval of at least 75% of those shareholders who are present and voting in person or by proxy at the AGM).

Presentation of the Company's annual accounts (Resolution 1)

Resolution 1 deals with the adoption of the annual accounts for the financial year ending 31 December 2016.

Re-election of Directors (Resolutions 2 to 5)

In accordance with corporate governance best practice, the Board has decided that all the Directors shall retire and submit themselves for re-election at the AGM.

Information about the Directors is set out in pages 16 and 17.

Re-appointment and remuneration of auditors (Resolution 6)

Resolution 6 proposes the re-appointment of Grant Thornton UK LLP as auditors of the Company and authorises the Directors to set the auditor's remuneration.

Declaration of dividend (Resolution 7)

The Directors are recommending a final dividend for the financial year ended 31 December 2016 of 7.09p per Ordinary Share which requires approval by shareholders.

Authority to allot shares (Resolution 8)

Under section 551 of the Companies Act 2006 (the "CA 2006"), the Directors may only allot shares or grant rights to subscribe for or convert any securities into shares if authorised by shareholders to do so.

Resolution 8, which complies with guidance issued by the Investment Association, will, if passed, authorise the Directors to allot Ordinary Shares or grant rights to subscribe for or convert any securities into Ordinary Shares, up to an aggregate nominal value of £264,827 (corresponding to approximately one-third of the issued share capital at 7 April 2017) and up to an additional aggregate nominal value of £529,655 (corresponding to approximately two-thirds of the issued share capital at 7 April 2017) in the case of allotments only in connection with a fully pre-emptive rights issue. The Directors have no present intention to exercise the authority sought under this resolution. However, the Directors may consider doing so if they believe it would be appropriate in respect of business opportunities that may arise consistent with the Company's strategic objectives.

This authority will expire no later than 15 months after the passing of this resolution. It is the Board's current intention to seek renewal of such authority at each future Annual General Meeting of the Company.

As at 7 April 2017, the Company does not hold any shares in the Company in treasury.

Directors' report for the year ended 31 December 2016 continued

Disapplication of pre-emption rights (Resolution 9)

Section 561(1) of the CA 2006 requires that on an allotment of new shares for cash, such shares are offered first to existing shareholders in proportion to the number of shares that they each hold at that time.

Resolution 9 is a special resolution to renew the Directors' authority to allot shares for cash without first offering them to existing shareholders on a pro-rata basis. Although there is currently no intention to make use of this authority, the Directors consider that it is in the interests of the Company, in certain circumstances, for the Directors to have limited flexibility so as to be able to allot shares without having first to offer them to existing shareholders.

The authority sought is limited, other than in relation to any rights issue, open offer or other pre-emptive issue, to shares having an aggregate nominal value of £79,448 corresponding to 10% of the issued share capital of the Company at 7 April 2017. This figure of 10% reflects the Pre-Emption Group 2015 Statement of Principles for the disapplication of pre-emption rights (the "Statement of Principles"). The Statement of Principles were revised in early 2015 to allow the authority for an issue of shares otherwise than in connection with a pre-emptive offer to be increased from 5% to 10% of a company's issued ordinary share capital, provided that the company confirms that it intends to use the additional 5% authority only in connection with one or more acquisitions or specified capital investments. In relation to any exercise of this authority, the Directors will have due regard to the Statement of Principles, which allow the Company in any one year to issue non-pre-emptively for cash an amount equal to 5% of the Company's issued share capital for any purpose and an additional amount equal to 5% of the Company's issued share capital in connection only with one or more acquisitions or specified capital investments. The Board confirms that the additional 5% authority will only be used in connection with an acquisition or specified capital investment which is announced contemporaneously with the issue, or which has taken place in the preceding six-month period and is disclosed in the announcement of the issue.

The Directors will also have regard to the guidance in the Statement of Principles concerning cumulative usage of authorities within a three-year period. Accordingly the Board also confirms that it does not intend to issue shares for cash representing more than 7.5% of the Company's issued Ordinary Share capital in any rolling three-year period other than to existing shareholders, save as permitted in connection with an acquisition or specified capital investment as described above, without prior consultation with shareholders.

This authority will expire no later than 15 months after the passing of this resolution. It is the Board's current intention to seek renewal of such authority at each future Annual General Meeting of the Company.

This report was approved by the Board and signed on its behalf.

Mr S B Fenby

Director

13 March 2017

Company registration number: 08793266

Independent auditor's report to the members of Midwich Group Plc

We have audited the Group financial statements of Midwich Group Plc for the year ended 31 December 2016 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated statement of cash flows, the nature of operations, the principal accounting policies and the related notes. 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.

This report 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 Directors' Responsibilities Statement set out on page 26, the Directors are responsible for the preparation of the Group 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 Group 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

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

Opinion on financial statements

In our opinion:

- The financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2016 and of the Group's profit for the year then ended;
- The financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; 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, based on the work undertaken during the course of the audit:

- The information given in the Strategic Report and the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements; and
- The Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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:

- 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.

Other matter

We have reported separately on the Parent Company financial statements of Midwich Group Plc for the year ended 31 December 2016.

Alison Seekings

Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP,
Statutory Auditor, Chartered Accountants
Cambridge

13 March 2017

Consolidated income statement

For the year ended 31 December 2016

	Notes	2016 £000	2015 £000
Revenue	2	370,142	314,283
Cost of sales		(313,681)	(267,322)
Gross profit		56,461	46,961
Distribution costs		(35,520)	(30,037)
Total administrative expenses	5	(9,234)	(6,751)
Other operating income	3	2,780	2,468
Operating profit	4	14,487	12,641
<i>Comprising</i>			
Adjusted operating profit		18,542	15,168
Costs of flotation	5	(1,041)	–
Costs of acquisitions	5	(259)	(54)
Share-based payments		(75)	–
Amortisation		(2,680)	(2,473)
		14,487	12,641
Finance income		1	4
Finance costs	7	(2,386)	(4,087)
Profit before taxation		12,102	8,558
Taxation	8	(3,542)	(2,746)
Profit after taxation		8,560	5,812
Profit for the financial year attributable to:			
The Company's equity shareholders		8,216	5,005
Non-controlling interest		344	807
		8,560	5,812
Basic earnings per share	9	10.92p	7.14p
Diluted earnings per share	9	10.91p	7.14p

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2016

	2016 £000	2015 £000
Profit for the financial year	8,216	5,005
Other comprehensive income – items that may subsequently be reclassified to profit/loss:		
Foreign exchange gains/(losses) on consolidation	1,707	(785)
Other comprehensive income for the financial year, net of tax	1,707	(785)
Total comprehensive income for the financial year attributable to the Company's equity shareholders	9,923	4,220
Total comprehensive income for the financial year attributable to non-controlling interests	344	807
Total comprehensive income for the financial year	10,267	5,027

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated balance sheet

As at 31 December 2016

	Notes	2016 £000	2015 £000
Assets			
Non-current assets			
Goodwill	11	4,557	3,303
Intangible assets	12	18,820	19,520
Property, plant and equipment	13	5,035	3,653
		28,412	26,476
Current assets			
Inventories	14	48,142	37,849
Trade and other receivables	15	52,545	42,707
Cash and cash equivalents	16	20,164	18,102
		120,851	98,658
Current liabilities			
Trade and other payables	17	(58,299)	(52,692)
Financial instruments	18	(698)	(6,094)
Deferred consideration	19	(1,554)	–
Borrowings	20	(35,131)	(41,968)
Current tax	8	(2,062)	(2,264)
		(97,774)	(103,018)
Net current assets		23,107	(4,360)
Total assets less current liabilities		51,519	22,116
Non-current liabilities			
Financial instruments	18	(1,441)	–
Deferred consideration	19	(72)	–
Borrowings	20	–	(5,908)
Finance lease payables	24	–	(166)
Deferred tax	8	(3,414)	(3,664)
		(4,927)	(9,738)
Net assets		46,592	12,378
Equity			
Share capital	27	794	1,398
Share premium	27	25,855	–
Share-based payment reserve		84	–
Investment in own shares		(5)	(1,000)
Retained earnings		19,765	8,652
Translation reserve		717	(990)
Put option reserve		(1,770)	(1,735)
Capital redemption reserve		50	50
Other reserve		150	1,145
Equity attributable to owners of the Parent		45,640	7,520
Non-controlling interests		952	4,858
Total equity		46,592	12,378

The financial statements were approved by the Board of Directors and authorised for issue on 13 March 2017 and were signed on its behalf by:

Mr S B Fenby

Director

Company registration number: 08793266

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2016

For the year ended 31 December 2016

	Share capital £000	Share premium £000	Investment in own shares £000	Share- based payment reserve £'000	Retained earnings £000	Translation reserve £000	Put option reserve £000	Capital redemption reserve £000	Other reserve £000	Equity attributable to owners of the Parent £000	Non- controlling interests £000	Total £000
Balance at												
31 December 2015	1,398	-	(1,000)	-	8,652	(990)	(1,735)	50	1,145	7,520	4,858	12,378
Profit for the year	-	-	-	-	8,216	-	-	-	-	8,216	344	8,560
Other comprehensive income	-	-	-	-	-	1,707	-	-	-	1,707	-	1,707
Total comprehensive income for the year	-	-	-	-	8,216	1,707	-	-	-	9,923	344	10,267
Bonus share issue*	663	-	(5)	-	(663)	-	-	-	5	-	-	-
Share capital reduction*	(1,392)	-	1,000	-	1,392	-	-	-	(1,000)	-	-	-
Issue of shares*	125	26,647	-	-	-	-	-	-	-	26,772	-	26,772
Costs of share issue*	-	(792)	-	-	-	-	-	-	-	(792)	-	(792)
Acquisition of non-controlling interest (note 29)	-	-	-	-	3,378	-	1,735	-	-	5,113	(5,113)	-
Share-based payments	-	-	-	75	-	-	-	-	-	75	-	75
Deferred tax on share- based payments	-	-	-	9	-	-	-	-	-	9	-	9
Acquisition of subsidiary (note 30)	-	-	-	-	-	-	(1,770)	-	-	(1,770)	863	(907)
Dividends paid	-	-	-	-	(1,210)	-	-	-	-	(1,210)	-	(1,210)
Balance at												
31 December 2016	794	25,855	(5)	84	19,765	717	(1,770)	50	150	45,640	952	46,592

* See note 27

For the year ended 31 December 2015

	Share capital £000	Investment in own shares £000	Retained earnings £000	Translation reserve £000	Put option reserve £000	Capital redemption reserve £000	Other reserve £000	Equity attributable to owners of the Parent £000	Non- controlling interests £000	Total £000	
Balance at											
31 December 2014		1,449	(1,000)	4,707	(205)	(1,735)	-	1,145	4,361	4,051	8,412
Profit for the year	-	-	-	5,005	-	-	-	-	5,005	807	5,812
Other comprehensive income	-	-	-	-	(785)	-	-	-	(785)	-	(785)
Total comprehensive income for the year	-	-	-	5,005	(785)	-	-	-	4,220	807	5,027
Purchase of own shares	-	(51)	-	(1,060)	-	-	50	-	(1,061)	-	(1,061)
Balance at											
31 December 2015		1,398	(1,000)	8,652	(990)	(1,735)	50	1,145	7,520	4,858	12,378

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2016

	2016 £000	2015 £000
Cash outflow from operating activities		
Profit before tax	12,102	8,558
Depreciation	1,229	810
Amortisation	2,680	2,473
Gain on disposal of assets	183	(121)
Share-based payments	75	–
Foreign exchange (gains)/losses	216	(22)
Finance income	(1)	(4)
Finance costs	2,386	4,087
Adjusted profit from operations before changes in working capital	18,870	15,781
Increase in inventories	(8,447)	(1,265)
Increase in trade and other receivables	(5,887)	(3,168)
Increase in trade and other payables	3,367	9,104
Cash flow from operations	7,903	20,452
Income tax paid	(4,281)	(2,248)
Net cash inflow from operating activities	3,622	18,204
Cash flow from investing activities		
Acquisition of businesses	(3,276)	(2,170)
Cash acquired within business combination	367	686
Purchase of intangible assets	(186)	(64)
Purchase of plant and equipment	(2,278)	(1,261)
Proceeds on disposal of plant and equipment	546	449
Interest received	1	4
Net cash used in investing activities	(4,826)	(2,356)
Net cash flow from financing activities		
Acquisition of non-controlling interest	(7,454)	–
Deferred consideration paid	(11)	(1,422)
Issue of shares net of issue costs	25,980	–
Dividends paid	(1,210)	–
Invoice financing inflows	256	2,337
Purchase of own shares	–	(1,061)
Issue of loan to related party	(212)	–
Repayment received of related party loan	212	–
New loans	–	6,500
Repayment of loans	(13,696)	(13,052)
Interest paid	(657)	(1,683)
Interest on finance leases	(16)	(22)
Capital element of finance lease payments	(527)	(406)
Net cash inflow/(outflow) from financing activities	2,665	(8,809)
Net increase in cash and cash equivalents	1,461	7,039
Cash and cash equivalents at beginning of financial year	14,351	8,053
Exchange gain/(loss) on cash and cash equivalents	1,389	(741)
Cash and cash equivalents at end of financial year	17,201	14,351
Comprising:		
Cash at bank	20,164	18,102
Bank overdrafts	(2,963)	(3,751)
	17,201	14,351

The accompanying accounting policies and notes form an integral part of these financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

Nature of operations

The principal activity of Midwich Group Plc, a public limited liability company, and its subsidiary companies is the distribution of Audio Visual and Document Solutions to trade customers. It is registered in England and Wales. Midwich Group Plc's shares are listed on the London Stock Exchange's Alternative Investment Market ("AIM").

Principal accounting policies

Basis of preparation

The consolidated financial statements of Midwich Group Plc and its subsidiaries (together, "the Group") have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the EU, IFRIC interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

IFRS is subject to amendment and interpretation by the IASB and the IFRS Interpretations Committee, and there is an on-going process of review and endorsement by the European Commission. These accounting policies comply with each IFRS that is mandatory for accounting periods ending on 31 December 2016.

The financial statements have been prepared under the historical cost convention as modified for financial instruments at fair value and in accordance with applicable accounting standards.

The Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements.

Basis of consolidation

The consolidated financial statements incorporate the results of Midwich Group Plc ("the Company") and entities controlled by the Company (its subsidiaries).

A subsidiary is a company controlled directly by the Group. Control is achieved where the Group has the power over the investee, rights to variable returns and the ability to use the power to affect the investee's returns.

Income and expenses of subsidiaries acquired during the year are included in the consolidated income statement from the effective date of control. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Parent Company.

The Group applies the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognised amount of any non-controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognised in profit or loss immediately.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling shareholder's share of changes in equity since the date of the combination.

Non-controlling interests are measured initially at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

All intra-Group transactions, balances, income and expenses are eliminated in full on consolidation.

Acquisition of interests from non-controlling shareholders

Acquisitions of non-controlling interests in subsidiaries are accounted for as transactions between shareholders. There is no remeasurement to fair value of net assets acquired that were previously attributable to non-controlling shareholders.

Going concern

The Board takes all reasonable steps to review and consider any factors that may affect the ability of the Group to continue as a going concern. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group is able to generate sufficient liquidity to continue in operational existence for the foreseeable future. At the end of 2016 the Directors considered the working capital of the business to be adequate for its needs, and the Group therefore continues to adopt the going concern basis in preparing consolidated financial statements.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

Revenue recognition

Revenue comprises amounts recognised in respect of goods and services supplied during the period, exclusive of Value Added Tax and trade discounts.

Revenue from the sale of goods is recognised when goods are despatched. Revenue from rental products is recognised evenly over the rental period.

Some goods are held on behalf of customers and are not included within group inventory. The sale of these goods are recognised on isolation from stock for resale.

Promotional income is recognised on completion of the promotional activity in line with when it is contractually earned, and recorded separately in other operating income.

Finance income and costs

Interest income and expense is recognised using the effective interest method which calculates the amortised cost of a financial asset or liability and allocates the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability to the net carrying amount of the financial asset or liability.

Dividends on preference shares classified as debt are included as finance costs.

Other finance costs include the changes in fair value of financial derivatives.

Goodwill

Goodwill represents the future economic benefits arising from business combinations which are not individually identified and separately recognised.

Goodwill is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

Intangible assets other than goodwill

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any.

The useful lives of other intangible assets are assessed as finite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in administrative expenses.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Amortisation is calculated on a straight-line basis over the estimate useful life of the asset as follows:

Patent licences	5 years
Software	3 years
Brands	10 years
Customer relationships	5 – 10 years
Exclusive supplier contracts	5 – 10 years

Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation less any recognised impairment losses. Cost includes expenditure that is directly attributable to the acquisition or construction of these items. Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the costs can be measured reliably. All other costs, including repairs and maintenance costs, are charged to the income statement in the period in which they are incurred.

Depreciation is provided on all property, plant and equipment and is calculated on a straight-line basis as follows:

Freehold land and buildings	50 years
Leasehold improvements	Period of the lease
Plant and equipment (including rental assets)	3 – 5 years

Depreciation is provided on cost less residual value. The residual value, depreciation methods and useful lives are annually reassessed.

Each asset's estimated useful life has been assessed with regard to its own physical life limitations and to possible future variations in those assessments. Estimates of remaining useful lives are made on a regular basis for all machinery and equipment, with annual reassessments for major items. Changes in estimates are accounted for prospectively.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

The gain or loss arising on disposal or scrapping of an asset is determined as the difference between the sales proceeds, net of selling costs, and the carrying amount of the asset and is recognised in the income statement.

Impairment of non-financial assets including goodwill

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units that is expected to benefit from the synergies of the combination. Each unit to which goodwill is allocated represents the lowest level within the Group that independent cash flows are monitored.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired.

At each balance sheet date the Directors review the carrying amounts of the Group's non-current assets, other than goodwill, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where the asset does not generate cash flows that are independent from other assets, the Directors estimate the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit.

An impairment loss is recognised as an expense immediately.

An impairment loss recognised for goodwill is not reversed in subsequent periods.

Where an impairment loss on other non-financial assets subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash-generating unit in prior periods. A reversal of an impairment loss is recognised in the income statement immediately.

Inventory

Inventory is valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow-moving items.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of 3 months or less from inception.

Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Derivative financial instruments are accounted for at Fair Value Through Profit or Loss. All changes in an instrument's fair value are included in finance costs or finance income. The fair values are determined by reference to active markets or using a valuation technique where no active market exists.

Put and call options to acquire non-controlling interests of subsidiaries are stated originally at fair value and subsequently at amortised cost, being the present value of future payments discounted at the original effective interest rate. Details of the measurement of put and call options are given in the critical accounting judgements and key sources of estimation uncertainty accounting policy.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

Financial assets and financial liabilities are measured initially at fair value plus transaction costs. Financial assets and financial liabilities are measured subsequently as described below.

Financial assets

The Group classifies its financial assets as 'loans and receivables' and assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulty, high probability of bankruptcy or default are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The loss is recognised in the income statement. When a trade receivable is uncollectible, it is written-off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written-off are credited to the income statement.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

Financial liabilities

The Group's financial liabilities include trade and other payables, deferred consideration, borrowings and derivative financial instruments.

Borrowings include amounts advanced under invoice discounting facilities. Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classified as financial liabilities.

Preference shares not held by the employee benefit trust are classified as a financial liability, with fixed rate dividends accounted for as interest.

Trade and other payables and borrowings are recognised initially at fair value less transaction costs and subsequently measured at amortised cost using the effective interest method ("EIR" method).

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the income statement.

Loans and borrowings are classified as current liabilities unless the Group has an unconditional right to defer the settlement of the liability for at least 12 months after the balance sheet date.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Foreign currency

The presentation currency for the Group's consolidated financial statements is Sterling. Foreign currency transactions by Group companies are recorded in their functional currencies at the exchange rate at the date of the transaction. Monetary assets and liabilities have been translated at rates in effect at the balance sheet date, with any exchange adjustments being charged or credited to the income statement, within 'administrative expenses'.

The Parent Company's functional currency is Sterling. On consolidation the assets and liabilities of the subsidiaries with a functional currency other than Sterling are translated into the Group's presentational currency at the exchange rate at the balance sheet date and the income and expenditure account items are translated at the average rate for the period. The exchange difference arising on the translation from functional currency to presentational currency of subsidiaries is classified as other comprehensive income and is accumulated within equity as a translation reserve.

The balance of the foreign currency translation reserve relating to a subsidiary that is disposed of, or partially disposed of, is recognised in the income statement at the time of disposal.

Current taxation

Current tax payable or recoverable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because some items of income or expense are taxable or deductible in different years or may never be taxable or deductible. The Group's liability for current tax is calculated using UK and foreign tax rates and laws that have been enacted or substantively enacted by the end of reporting period date.

Deferred taxation

Deferred taxation is calculated using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. No deferred tax is recognised on initial recognition of goodwill or on investment in subsidiaries. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax liabilities are provided in full and are not discounted.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

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

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

Employment benefits

Provision is made in the financial statements for all employee benefits. Liabilities for wages and salaries, including non-monetary benefit and annual leave obliged to be settled within 12 months of the balance sheet date, are recognised in accruals.

Contributions to defined contribution pension plans are charged to the income statement in the period to which the contributions relate.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. The interest element of finance lease payments is charged to profit or loss as finance costs over the period of the lease. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Equity

Equity comprises the following:

- 'Share capital' represents the nominal value of equity shares issued.
- 'Share premium' represents amounts subscribed for share capital, net of issue costs, in excess of nominal value.
- 'Investment in own shares' represents amounts of the Parent Company's own shares held within an Employee Benefit Trust.
- 'Share-based payment reserve' represents the accumulated value of share-based payments expensed in the income statement.
- 'Retained earnings' represents the accumulated profits and losses attributable to equity shareholders.
- 'Translation reserve' represents the exchange differences arising from the translation of the financial statements of subsidiaries into the Group's presentational currency.
- 'Put option reserve' represents the fair value of written put and call options over shares in a subsidiary held by non-controlling interest shareholders accounted for as contracts over own shares.
- 'Capital redemption reserve' represents the nominal value of shares repurchased by the Parent Company.
- 'Other reserve' relate to the employee benefit trust.
- 'Non-controlling interest' represents the share of a subsidiary's profit or loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the owners of the Parent and the non-controlling interests based on their respective ownership interests.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

Share-based payments

Equity-settled share-based payments to employees and Directors are measured at the fair value of the equity instrument. The fair value of the equity-settled transactions with employees and Directors is recognised as an expense over the vesting period. The fair value of the equity instruments are determined at the date of grant, taking into account market-based vesting conditions. The fair value of goods and services received are measured by reference to the fair value of options.

The fair values of share options are measured using the Black Scholes model. The expected life used in the models is adjusted, based on management's best estimate of the effects of non-transferability, exercise restrictions and behavioural considerations.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees (or other beneficiaries) become fully entitled to the award ("the vesting date").

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied. Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Where an equity-settled award is forfeited, the cumulative charge expensed up to the date of forfeiture is credited to the income statement.

Employee benefit trust

The assets and liabilities of the employee benefit trust ("EBT") have been included in the Group and Company accounts. Any assets held by the EBT cease to be recognised on the Group balance sheet when the assets vest unconditionally in identified beneficiaries.

The costs of purchasing own shares held by the EBT are shown as a deduction within shareholders' equity. The proceeds from the sale of own shares are recognised in shareholders' equity. Neither the purchase nor sale of own shares leads to a gain or loss being recognised in the income statement.

Segment reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses related to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's Chief Operating Decision Maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Chief Operating Decision Maker has been identified as the Managing Director, at which level strategic decisions are made.

Details of the Group's reporting segments are provided in note 1.

New and amended International Financial Reporting Standards adopted by the Group

The Group has adopted the following standards, amendments to standards and interpretations which are effective for the first time this year. The impact is shown below:

New/revised International Financial Reporting Standards	Effective date: Annual periods beginning on or after:	EU adopted	Impact on the Group	
Annual Improvements to IFRSs (2012 – 2014 Cycle)	1 January 2016	Yes	These amendments clarify the requirements of IFRSs and eliminate inconsistencies within and between standards	
IAS 1	Disclosure Initiative – Amendments	1 January 2016	Yes	Disclosures

International Financial Reporting Standards in issue but not yet effective

At the date of authorisation of the consolidated financial statements, the IASB and IFRS Interpretations Committee have issued standards, interpretations and amendments which are applicable to the Group.

Whilst these standards and interpretations are not effective for, and have not been applied in the preparation of these consolidated financial statements, the following may have an impact going forward:

New/revised International Financial Reporting Standards		Effective date: Annual periods beginning on or after:	EU adopted	Impact on the Group*
IFRS 9	Financial Instruments: Classification and Measurement	1 January 2018	Yes	Classification and measurement of financial instruments
IFRS 15	Revenue from Contracts with Customers	1 January 2018	Yes	Recognition of revenue
IFRS 16	Leases	1 January 2019	No	Measurement and recognition of leases

* Based on the current business model and accounting policies, management does not expect material impact on the financial information when the standards become effective, except for IFRS 16. The Group is considering the implementation implications. The Group does not expect IFRS 15 to have a material impact on the business as the key principles have already been adhered to within the current revenue recognition policy.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with generally accepted accounting practice requires management to make estimates and judgements that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Assumptions and accounting estimates are subject to regular review. Any revisions required to accounting estimates are recognised in the period in which the revisions are made including all future periods affected.

The following are the significant estimates used in applying the accounting policies of the Group that have the most significant effect on the financial statements:

- Impairment review requires judgement with respect to the discount rate, growth rates and components of forecast cash flows.
- Payments in respect of tax liabilities for an accounting period comprise payments on account and payments on final resolution of open items with tax authorities and as a result there can be significant differences between the charge in the income statement and the cash tax payments made.
- Judgement is required in assessing whether a lease is an operating lease or a finance lease, to determine whether or not substantially all the risks and rewards of ownership of the leased asset are held by the Group. Since finance lease obligations are recognised as liabilities and operating lease obligations are not this may have an effect on the reported financial position of the Group.

The following are the significant judgements made by the Group in preparing the financial statements:

Fair value of intangibles recognised in business combinations

Management uses valuation techniques when determining the fair value of assets transferred and liabilities acquired in business combinations which includes estimates to determine the valuation of separable intangibles. Valuation models used are based on acknowledged industry approach and, where appropriate, external market data.

Put and call option

Until 2016, the Group has had a symmetrical put and call option over the non-controlling interest held by local management in Kern & Stelly Medientechnik GmbH, which was extinguished as a result of the acquisition of the non-controlling interest during 2016.

As a result of the acquisition of Holdan Limited during 2016, the Group has a second symmetrical put and call option over the non-controlling interest held by local management in that company.

For both, the call option is required to be accounted for as a contract over own shares. The liability is recorded at the present value of the redemption amount and is accounted for as a separate component in equity on the basis that the Group does not consider it currently holds the risks and rewards associated with the ownership of these shares.

Determination of share-based payment costs

The determination of these costs is based on financial models. The inputs to these models are based on the Directors' judgements and estimates and are not capable of being determined with precision.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

1. Segmental reporting

Operating segments

For the purposes of segmental reporting, the Group's Chief Operating Decision Maker ("CODM") is considered to be the Managing Director. The Group is a distributor of audio visual ("AV") hardware and document solutions to trade customers. The Board reviews attributable revenue, expenses, assets and liabilities by geographic region and makes decisions about resources and assesses performance based on this information.

The Group's operating segments are therefore considered geographic in nature and align to subsidiaries/subsidiary groups.

2016 £000	UK & Ireland	France	Germany	Australasia	Total
Revenue	246,972	33,414	64,258	25,498	370,142
Gross profit	39,319	4,526	8,495	4,121	56,461
Gross profit %	15.9%	13.5%	13.2%	16.2%	15.3%
Adjusted operating profit	12,001	1,059	3,881	1,601	18,542
Costs of flotation	(1,041)	-	-	-	(1,041)
Costs of acquisitions	(247)	-	-	(12)	(259)
Share-based payments	(75)	-	-	-	(75)
Amortisation	(2,230)	(33)	(390)	(27)	(2,680)
Operating profit	8,408	1,026	3,491	1,562	14,487
Interest	-	-	-	-	(2,385)
Profit before tax	-	-	-	-	12,102
Segment assets	109,614	11,303	19,634	8,712	149,263
Segment liabilities	(80,498)	(9,878)	(6,548)	(5,747)	(102,671)
Depreciation and amortisation	3,197	139	425	148	3,909
			UK	ROW	Total
Non-current assets			22,129	6,283	28,412

2015 £000	UK & Ireland	France	Germany	Australasia	Total
Revenue	221,435	23,981	51,013	17,854	314,283
Gross profit	34,745	3,301	6,366	2,549	46,961
Gross profit %	15.7%	13.8%	12.5%	14.3%	14.9%
Adjusted operating profit	11,050	520	2,885	713	15,168
Costs of flotation	-	-	-	-	-
Costs of acquisitions	(54)	-	-	-	(54)
Share-based payments	-	-	-	-	-
Amortisation	(2,052)	(31)	(380)	(10)	(2,473)
Operating profit	8,944	489	2,505	703	12,641
Interest	-	-	-	-	(4,083)
Profit before tax	-	-	-	-	8,558
Segment assets	95,732	7,544	16,824	5,034	125,134
Segment liabilities	(94,255)	(7,056)	(7,118)	(4,327)	(112,756)
Depreciation and amortisation	2,760	95	389	39	3,283
			UK	ROW	Total
Non-current assets			20,122	6,354	26,476

Revenue from the UK, being the Parent Company of domicile, amounted to:

	2016 £000	2015 £000
UK	230,524	207,164

Segment revenues above are generated from external customers. The accounting policies of the reportable segments have been consistently applied. Segment profit represents the operating profit by each segment after amortisation of intangibles arising on consolidation.

Intersegment sales during the year were as follows:

2016	Selling segment £000			
	UK & Ireland	France	Germany	Australasia
Buying segment:				
UK & Ireland	–	371	–	–
France	222	–	–	–
Germany	150	–	–	–
Australasia	–	–	–	–
2015	Selling segment £000			
Buying segment:	UK & Ireland	France	Germany	Australasia
UK & Ireland	–	–	–	1,821
France	–	–	–	–
Germany	174	–	–	–
Australasia	–	–	–	–

Information about major customers

2016

Included in revenues arising in 2016 are revenues of £8.94 million that arose from sales to the Group's largest customer, which is based in Germany. No other single customers contributed 10% or more to the Group's revenue in any period presented.

2015

Included in revenues arising in 2015 are revenues of £7.74 million that arose from sales to the Group's largest customer, which is based in Germany. No other single customers contributed 10% or more to the Group's revenue in any period presented.

2. Revenue

Revenue is all derived from continuing operations. The analysis of revenue by category:

	2016 £000	2015 £000
Sale of goods	368,158	312,719
Rental of goods	1,984	1,564
	370,142	314,283

3. Other operating income

	2016 £000	2015 £000
Promotional receipts	2,324	2,264
Other income	456	204
	2,780	2,468

4. Operating profit

	2016 £000	2015 £000
Operating profit is stated after charging/(crediting):		
Depreciation of property, plant and equipment		
– owned assets	1,162	624
– assets held under finance lease	67	186
Amortisation of intangible fixed assets	2,680	2,473
Auditor's remuneration:		
– audit service in relation to the Company	31	20
– audit services in relation to the subsidiaries	61	40
– audit services relating to interim review	11	–
– tax compliance services	10	9
– services related to corporate finance	203	–
Difference on foreign exchange	216	(22)
Operating lease costs		
– building	731	548
– motor vehicles	300	265

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

5. Administrative expenses

Administrative expenses in the period includes £1,041,000 of expenses incurred pertaining to the admission of the company to the AIM Market and £259,000 of acquisition related costs (£54,000 in 2015).

6. Directors and employees

The aggregate payroll costs of the employees were as follows:

	2016 £000	2015 £000
Staff costs		
Wages and salaries	19,679	16,782
Social security costs	2,362	2,050
Pension costs	623	532
	22,664	19,364

6. Directors and employees continued

Average monthly number of persons, including Directors, employed by the Group during the year was as follows:

	2016 Number	2015 Number
By activity:		
Administration	118	112
Sales and distribution	405	350
	523	462

	2016 £000	2015 £000
Remuneration of Directors		
Remuneration	638	378
Company pension contribution to defined contribution schemes	21	14
	659	392

Mr A Bailey was appointed as a Director on 15 December 2015. His salary is included in Directors' remuneration from that date onwards.

	2016 £000	2015 £000
Emoluments of highest paid Director		
Remuneration	308	281
Company pension contribution to defined contribution schemes	12	12
	320	293

Retirement benefits were accruing to 2 Directors under a money purchase pension scheme (2015 – 2).

No Directors currently participate in either the LTIP or the SIP share-based payment schemes.

Details of key management personnel and their remuneration is disclosed within note 31.

7. Finance costs

	2016 £000	2015 £000
Interest on overdraft and invoice discounting	604	568
Interest on finance leases	27	22
Dividend on preference shares treated as borrowings	(14)	61
Interest on other loans	40	448
Interest, foreign exchange and other finance costs of put option liability	1,729	2,988
	2,386	4,087

8. Taxation on ordinary activities

Analysis of charge in the year

	2016 £000	2015 £000
UK corporation tax	2,013	1,965
Overseas tax	2,056	1,268
Current tax	4,069	3,233
Deferred tax	(527)	(487)
Tax on profit on ordinary activities	3,542	2,746

The reasons for the differences between the actual tax charge for the year and the standard rate of corporation tax in the United Kingdom applied to profits/(losses) for the year are as follows:

Reconciliation of the effective tax charge

	2016 £000	2015 £000
Profit on ordinary activities before taxation	12,102	8,558
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK (2016 – 20%; 2015 – 20.25%)	2,420	1,733
Factors affecting tax expense for the year:		
Expenses not deductible for tax purposes	602	739
Deferred tax not provided	–	(83)
Adjustments for tax rate differences in foreign jurisdictions	520	357
Total amount of tax	3,542	2,746

The main UK Corporation tax rate from 1 April 2014 of 21% was reduced to 20% from 1 April 2015, resulting in an effective corporation tax rate of 20.25% for 2015 and 20% for 2016.

A number of changes to the UK Corporation tax system were announced in 2015. The Finance Act (No 2) 2015 includes legislation reducing the main rate of corporation tax from 20% to 19% from 1 April 2017 and further reducing the main rate of corporation tax from 19% to 18% from 1 April 2020. Legislation in 2016 has further reduced the main rate of UK corporation tax to 17% from 1 April 2020 onwards.

Current tax liability

	2016 £000	2015 £000
	2,062	2,264

Deferred tax

Analysis of recognised deferred tax balances:

	2016 £000	2015 £000
Opening balance	3,664	4,101
– Arising on acquisitions in the period	297	50
– Origination and reversal of temporary differences	(547)	(487)
Deferred tax liability – closing balance at 31 December	3,414	3,664
Deferred tax arising on acquisition of intangibles	3,635	3,859
Deferred tax arising from temporary differences	(221)	(195)
	3,414	3,664

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

9. Earnings per share

Basic earnings per share is based on the profit after tax for the year and the weighted average number of shares in issue during the year. Preference shares are non-participating and therefore excluded.

	2016	2015
Profit attributable to equity holders of the Group (£000)	8,216	5,005
Weighted average number of shares in issue*	75,247,380	70,070,235
Basic earnings per share	10.92p	7.14p

* The weighted average number of shares for the purpose of earnings per share has been based on the assumed number of shares as if the bonus issue on 6 May 2016 had occurred at the beginning of the earliest period presented.

Diluted earnings per share is calculated by adjusting the average number of shares in issue during the period to assume conversion of all dilutive potential Ordinary Shares. The Group had no potentially dilutive shares in 2015. Diluted earnings per share is therefore the same as basic earnings per share in that financial year.

Taking the Group's LTIP's into consideration in respect of the Group's weighted average number of Ordinary Shares for the purposes of diluted earnings per share, is as follows:

	2016	2015
Number of shares		
Dilutive (potential dilutive) effect of share options	93,852	–
Weighted average number of Ordinary Shares for the purposes of diluted earnings per share	75,341,232	70,070,235
Diluted earnings per share	10.91p	7.14p

10. Subsidiaries

Details of the Group's subsidiaries are as follows:

Name of subsidiary	Principal activity	Place of incorporation and operation	% ownership held by the Group	
			2016	2015
Midwich Limited	Distribution of audio visual products to trade customers	England	100%	100%
Invision UK Ltd*	Distribution of audio visual products to trade customers	England	100%	100%
Square One Distribution Limited*	Distribution of audio visual products to trade customers	Republic of Ireland	100%	100%
Sidev SAS*	Distribution of audio visual products to trade customers	France	100%	100%
True Colours Distribution Limited*	Dormant company	England	100%	100%
Midwich Australia Pty Limited*	Distribution of audio visual products to trade customers	Australia	100%	100%
Midwich NZ Limited**	Distribution of audio visual products to trade customers	New Zealand	100%	100%
Kern & Stelly Medientechnik GmbH*	Distribution of audio visual products to trade customers	Germany	100%	51%
PSCo Limited***	Distribution and rental of audio visual products to trade customers	England	100%	100%
	Dormant company as at 31 December 2016 further to hive up of trade during the year to Midwich Limited.			
PSCo Rentals Limited***	Dormant company	England	100%	100%
PSCo Group Limited*	Dormant company	England	100%	100%
Yellowglade Limited***	Dormant company	England	100%	100%
Holdan Limited*	Distribution of audio visual products to trade customers	England	79%	–

* Investments held indirectly by Midwich Limited

** Investments held indirectly by Midwich Australia Pty Limited

*** Investments held indirectly by PSCo Group Limited

Subsidiaries previously held by the Group have been dissolved as follows:

Name of subsidiary	Principal activity	Date dissolved	Place of incorporation and operation	% ownership held by the Group	
				2016	2015
M&R 320 Limited	Non-trading holding company	7 June 2016	England	–	100%
Nearly New Limited***	Dormant company	26 July 2016	England	–	100%
AV Couriers Limited***	Dormant company	19 January 2016	England	–	100%

*** Investments held indirectly by PSCo Group Limited

11. Goodwill

£000

Cost

At 1 January 2015	3,005
On acquisition of PSCo Group	298
At 31 December 2015	3,303
On acquisition of Holdan Limited	1,254
At 31 December 2016	4,557

Allocation of goodwill to cash-generating units

All of the Group's carrying amount of goodwill is allocated across the cash-generating units ("CGUs") as determined by management as follows:

	2016 £000	2015 £000
Midwich Limited*	1,947	1,947
Invision Ltd	299	299
Square One Distribution Ltd	362	362
Sidev SAS	166	166
Midwich Australia Group	122	122
Kern & Stelly Medientechnik GmbH	407	407
Holdan Limited	1,254	-
	4,557	3,303

* PSCo, which was previously treated as a separate CGU, has been included in The Midwich Group CGU following the incorporation of the PSCo business into The Midwich Group to maximise business synergies and efficiencies. The comparative information presented for The Midwich Group has therefore also been adjusted to incorporate the PSCo goodwill balance for the comparative period of £298,000.

The recoverable amounts of the CGUs have been determined from value in use calculations based on cash flow projections from a formally approved 12 month forecast which has been extrapolated out over a 5-year period, which is considered by management to be an appropriate projection period for the impairment review of non-amortised assets, having also given consideration to the amortisation periods determined for the acquired intangible assets.

Other major assumptions are as follows:

Impairment review date	2016 %	2015 %
Discount rate	10.05	9.42
Annual growth assumptions used to extrapolate 1-year budget forecast: - 2-5 years	1.0	1.0

The 12-month forecast data is based on the most recent annual financial statements uplifted for management's best estimates of reasonable growth targets for the subsequent 12-month period.

Management's key assumption includes stable profit margins based on past experience in the market.

Discount rates are based on management's assessment of specific risks related to the CGU. Growth rates beyond the first year to year 5 are based on economic data for the wider economy, and represent a prudent expectation of growth.

The recoverable amounts for the Group's CGUs exceed their carrying amounts by the following amounts in each year assessed:

Amount by which recoverable amount exceeds carrying amount:

	2016 £000	2015 £000
Midwich Limited*	26,312	28,489
Invision Ltd	2,235	2,012
Square One Distribution Ltd	5,628	2,152
Sidev SAS	5,777	2,748
Midwich Australia Group	12,550	2,999
Kern & Stelly Medientechnik GmbH	16,993	7,357
Holdan Limited	3,631	-

The Directors believe that any reasonable possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount for any of the cash-generating units.

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For the year ended 31 December 2016

12. Intangible assets

	Patents £000	Software £000	Brands £000	Customer relationships £000	Exclusive supplier contract £000	Total £000
Cost						
At 1 January 2015	26	103	3,500	19,600	–	23,229
On acquisition	–	3	100	85	874	1,062
Additions	–	64	–	–	–	64
Foreign exchange differences	–	(5)	–	–	–	(5)
At 31 December 2015	26	165	3,600	19,685	874	24,350
On acquisition	–	–	–	917	856	1,773
Additions	–	186	–	–	–	186
Disposals	–	(81)	–	–	–	(81)
Foreign exchange differences	–	14	–	–	15	29
At 31 December 2016	26	284	3,600	20,602	1,745	26,257
Amortisation						
At 1 January 2015	2	48	350	1,960	–	2,360
Charge for year	2	36	357	1,962	116	2,473
Foreign exchange differences	–	(3)	–	–	–	(3)
At 31 December 2015	4	81	707	3,922	116	4,830
Charge for year	2	72	360	2,026	220	2,680
Disposals	–	(81)	–	–	–	(81)
Foreign exchange differences	–	8	–	–	–	8
At 31 December 2016	6	80	1,067	5,948	336	7,437
Net book value						
At 31 December 2016	20	204	2,533	14,654	1,409	18,820
At 31 December 2015	22	84	2,893	15,763	758	19,520

Amortisation is included within administrative expenses. The remaining amortisation period of brands and customer relationships at 31 December 2016 is 6.92 years (2015 – 8.04 years).

13. Property, plant and equipment

	Freehold land and buildings £000	Leasehold improvements £000	Rental assets £000	Plant and equipment £000	Total £000
Cost					
At 1 January 2015	1,266	174	-	1,026	2,466
Additions on acquisition	-	28	992	146	1,166
Additions	1	97	862	637	1,597
Disposals	-	-	(659)	(38)	(697)
Foreign exchange differences	-	(2)	-	(53)	(55)
At 31 December 2015	1,267	297	1,195	1,718	4,477
Additions on acquisition	686	-	-	296	982
Additions	842	73	737	626	2,278
Disposals	-	-	(997)	(484)	(1,481)
Foreign exchange differences	-	20	-	146	166
At 31 December 2016	2,795	390	935	2,302	6,422
Depreciation					
At 1 January 2015	25	6	-	386	417
Charge for year	24	23	404	359	810
Disposals	-	-	(347)	(24)	(371)
Foreign exchange differences	-	(1)	-	(31)	(32)
At 31 December 2015	49	28	57	690	824
Charge for year	30	38	608	553	1,229
Disposals	-	-	(514)	(238)	(752)
Foreign exchange differences	-	5	-	81	86
At 31 December 2016	79	71	151	1,086	1,387
Net book value					
At 31 December 2016	2,716	319	784	1,216	5,035
At 31 December 2015	1,218	269	1,138	1,028	3,653

Depreciation is included within administrative expenses.

Included in freehold land & buildings is land at £127,000 that is not depreciated.

Included within the net book values above are amounts relating to assets held under finance leases:

	2016 £000	2015 £000
Rental assets	85	342

The depreciation charged to the financial statements in each year in respect of such assets amounted to:

	2016 £000	2015 £000
Rental assets	67	186

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For the year ended 31 December 2016

14. Inventories

	2016 £000	2015 £000
Finished goods for resale	48,142	37,849
	48,142	37,849
Amounts of inventories recognised as an expense during the period as cost of sales (gross of vendor rebates)	319,985	274,084
Amounts of inventories impaired/(written back) during the period	685	256

15. Trade and other receivables

	2016 £000	2015 £000
Trade receivables	50,669	41,236
Other receivables	294	–
Prepayments and accrued income	1,582	1,471
	52,545	42,707

Trade receivables includes an amount of £31,911,000 (2015 – £30,682,000) which is subject to a receivables financing agreement.

The Directors consider the carrying value of trade and other receivables is approximate to its fair value.

All of the Group's trade and other receivables have been reviewed for indicators of impairment. The Group suffers a small incidence of credit losses. However, where management views that there is a significant risk of non-payment, a specific provision for impairment is made and recognised as a deduction from trade receivables.

	2016 £000	2015 £000
Impairment provision at 1 January	671	872
Release of impairment provision against written-off receivables	(245)	(675)
New impairment provision in the year	343	503
Foreign exchange variance	22	(29)
Impairment provision at 31 December	791	671

The amount of trade receivables past due but not impaired at each balance sheet date is as follows:

	2016 £000	2015 £000
Trade receivables past due but not impaired at 31 December	896	634

16. Cash and cash equivalents

	2016 £000	2015 £000
Cash at bank (GBP)	9,525	10,597
Cash at bank (EUR)	9,942	6,753
Cash at bank (USD)	506	381
Cash at bank (AUS \$)	85	350
Cash at bank (NZ \$)	106	21
	20,164	18,102

All significant cash and cash equivalents were deposited with major clearing banks with at least an 'A' rating.

17. Trade and other payables

Amounts falling due within one year:

	2016 £000	2015 £000
Trade payables	46,034	43,430
Other taxation and social security	6,403	4,411
Other payables	565	617
Finance lease payables (note 24)	65	442
Accruals	5,232	3,792
	58,299	52,692

18. Put option liability

	2016 £000	2015 £000
Current	698	6,094
Non-current	1,441	–
Put option liability (see note 21)	2,139	6,094

Until 2016, the Group has been party to a symmetrical put and call option to acquire the remaining non-controlling interest of 49% in Kern & Stelly Medientechnik GmbH. This put and call option was extinguished during the year on the acquisition of the non-controlling interest in May 2016.

During the year, on the acquisition of Holdan Limited, the Group has become party to a new symmetrical put and call option to acquire the remaining non-controlling interest of 21% in that company.

The option may be exercised at any of the following points:

- The first point is 12-months post completion (September 2017) when the shares can be purchased for a fixed price.
- The second is after 3 years when the shares can be bought for a price which is linked to the EBIT growth of the business over the previous 3 years.
- The third is on every anniversary of the second point and uses the same mechanism.

The option has been valued based on the latest assumptions in respect of exercise date and most recent forecast profit forecasts for Holdan. A discount factor of 10.1%, the WACC for The Midwich Group, has been applied.

The classification between current and non-current liabilities is based on management's best estimates of when the options will be exercised.

19. Deferred & contingent consideration

	2016 £000	2015 £000
Current:		
– Deferred consideration	1,499	–
– Deferred contingent consideration	55	–
Non-current: deferred contingent consideration	72	–
	1,626	–

The Group previously had a liability for deferred consideration in relation to amounts due on the initial acquisition of the interest in Kern & Stelly Medientechnik GmbH. The payment was settled in September 2015.

During the year, the Group acquired Holdan Limited and the trade and assets of Wired Limited (see note 30). Deferred consideration in relation to both of these acquisitions is due to be settled within one year. The Group is liable, without condition, for £1.5 million for the current equity interest held in Holdan, bringing the total sum paid for the current equity interest to £4.5 million. This balance is payable in September 2017.

The Group is also liable for a maximum of NZ\$250,000 in equal quarterly instalments until July 2019 in the event of Wired Ltd achieving certain quarterly gross profit targets over the period. In addition, in the event a quarter's target is not achieved, the consideration will still be paid at the end of the given year if the annual target for the relevant year is achieved.

The liability is fully provided for less the first NZ\$20,000 instalment which was paid in 2016. It has been fully provided for on the assumption the targets will be achieved in full. Of the balance outstanding, NZ\$80,000 is payable in 2017 and the balance of NZ\$150,000 in 2018 and 2019.

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20. Borrowings

	2016 £000	2015 £000
Secured – at amortised cost		
– Bank overdrafts and invoice discounting	34,874	34,433
– Bank loans	257	6,500
	35,131	40,933
Unsecured – at amortised cost		
– Unsecured loan notes	–	3,756
– Preference shares classified as liabilities	–	3,187
	–	6,943
Current	35,131	41,968
Non-current	–	5,908
	35,131	47,876

Summary of borrowing arrangements

The Group has invoice discounting facilities which comprised £31,911,000 at the end of 2016 (2015 – £30,682,000). The facilities comprise fully revolving receivables financing agreements secured on the underlying receivables that revolves on a monthly basis and have no fixed repayment date. Included within these facilities in 2016 is an invoice discounting facility acquired as part of the acquisition of Holdan Limited, which had a liability at 31 December 2016 of £1,637,000.

The Group has an overdraft facility which comprised £2,963,000 at the end of 2016 (2015 – £3,751,000). The facility is uncommitted and secured with fixed and floating charges over the assets of the Group.

The Group previously had a bank loan of £6.5 million with a fixed quarterly repayment schedule ending in April 2017. The facility is secured with fixed and floating charges over the assets of the Group. This was repaid in full during the year.

The liability for a bank loan was acquired as part of the acquisition of Holdan Limited. The balance of which was £257,000 at 31 December 2016.

In December 2013, the Group issued £19,752,000 of unsecured loan notes bearing 3.5% interest and with fixed repayment schedule dates ending in April 2019 to fund the acquisition of M&R 320 Limited. During 2014 £3,000,000 of this was repaid as scheduled. In 2015 – £13,052,333 was repaid. This included full and early settlement of the outstanding loan notes payable to Mr D Lewitt and Mr A Ward. During 2016 £3,699,667 was repaid. At the end of 2016 £nil (2015 – £3,699,667) plus interest of the original loan notes remained outstanding.

The Group acquired a bank loan of £510,000 and an invoice discounting facility of £973,000 within its acquisition of Holdan Limited during the year (note 30). £253,000 of the acquired loan balance was subsequently repaid prior to 31 December 2016.

21. Financial instruments

Classification of financial instruments

The fair value hierarchy groups financial assets and liabilities into 3 levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities.

The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement. There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the year (2015: none).

Financial instruments measured at fair value through profit or loss comprise forward contracts. There are no material open forward currency contracts at the balance sheet dates.

A symmetrical put and call option held by Midwich Limited to acquire the remaining non-controlling interest of 49% in Kern & Stelly Medientechnik GmbH is initially measured at fair value. The valuation of the put and call option is based on unobservable inputs and hence is a level 3 valuation. The fair value is estimated based on the expected future cash outflow and discounting at 19.6% taking into account expected date of settlement.

This put and call option was extinguished during the year as a result of the acquisition by Midwich Limited of the 49% non-controlling interest in Kern & Stelly Medientechnik GmbH.

A symmetrical put and call option held by Midwich Limited to acquire the remaining non-controlling interest of 21% in Holdan Limited is initially measured at fair value. The valuation of the put and call option is based on unobservable inputs and hence is a level 3 valuation. The fair value is estimated based on the expected future cash outflow and discounting at 10.1% taking into account expected date of settlement.

The expected cash flows for the put and call option are described in note 18. If exercised on or after the three year anniversary, the exercise price payable rises above the fixed price upon achievement of annualised average EBIT growth of 5% or more. The amount payable increases lock step for the following growth rates: 5-10%/10-15%-15-20% and 20% and over.

The reconciliation of the carrying amounts of the put options is as follows:

	2016 £000	2015 £000
Brought forward	6,094	3,106
Interest costs*	1,214	1,415
Other finance being movement in fair value*	146	1,573
Extinguished on acquisition of non-controlling interest**	(7,454)	-
	-	6,094
Recognition of new put option on acquisition of Holdan Limited subsidiary*	1,770	-
Interest costs on new put option*	45	-
Other finance being movement in fair value on new put option*	324	-
At 31 December	2,139	6,094
Current	698	6,094
Non-current	1,441	-
	2,139	6,094

* A total of £3,499,000 has been recognised within finance costs in the Income Statement for these transactions (2015: £2,988,000).

** The total value of the pre-existing put option of £7,454,000 was extinguished on the acquisition of the 49% non-controlling interest in Kern & Stelly Medientechnik GmbH.

The tables below set out the Group's accounting classification of each class of its financial assets and liabilities.

Financial assets

	Loans and other receivables	
	2016 £000	2015 £000
Trade & other receivables (note 15)	50,963	41,236
Cash and cash equivalents (note 16)	20,164	18,102
	71,127	59,338

All of the above financial assets' carrying values are approximate to their fair values, as at each reporting date disclosed.

Financial liabilities

	Measured at amortised cost	
	2016 £000	2015 £000
Trade payables (note 17)	46,034	43,430
Other payables (note 17)	565	617
Accruals (note 17)	5,232	3,792
Finance lease payables (note 24)	65	608
Put option (note 18)	2,139	6,094
Bank loans, overdrafts and invoice discounting (note 20)	35,131	40,933
Deferred & contingent consideration (note 19)	1,626	-
Unsecured loan notes (note 20)	-	3,756
Preference shares classified as liabilities (note 20)	-	3,187
	90,792	102,417

All of the above financial liabilities' carrying values are considered by management to be approximate to their fair values, as at each reporting date disclosed.

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22. Financial instrument risk exposure and management

The Group's operations expose it to degrees of financial risk that include liquidity risk, credit risk, interest rate risk, and foreign currency risk.

This note describes the Group's objectives, policies and process for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented in notes 15 to 21.

Credit risk

The Group's credit risk is primarily attributable to its cash balances and trade receivables. The Group does not have a significant concentration of risk, with exposure spread over a number of third parties. The risk is further mitigated by insurance of the trade receivables.

The credit risk on liquid funds is limited because the third parties are large international banks with a credit rating of at least A.

The Group's total credit risk amounts to the total of the sum of the trade receivables and cash and cash equivalents. At the 2016 year end this amounts to £70,833,000 (2015 – £59,338,000).

Interest rate risk

The Group has £nil of unsecured shareholder debt consisting £nil of preference shares and £nil of shareholder loan notes (2015 – £6,943,662; £3,187,855; and £3,755,807). The interest on all of this debt was fixed, with variable rate interest only applying to short-term debt arrangements and therefore interest rate risk is limited.

The interest on preference shares and loan notes was fixed at 1.5% and 3.5% respectively. The interest on other borrowings, being an overdraft and invoice discounting facilities with HSBC and a loan and invoice discounting facility with Barclays, is variable. Based on year-end balances a 1% increase in interest rates would impact profit and equity by £351,000 (2015 – £409,000).

The interest received on the cash held on deposit is immaterial.

Foreign exchange risk

The Group is largely able to manage its exchange rate risk through the natural matching of payments and receipts denominated in the same currencies. Any exposure tends to be on the payment side and is mainly in relation to the Sterling strength relative to the Euro or US\$. This transactional risk is considered manageable as the proportion of Group procurement that is not sourced in local currency is small. However, on occasions the Group does buy foreign currency forward to mitigate this risk.

The Group does hold material non-domestic balances on occasions and currently does not take any action to mitigate this risk. Inter-company balances between trading entities tend to be short term and repaid within the month. The Group is able to manage its exchange rate risk through the natural matching of payments and receipts denominated in the same currencies.

The Group report in Pounds Sterling (GBP) but has significant revenues and costs as well as assets and liabilities that are denominated in Euros (EUR) and Australia Dollars (AUD). The table below sets out the prevailing exchange rates in the periods reported.

	Year ended 31 December		At 31 December	
	2016 Average	2015 Average	2016	2015
EUR/GBP	1.222	1.307	1.180	1.356
AUD/GBP	1.814	1.926	1.690	2.019

The positive/(negative) impact of changes in the key exchange rates from 2015 to 2016 are summarised as follows:

£000	EUR	AUD
Impact on revenues	6,150	1,053
Impact on profit before tax	289	36
Impact on net debt	296	(209)

The following table illustrates the sensitivity of the reported profit before tax and equity for 2016 to material exchange rate movements in the pound relative to the EUR, AUD and New Zealand Dollar.

It assumes a +/- 10% change in GBP relative to the average and closing rates for these currencies employed in 2015.

If the GBP had strengthened against the above currencies by 10%, the impact, in GBP terms, on the 2016 financial statements would have been:

2016	EUR	AUD	NZD
Profit before tax	(922)	(203)	(13)
Equity	(2,964)	(470)	8

If the GBP had weakened against the above currencies by 10%, the impact, in GBP terms, on the 2016 financial statements would have been:

2016	EUR	AUD	NZD
Profit before tax	179	51	-
Equity	(611)	(156)	3

Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash balances to ensure the Group can meet liabilities as they fall due, and ensuring adequate working capital using bank borrowing arrangements.

In managing liquidity risk, the main objective of the Group is therefore to ensure that it has the ability to pay all of its liabilities as they fall due. The Group monitors its levels of working capital to ensure that it can meet its liability payments as they fall due.

The tables below show the undiscounted cash flows on the Group's financial liabilities as at 31 December 2016 and 2015, on the basis of their earliest possible contractual maturity:

At 31 December 2016

	Total £000	Within 2 months £000	Within 2 – 6 months £000	6 – 12 months £000	1 – 2 years £000	Greater than 2 years £000
Trade payables	46,034	45,909	125	-	-	-
Other payables	565	565	-	-	-	-
Put option liability	2,625	-	-	750	-	1,875
Finance lease payables	65	22	43	-	-	-
Accruals	5,232	5,232	-	-	-	-
Bank overdrafts, loans & invoice discounting	35,131	35,131	-	-	-	-
Deferred & contingent consideration	1,626	11	22	1,521	44	28
	91,278	86,870	190	2,271	44	1,903

At 31 December 2015

	Total £000	Within 2 months £000	Within 2 – 6 months £000	6 – 12 months £000	1 – 2 years £000	Greater than 2 years £000
Trade payables	43,430	43,125	305	-	-	-
Other payables	617	617	-	-	-	-
Put option liability	6,609	-	6,609	-	-	-
Finance lease payables	626	80	159	218	153	16
Accruals	3,792	3,792	-	-	-	-
Bank overdrafts & invoice discounting	34,433	34,433	-	-	-	-
Bank loan	6,500	-	1,000	1,000	4,500	-
Other loans	3,978	229	568	500	1,163	1,518
Preference shares	3,187	-	63	-	-	3,124
	103,172	82,276	8,704	1,718	5,816	4,658

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For the year ended 31 December 2016

23. Capital management

The Group's capital management objectives are:

- To ensure the Group's ability to continue as a going concern; and
- To provide long-term returns to shareholders.

The Group defines and monitors capital on the basis of the carrying amount of equity plus its outstanding loan notes, less cash and cash equivalents as presented on the face of the balance sheet and as follows:

	2016 £000	2015 £000
Equity	45,640	7,520
Borrowings	35,131	47,876
Cash and cash equivalents	(20,164)	(18,102)
	60,607	37,294

The Board of Directors monitors the level of capital as compared to the Group's commitments and adjusts the level of capital as is determined to be necessary by issuing new shares or adjusting the level of debt. The Group is not subject to any externally imposed capital requirements.

24. Leasing arrangements

Operating leases

Operating leases primarily relate to land and buildings and motor vehicles.

The Group does not have an option to purchase any of the operating leased assets at the expiry of the lease periods.

Payments recognised as an expense are disclosed in note 4.

Non-cancellable operating lease commitments

	2016 £000	2015 £000
Land and buildings		
Not later than 1 year	671	577
After 1 year and not later than 5 years	1,034	1,109
After 5 years	–	42
	1,705	1,728
Other		
Not later than 1 year	115	171
After 1 year and not later than 5 years	64	115
After 5 years	–	–
	179	286

Finance leases

The Group leased certain of its equipment under finance leases. The average lease term is 2 years for 2016 (2015 – 3 years).

The Group's obligations under finance leases are secured by the lessors' title to the leased assets.

Finance lease liabilities minimum lease payments:

	2016 £000	2015 £000
Not later than one year	65	457
Later than one year and not later than five years	–	169
	65	626
Less: future finance charges	–	(18)
Present value of minimum lease payments	65	608

Finance lease liabilities are included in liabilities:

	2016 £000	2015 £000
Current	65	442
Non-current	–	166
	65	608

25. Guarantees and other financial commitments

The Group has provided a cross guarantee to HSBC Bank plc in respect of borrowings due by companies within the Group headed by Midwich Group Plc. The liabilities in respect of these guarantees at 31 December 2016 were £33,237,000 (2015 – £40,933,000).

26. Retirement benefit plans

Benefits from the contributory pension schemes to which the Group contribute are related to the cash value of the funds at retirement dates. The Group is under no obligation to provide any minimum level of benefits.

The assets of the schemes are administered by trustees in funds independent of the Group.

27. Share capital

The total allotted share capital of the Company is:

Allotted, issued and fully paid

Classed as equity	2016 Number	£000	2015 Number	£000
Ordinary Shares of £0.01 each	79,448,200	794	–	–
Ordinary Shares of £1 each	–	–	396,000	396
Preference share of £1 each	–	–	4,123,746	4,124
A Ordinary Shares of £0.01 each	–	–	52,500	–
B1 Ordinary Shares of £0.01 each	–	–	174,474	2
B2 Ordinary Shares of £0.01 each	–	–	–	–
B3 Ordinary Shares of £0.01 each	–	–	7,179	–
B4 Ordinary Shares of £0.01 each	–	–	–	–
B5 Ordinary Shares of £0.01 each	–	–	14,358	–
	79,448,200	794	4,768,257	4,522
Shares classed as financial liabilities				
Preference shares of £1 each	–	–	(3,123,746)	(3,124)
Total equity	79,448,200	794	1,644,511	1,398

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For the year ended 31 December 2016

27. Share capital continued

Share transactions effected during the current year (see notes):

Number of shares

	Opening 1 January 2016	Issue of B1 Ordinary Shares*	Buy back of B5 Ordinary Shares 4 February	Share capital reduction 13 April	Redemption of preference shares 22 April	Write down of preference, B3 and B5 shares 29 April	Re- designation to Ordinary Shares 6 May	Bonus share issue 6 May	Issue of Ordinary Shares 6 May	Closing 31 December 2016
Ordinary Shares of £0.01	-	-	-	-	-	-	669,482	66,278,718	12,500,000	79,448,200
Ordinary Shares of £1	396,000	-	-	-	-	-	(396,000)	-	-	-
Preference shares of £1	4,123,746	-	-	-	(3,123,746)	(995,193)	(4,807)	-	-	-
A Ordinary Shares of £0.01	52,500	-	-	-	-	-	(52,500)	-	-	-
B1 Ordinary Shares of £0.01	174,474	36,450	-	-	-	-	(210,924)	-	-	-
B2 Ordinary Shares of £0.01	-	-	-	-	-	-	-	-	-	-
B3 Ordinary Shares of £0.01	7,179	-	-	-	-	(4,331)	(2,848)	-	-	-
B4 Ordinary Shares of £0.01	-	-	-	-	-	-	-	-	-	-
B5 Ordinary Shares of £0.01	14,358	-	(7,179)	-	-	(4,776)	(2,403)	-	-	-
	4,768,257	36,450	(7,179)	-	(3,123,746)	(1,004,300)	-	66,278,718	12,500,000	79,448,200

Nominal value of shares

	Opening 1 January 2016 £000	Issue of B1 Ordinary Shares* £000	Buy back of B5 Ordinary Shares 4 February £000	Share capital reduction 13 April £000	Redemption of preference shares 22 April £000	Write down of preference, B3 and B5 shares 29 April £000	Re- designation to Ordinary Shares 6 May £000	Bonus share issue 6 May £000	Issue of Ordinary Shares 6 May £000	Closing 31 December 2016 £000
Ordinary Shares of £0.01	-	-	-	-	-	-	6	663	125	794
Ordinary Shares of £1	396	-	-	(392)	-	-	(4)	-	-	-
Preference shares of £1	4,124	-	-	(990)	(3,124)	(10)	(0)	-	-	-
A Ordinary Shares of £0.01	-	-	-	-	-	-	-	-	-	-
B1 Ordinary Shares of £0.01	2	-	-	-	-	-	(2)	-	-	-
B2 Ordinary Shares of £0.01	-	-	-	-	-	-	-	-	-	-
B3 Ordinary Shares of £0.01	-	-	-	-	-	-	-	-	-	-
B4 Ordinary Shares of £0.01	-	-	-	-	-	-	-	-	-	-
B5 Ordinary Shares of £0.01	-	-	-	-	-	-	-	-	-	-
	4,522	-	-	(1,382)	(3,124)	(10)	-	663	125	794

* Issue of B1 Ordinary Shares took place on the following dates at a price of £21.20 per share:

13 January	10,000
18 January	20,000
4 February	3,700
10 March	2,750
	36,450

Notes on share capital movements

As explained further in the Admission document, the following share capital changes (as illustrated in the above tables) have taken place during the period:

1. Issue of B1 Ordinary Shares at £21.20 per share as noted above, creating share premium of £772,000.
2. Buy back of 7,179 B5 Ordinary Shares on 4 February for cancellation at par value.
3. Share capital reduction on 13 April, reducing the equity preference share capital and Ordinary Share capital from £1.00 per share nominal value to £0.01 per share nominal value.
4. Redemption of preference shares classified as a financial liability on 22 April, settling the financial liability in full.
5. Re-designation of the preference shares, B3 shares' and B5 shares' percentages on 29 April, and subsequently re-designation of these as deferred shares, pursuant to which these deferred shares were transferred in favour of the Company for nil consideration and then cancelled.
6. Re-designation of all remaining categories of shares as £0.01 Ordinary Shares on 6 May.
7. Bonus share issue on 6 May in the proportion of 99 Ordinary Shares for each existing Ordinary Share.
8. Placing of new shares on 6 May (date of admission to the AIM market) at £2.08 per share, creating share premium of £25,875,000 less issue costs of £792,000.

All reductions in value of existing share capital have created additional distributable reserves which have been recorded in retained earnings. The bonus issue of Ordinary Shares has used some of the additional distributable reserves created by the preceding share capital reductions.

Share transactions effected during the prior year

Issues of shares

On 12 May 2015, the Company issued 6,500 A Ordinary and 5,082 B1 Ordinary Shares at par.

Repurchase of shares

On 6 November 2015, the Company bought back 500 A Ordinary and 9,214 B2 Ordinary Shares at par. The shares were then cancelled.

On 18 November 2015, the Company bought back 1,000 A Ordinary and 7,179 B4 Ordinary Shares at par. The shares were then cancelled.

On 25 November 2015, the Company bought back 50,000 Ordinary Shares for consideration of £1,060,000. The shares were then cancelled.

Rights and obligations

Ordinary Shares have attached to them full voting, dividend and capital distribution (including on winding up) rights. They do not confer any rights of redemption.

A Ordinary Shares carry no redemption rights, voting rights or rights to attend or speak at an AGM. The shares are entitled to a dividend at the discretion of the Board. They also carry the right to capital distribution (including on winding up) equal with Ordinary Shares.

B1, B2, B3, B4 and B5 Ordinary Shares rank pari passu. They carry no redemption rights, voting rights or rights to attend or speak at an AGM. The shares are entitled to a dividend at the discretion of the Board. They also carry the right to capital distribution in the event of a sale if the amount available to distribute (after payments to holders of preference sShares) is greater than £25 million.

Preference shares carry no redemption rights, no conversion rights, no voting rights or any rights to attend or speak at an AGM. On a liquidation or capital reduction their return of capital ranks above all other shares. The shares are entitled to a 1.5% dividend. Preference shares not held by the employee benefit trust are classified as a financial liability.

Employee benefit trust

As a result of the share changes described in the share capital movements notes 3, 5, 6 and 7 above, the employee benefit trust was allocated 480,700 Ordinary Shares. On 30 June 2016, 136,000 of these shares were distributed to the SIP trust, leaving 344,700 Ordinary Shares in the employee benefit trust as at 31 December 2016 (2015- 1,000,000 preference shares treated as equity for disclosure purposes).

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

28. Share-based payments

Long-term Incentive Plan ("LTIP")

The Group operates an LTIP to which the employees of the Group may be invited to participate by the Remuneration Committee. Options issued under the LTIP are exercisable at £0.01 per share. The options vest 3 years after the date of grant, subject to certain service and non-market performance conditions. The options are settled in equity once exercised.

If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

Share Incentive Plan ("SIP")

The Group also operates a SIP to which the employees of the Group may be invited to participate by the Remuneration Committee. Under the SIP, conditional free shares are granted to employees. The SIP shares vest 3 years after the date of grant. The SIP shares are settled in equity once exercised.

LTIP options and SIP shares were valued using the Black-Scholes option-pricing model. The fair value per option granted and the assumptions used in the calculation are as follows:

	LTIP	SIP
Date of grant	1 July 2016	1 July 2016
Number granted	187,500	126,500
Share price at date of grant (£)	£2.22	£2.22
Exercise price (£)	£0.01	–
Expected volatility	9.5%	9.5%
Expected life (years)	3	3
Risk-free rate	1.003%	1.003%
Expected dividend yield	4.21%	4.21%
Fair value at date of grant	£289,000	£159,000
Earliest vesting date	1 July 2019	1 July 2019
Expiry date	1 July 2026	1 July 2026

The expected volatility is based on the volatility of similar companies in the industry. The expected life is the average expected period to exercise. The risk-free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life.

The Group recognised total expenses of £75,000 (2015 – £nil) related to equity-settled share-based payment transactions for the above schemes during the year.

A reconciliation of LTIP option movements over the year to 31 December 2016 is shown below:

	As at 31 December 2016		As at 31 December 2015	
	Number of LTIP options	Weighted average exercise price £	Number of LTIP options	Weighted average exercise price £
Outstanding at 1 January	–	–	–	–
Granted	187,500	0.01	–	–
Outstanding at 31 December	187,500	0.01	–	–

A reconciliation of SIP movements over the year to 31 December 2016 is shown below:

	As at 31 December 2016		As at 31 December 2015	
	Number of SIP shares	Weighted average exercise price £	Number of SIP shares	Weighted average exercise price £
Outstanding at 1 January	–	–	–	–
Granted	126,500	–	–	–
Outstanding at 31 December	126,500	–	–	–

29. Acquisition of non-controlling interest

On 6 May 2016, the Group acquired the 49% non-controlling interest in Kern & Stelly GmbH for consideration of £7,454,000.

As a result of this transaction, the symmetrical put and call option to acquire the non-controlling interest was extinguished.

30. Business combinations

Acquisitions have been completed by the Group to increase scale, broaden its addressable market and widen the product offering.

Subsidiaries acquired:

Trade and assets acquired from:	Principal activity	Date of acquisition	Proportion of voting equity interest acquired (%)	Fair value of consideration transferred £000
Holdan Limited	Distribution of audio visual products to trade customers	7 September 2016	79%	4,499
PSCo Group Limited	Distribution and rental of audio visual products to trade customers	30 April 2015	100%	2,000

Other business acquired:

Trade and assets acquired from:	Principal activity	Date of acquisition	Proportion of voting equity interest acquired (%)	Fair value of consideration transferred £000
Wired Limited	Distribution of audio visual products to trade customers	22 August 2016	–	414
Anthem AV Solutions Ltd	Distribution of audio visual products to trade customers	17 July 2015	–	135
Focus Security Distribution Ltd	Distribution of audio visual products to trade customers	27 May 2015	–	85

2016 acquisitions

Fair value of consideration transferred

2016	Acquisition of Holdan £000	Acquisition of Wired £000
Cash	3,000	276
Deferred contingent consideration	–	138
Deferred consideration payable within 1 year	1,499	–
Total	4,499	414

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

30. Business combinations continued

Acquisition costs of £116,000 were expensed to the income statement in relation to the acquisition of Holdan Limited and costs of £12,000 were expensed in relation to the acquisition of Wired Limited.

2016	Acquisition of Holdan £000	Acquisition of Wired £000
Non-current assets		
Goodwill	1,254	–
Intangible assets – customer relationships	917	–
Intangible assets – supplier exclusivity	566	290
Plant and equipment	967	15
Current assets		
Inventories	1,775	71
Trade and other receivables	3,774	177
Cash and cash equivalents	367	–
Current liabilities		
Trade and other payables	(2,103)	(139)
Current tax	(375)	–
Non-current liabilities		
Borrowings	(1,483)	–
Deferred tax	(297)	–
Non-controlling interests	(863)	–
	4,499	414

Goodwill acquired in 2016 relates to workforce, synergies and sales know-how.

Goodwill arising on the acquisition of Holdan Limited has been allocated to the UK operating segment and is not expected to be deductible for tax purposes.

Gross contractual amounts of trade and other receivables acquired were £3,951,000, with bad debt provision of £nil.

	Acquisition of Holdan £000	Acquisition of Wired £000
Net cash (outflow)/inflow on acquisition of subsidiaries		
Consideration paid in cash	3,000	276
Deferred consideration paid in cash	–	11
Less: cash and cash equivalent balances acquired	(367)	–
Net cash outflow	2,633	287

Post-acquisition contribution

Acquired subsidiaries made the following contributions to the Group's results for the year in which they were acquired, from their respective acquisition dates:

	2016 Acquisition of Holdan £000
7 September 2016 to 31 December 2016	
Post-acquisition contribution to Group revenue	9,728
Post-acquisition contribution to Group profit	420
Total post-acquisition contribution	420
1 January 2016 to 31 December 2016 revenue	26,630
Full accounting period profit	998

If Holdan Limited had been acquired on 1 January 2016, revenue of the Group for the year would have been £387,044,000 and profit for the year would have been £9,138,000.

2015 acquisitions

Fair value of consideration transferred.

2015	Acquisition of PSCo £000	Acquisition of Anthem £000	Acquisition of Focus Security Distribution £000
Cash	1,200	135	85
Deferred consideration payable 31 Oct 15	750	-	-
Loan notes	50	-	-
Total	2,000	135	85

Acquisition costs of £44,000 were expensed to the income statement in relation to the acquisition of PSCo Group Limited, costs of £7,000 were expensed in relation to the acquisition of Anthem and costs of £3,000 were expensed in relation to the acquisition of Focus Security Distribution.

2015	Acquisition of PSCo £000	Acquisition of Anthem £000	Acquisition of Focus Security Distribution £000
Non-current assets			
Goodwill	298	-	-
Intangible assets – brands	100	-	-
Intangible assets – customer relationships	-	-	85
Intangible assets – supplier exclusivity	800	74	-
Intangible assets – software	3	-	-
Property, plant and equipment	1,154	12	-
Current assets			
Inventories	943	49	-
Trade and other receivables	1,778	-	-
Cash and cash equivalents	686	-	-
Current liabilities			
Trade and other payables	(2,956)	-	-
Borrowings – finance leases	(328)	-	-
Borrowings – bank loan	(55)	-	-
Non-current liabilities			
Borrowings – finance leases	(373)	-	-
Deferred tax payables	(50)	-	-
	2,000	135	85

Goodwill acquired in 2015 relates to workforce, synergies and sales know-how.

Goodwill arising on the acquisition of PSCo Group Limited has been allocated to the UK operating segment and is not expected to be deductible for tax purposes.

Gross contractual amounts of trade and other receivables were £1,837,000, with bad debt provision of £59,000.

	Acquisition of PSCo £000	Acquisition of Anthem £000	Acquisition of Focus Security Distribution £000
Net Cash (outflow)/inflow on acquisition of subsidiaries			
Consideration paid in cash	(1,200)	(135)	(85)
Deferred consideration paid in cash	(750)	-	-
Less: cash and cash equivalent balances acquired	686	-	-
Net cash outflow	(1,264)	(135)	(85)

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

30. Business combinations continued

Post-acquisition contribution

Acquired subsidiaries made the following contributions to the Group's results for the year in which they were acquired, from their respective acquisition dates:

	2015 Acquisition of PSCo £000
1 May 2015 to 31 December 2015	
Post-acquisition contribution to Group revenue	10,602
Post-acquisition contribution to Group profit	612
Total post-acquisition contribution	612
1 January 2015 to 31 December 2015 revenue	18,400
Full accounting period profit	1,180

If PSCo had been acquired on 1 January 2015, revenue of the Group for the year ended 31 December 2015 would have been £322,081,000 and profit for the year would have been £6,380,000.

31. Related party transactions

Key management personnel are identified as the Executive and Non-executive Directors, and their remuneration is disclosed as follows:

	2016 £000	2015 £000
Remuneration of key management		
Remuneration	638	569
Social security costs	73	73
Company pension contributions to defined contributions scheme	21	19
	732	661

No Directors were party to either the LTIP or the SIP share-based payment schemes.

Dividends on Ordinary Shares were paid to key management as follows:

	2016 £000	2015 £000
Mr A M G Bailey	49	-
Mr S B Fenby	341	-
Mr M Ashley	-	-
Mr A C Herbert	-	-
	390	-

Related party borrowings' transactions are as follows:

All related party loan transactions are presented on a contractual basis.

Preference shares

	Shareholder Mr S Fenby* £000
Principal	
At 1 January and 31 December 2015	3,124
Shares redeemed	(3,124)
At 31 December 2016	-

£000

Interest (being preference dividend)	
At 1 January 2015	48
Interest accrued	47
Interest paid	(61)
At 31 December 2015	34
Interest accrued	15
Interest paid	(49)
At 31 December 2016	-

Other loans

	Shareholders			
	Mrs J Fenby** £000	Mr DP Lewitt* £000	Mr AC Ward* £000	Mr AMG Bailey* £000
Principal				
At 1 January 2015	5,584	5,584	5,584	-
Loans repaid	(1,884)	(5,584)	(5,584)	-
At 31 December 2015	3,700	-	-	-
Loans issued	-	-	-	(212)
Loans repaid	(3,700)	-	-	212
At 31 December 2016	-	-	-	-
	£000	£000	£000	£000
Interest				
At 1 January 2015	218	212	212	-
Interest accrued	167	140	140	-
Interest paid	(328)	(352)	(352)	-
At 31 December 2015	57	-	-	-
Interest accrued	40	-	-	-
Interest paid	(97)	-	-	-
At 31 December 2016	-	-	-	-

* director

** employee

All loan notes terms are described in note 21. Interest is accounted for on an effective interest basis and included within borrowings on the balance sheet.

Related party share transactions are as follows:

On 25 November 2015, the Company bought back 50,000 Ordinary Shares for consideration of £1,060,000. The shares were then cancelled.

£29,706 of preference share interest payable to the EBT was waived on 6 May 2016.

32. Dividends

The Company paid a dividend in the year of £1,210,000 (2015 – £nil), equating to 1.53 pence per share.

The Board has recommended a final dividend of 709 pence per share (2015 – nil) which, if approved will be paid on 23 June to shareholders on the register on 26 May. With the interim dividend declared in September 2016, this represents a total dividend for the period The Midwich Group has been listed to 31 December 2016 of 8.62 pence per share.

33. Ultimate controlling party

As at 31 December 2016, Midwich Group Plc had no ultimate controlling party.

Independent auditor's report to the members of Midwich Group Plc

We have audited the Parent Company financial statements of Midwich Group Plc for the year ended 31 December 2016 which comprise the Parent Company balance sheet, the Parent Company statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 101 'Reduced Disclosure Framework'.

This report 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 Directors' Responsibilities Statement set out on page 26, the Directors are responsible for the preparation of the Parent Company 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 Parent Company 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

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

Opinion on financial statements

In our opinion:

- The financial statements give a true and fair view of the state of the Parent Company's affairs as at 31 December 2016;
- The financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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, based on the work undertaken during the course of the audit:

- The information given in the Strategic Report and the Directors' Report for the financial year for which the parent company financial statements are prepared is consistent with the Parent Company financial statements; and
- The Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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.

Other matter

We have reported separately on the Group financial statements of Midwich Group Plc for the year ended 31 December 2016.

Alison Seekings

Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP,
Statutory Auditor, Chartered Accountants
Cambridge
13 March 2017

Parent Company balance sheet

As at 31 December 2015 and 2016

	Notes	2016 £000	2015 £000
Assets			
Non-current assets			
Investments	2	30,465	30,465
Deferred tax	3	16	-
		30,481	30,465
Current assets			
Receivables	4	16,616	107
		16,616	107
Current liabilities			
Payables	5	(86)	(236)
Borrowings	6	-	(1,035)
Current tax		-	(35)
Net current assets/(liabilities)		16,530	(1,199)
Total assets less current liabilities		47,011	29,266
Non-current liabilities			
Borrowings	6	-	(5,908)
Net assets		47,011	23,358
Capital and reserves			
Share capital	7	794	1,398
Share premium		25,855	-
Share-based payment reserve		84	-
Investment in own shares		(5)	(1,000)
Retained earnings:			
Opening retained earnings		21,765	5,277
(Loss)/profit for the year		(1,201)	17,548
Dividends paid		(1,210)	-
Other movements		729	(1,060)
Total retained earnings		20,083	21,765
Capital redemption reserve		50	50
Other reserve		150	1,145
Shareholders' funds		47,011	23,358

The financial statements were approved by the Board of Directors and authorised for issue on 13 March 2017 and were signed on its behalf by:

Mr S B Fenby

Director

Company registration number: 08793266

The accompanying accounting policies and notes form an integral part of these Company financial statements.

Parent Company statement of changes in equity
For the years ended 31 December 2015 and 2016

	Share capital £000	Share premium £000	Share-based payment reserve £000	Investment in own shares £000	Retained earnings £000	Capital redemption reserve £000	Other reserve £000	Total £000
Balance at 1 January 2016	1,398	-	-	(1,000)	21,765	50	1,145	23,358
Loss for the year	-	-	-	-	(1,201)	-	-	(1,201)
Total comprehensive income for the year	-	-	-	-	(1,201)	-	-	(1,201)
Issue of shares*	125	26,647	-	-	-	-	-	26,772
Costs of share issue*	-	(792)	-	-	-	-	-	(792)
Share capital reduction*	(1,392)	-	-	1,000	1,392	-	(1,000)	-
Bonus share issue*	663	-	-	(5)	(663)	-	5	-
Share-based payments	-	-	75	-	-	-	-	75
Deferred tax on share-based payments	-	-	9	-	-	-	-	9
Dividends paid	-	-	-	-	(1,210)	-	-	(1,210)
Balance at 31 December 2016	794	25,855	84	(5)	20,083	50	150	47,011
Balance at 1 January 2015	1,449	-	-	(1,000)	5,277	-	1,145	6,871
Profit for the year	-	-	-	-	17,548	-	-	17,548
Total comprehensive income for the year	-	-	-	-	17,548	-	-	17,548
Buy back of shares	(51)	-	-	-	(1,060)	50	-	(1,061)
Balance at 31 December 2015	1,398	-	-	(1,000)	21,765	50	1,145	23,358

* See note 7.

The accompanying accounting policies and notes form an integral part of these Company financial statements.

Notes to the Parent Company financial statements

For the year ended 31 December 2016

Accounting policies

Basis of preparation

The annual financial statements of Midwich Group Plc (the Parent Company financial statements) have been prepared in accordance with Financial Reporting Standard 100 Application of Financial Reporting Requirements ("FRS 100") and Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

Disclosure exemptions adopted

In preparing these financial statements the Company has taken advantage of all disclosure exemptions conferred by FRS 101. Therefore, these financial statements do not include:

- Certain comparative information as otherwise required by EU endorsed IFRS;
- Certain disclosures regarding the Company's capital;
- A statement of cash flows;
- The effect of future accounting standards not yet adopted;
- The disclosure of the remuneration of key management personnel; and
- Disclosure of related party transactions with the Company's wholly-owned subsidiaries.

In addition, and in accordance with FRS 101 further disclosure exemptions have been adopted because equivalent disclosures are included in the Company's consolidated financial statements. These financial statements do not include certain disclosures in respect of:

- Financial instruments (other than certain disclosures required as a result of recording financial instruments at fair value); and
- Fair value measurement (other than certain disclosures required as a result of recording financial instruments at fair value).

As permitted by section 408 of Companies Act 2006, a separate income statement for the Company has not been included in these financial statements.

The principal accounting policies adopted in the preparation of the financial statements as set out below have been consistently applied to all periods presented.

Finance income and costs

Interest income and expense is recognised using the effective interest method which calculates the amortised cost of a financial asset or liability and allocates the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability to the net carrying amount of the financial asset or liability.

Dividends on preference shares classified as debt are included as finance costs.

Other finance costs include the changes in fair value of financial derivatives.

Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets and financial liabilities are measured initially at fair value plus transaction costs. Financial assets and financial liabilities are measured subsequently as described below.

Financial assets

The Company classifies its financial assets as 'loans and receivables'. The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets.

Trade receivables and amounts due from Group undertakings are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

Notes to the Parent Company financial statements continued

For the year ended 31 December 2016

Financial liabilities

The Company's financial liabilities include trade and other payables, and borrowings.

Preference shares not held by the employee benefit trust are classified as a financial liability, with fixed rate dividends accounted for as interest.

Payables, including amounts due from Group undertakings, and borrowings are recognised initially at fair value less transaction costs and subsequently measured at amortised cost using the effective interest method ("EIR" method).

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the income statement.

Loans and borrowings are classified as current liabilities unless the Company has an unconditional right to defer the settlement of the liability for at least 12-months after the balance sheet date.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Foreign currency

The presentation currency for the Company's financial statements is Sterling. Foreign currency transactions are recorded in their functional currencies at the exchange rate at the date of the transaction. Monetary assets and liabilities have been translated at rates in effect at the balance sheet date, with any exchange adjustments being charged or credited to the income statement, within 'administrative expenses'.

The Parent Company's functional currency is Sterling.

Current taxation

Current taxation for the Company is based on the local taxable income at the local statutory tax rate enacted or substantively enacted at the balance sheet date and includes adjustments to tax payable or recoverable in respect of previous periods.

Deferred taxation

Deferred taxation is calculated using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. No deferred tax is recognised on initial recognition of goodwill or on investment in subsidiaries. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax liabilities are provided in full, and are not discounted.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

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

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

Equity

Equity comprises the following:

- 'Share capital' represents the nominal value of equity shares issued.
- 'Share premium' represents amounts subscribed for share capital, net of issue costs, in excess of nominal value.
- 'Share-based payment reserve' represents the accumulated value of share-based payments expensed in the income statement.
- 'Investment in own shares' represents amounts of the Parent Company's own shares held within an Employee Benefit Trust.
- 'Retained earnings' represents the accumulated profits and losses attributable to equity shareholders.
- 'Capital redemption reserve' represents the nominal value of shares repurchased by the Parent Company.
- 'Other reserve' relates to the employee benefit trust.

Employee benefit trust

The assets and liabilities of the EBT have been included in the Company accounts. Any assets held by the EBT cease to be recognised on the balance sheet when the assets vest unconditionally in identified beneficiaries.

The costs of purchasing own shares held by the EBT are shown as a deduction within shareholders' equity. The proceeds from the sale of own shares are recognised in shareholders' equity. Neither the purchase nor sale of own shares leads to a gain or loss being recognised in the income statement.

1. Directors and employees

The only employees paid by the Company are the 2 Non-executive Directors. Their remuneration is as stated in the Directors' remuneration disclosure in the Directors' Report.

Average monthly number of persons, including Directors, employed by the Company during the year was as follows:

	2016 Number	2015 Number
By activity:		
Administration	2	–

Please see note 6 to the consolidated financial statements for remuneration of Directors.

2. Investments

	2016 £000	2015 £000
At 1 January	30,465	30,465
Additions	–	–
At 31 December	30,465	30,465

The Company holds 100% of the share capital of Midwich Limited, a Company incorporated in England. Indirect share interests in The Midwich Group of companies are disclosed in note 11 to the consolidated financial statements.

3. Deferred tax

	2016 £000	2015 £000
Deferred tax asset on temporary differences	16	–

4. Receivables

	2016 £000	2015 £000
Amounts due from Group undertakings	16,616	107

5. Payables

	2016 £000	2015 £000
Amounts payable to Group undertakings	–	78
Other payables	86	158
	86	236

6. Borrowings

	2016 £000	2015 £000
Unsecured – at amortised cost		
– Unsecured loan notes	–	3,756
– Preference shares classified as liabilities	–	3,187
	–	6,943
Current	–	1,035
Non-current	–	5,908

Summary of borrowing arrangements:

In December 2013, the Company issued £19,752,000 of unsecured loan notes bearing 3.5% interest and with fixed repayment schedule dates ending in April 2019 to fund the acquisition of M&R 320 Limited. During 2014 £3,000,000 of this was repaid as scheduled. In 2015 £13,052,000 was repaid. This included full and early settlement of the outstanding loan notes payable to Mr D Lewitt and Mr A Ward. In 2016 the remaining outstanding balance was repaid. At the end of 2016 £nil (2015 – £3,700,000) plus interest of the original loan notes remained outstanding.

Notes to the Parent Company financial statements continued

For the year ended 31 December 2016

7. Share capital

The total allotted share capital of the Company is:

Allotted, issued and fully paid

Classed as equity:	2016		2015	
	Number	£000	Number	£000
Ordinary Shares of £0.01 each	79,448,200	794	-	-
Ordinary Shares of £1 each	-	-	396,000	396
Preference share of £1 each	-	-	4,123,746	4,124
A Ordinary Shares of £0.01 each	-	-	52,500	-
B1 Ordinary Shares of £0.01 each	-	-	174,474	2
B2 Ordinary Shares of £0.01 each	-	-	-	-
B3 Ordinary Shares of £0.01 each	-	-	7,179	-
B4 Ordinary Shares of £0.01 each	-	-	-	-
B5 Ordinary Shares of £0.01 each	-	-	14,358	-
	79,448,200	794	4,768,257	4,522
Shares classed as financial liabilities:				
Preference shares of £1 each	-	-	(3,123,746)	(3,124)
Total equity	79,448,200	794	1,644,511	1,398

Share transactions effected during the current year

Number of shares

	Opening 1 January 2016	Issue of B1 Ordinary Shares'	Buy back of B5 Ordinary Shares 4 February	Share capital reduction 13 April	Redemption of preference shares 22 April	Write down of preference, B3 and B5 shares 29 April	Re- designation to Ordinary Shares 6 May	Bonus share issue 6 May	Issue of Ordinary Shares 6 May	Closing 31 December 2016
Ordinary Shares of £0.01	-	-	-	-	-	-	669,482	66,278,718	12,500,000	79,448,200
Ordinary Shares of £1	396,000	-	-	-	-	-	(396,000)	-	-	-
Preference shares of £1	4,123,746	-	-	-	(3,123,746)	(995,193)	(4,807)	-	-	-
A Ordinary Shares of £0.01	52,500	-	-	-	-	-	(52,500)	-	-	-
B1 Ordinary Shares of £0.01	174,474	36,450	-	-	-	-	(210,924)	-	-	-
B2 Ordinary Shares of £0.01	-	-	-	-	-	-	-	-	-	-
B3 Ordinary Shares of £0.01	7,179	-	-	-	-	(4,331)	(2,848)	-	-	-
B4 Ordinary Shares of £0.01	-	-	-	-	-	-	-	-	-	-
B5 Ordinary Shares of £0.01	14,358	-	(7,179)	-	-	(4,776)	(2,403)	-	-	-
	4,768,257	36,450	(7,179)	-	(3,123,746)	(1,004,300)	-	66,278,718	12,500,000	79,448,200

Nominal value of shares

	Opening 1 January 2016 £000	Issue of B1 Ordinary Shares* £000	Buy back of B5 Ordinary Shares 4 February £000	Share capital reduction 13 April £000	Redemption of preference shares 22 April £000	Write down of preference, B3 and B5 shares 29 April £000	Re- designation to Ordinary Shares 6 May £000	Bonus share issue 6 May £000	Issue of Ordinary Shares 6 May £000	Closing 31 December 2016 £000
Ordinary Shares of £0.01	-	-	-	-	-	-	6	663	125	794
Ordinary Shares of £1	396	-	-	(392)	-	-	(4)	-	-	-
Preference shares of £1	4,124	-	-	(990)	(3,124)	(10)	(0)	-	-	-
A Ordinary Shares of £0.01	-	-	-	-	-	-	-	-	-	-
B1 Ordinary Shares of £0.01	2	-	-	-	-	-	(2)	-	-	-
B2 Ordinary Shares of £0.01	-	-	-	-	-	-	-	-	-	-
B3 Ordinary Shares of £0.01	-	-	-	-	-	-	-	-	-	-
B4 Ordinary Shares of £0.01	-	-	-	-	-	-	-	-	-	-
B5 Ordinary Shares of £0.01	-	-	-	-	-	-	-	-	-	-
	4,522	-	-	(1,382)	(3,124)	(10)	-	663	125	794

* Issue of B1 Ordinary Shares took place on the following dates at a price of £21.20 per share.

13 January	10,000
18 January	20,000
4 February	3,700
10 March	2,750
	36,450

See note 27 of the consolidated financial statements for narrative on share capital changes and balances.

8. Dividends

The Company paid a dividend in the year of £1,210,000 (2015 – £nil), equating to 1.53 pence per share.

The Board has recommended a final dividend of 7.09 pence per share (2015 – nil) which, if approved will be paid on 23 June to shareholders on the register on 26 May. With the interim dividend declared in September 2016, this represents a total dividend for the period The Midwich Group has been listed to 31 December 2016 of 8.62 pence per share.

9. Related parties and Directors' transactions

There are no employees of the Company other than the Directors. Directors are predominantly remunerated by subsidiary entities, with a proportion of the Non-executive Directors' remuneration recharged to the Company.

Other related party transactions

Loan and share transactions with related parties of the Company are disclosed in note 31 to the consolidated financial statements. Audit fees for the entity are borne by subsidiary entities.

10. Ultimate controlling party

As at 31 December 2016, Midwich Group Plc had no ultimate controlling party.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting ("Meeting") of Midwich Group plc (the "Company") will be held at 2 Gresham Street, London EC2V 7QP on Monday 15 May 2017 at 10.00 a.m. You will be asked to consider and vote on the resolutions below. Resolutions 1, 2, 3, 4, 5, 6, 7 and 8 will be proposed as ordinary resolutions and resolution 9 will be proposed as a special resolution.

Ordinary business

Report and accounts

1. THAT the Company's annual accounts for the financial year ended 31 December 2016, together with the Directors' report and auditor's report on those accounts, be received and adopted.

Re-election of directors

2. THAT Stephen Fenby, who retires by rotation and offers himself for re-appointment by general meeting, be re-elected as a Director of the Company.
3. THAT Andrew Herbert, who retires by rotation and offers himself for re-appointment by general meeting, be re-elected as a Director of the Company.
4. THAT Mike Ashley, who retires by rotation and offers himself for re-appointment by general meeting, be re-elected as a Director of the Company.
5. THAT Anthony Bailey, who retires by rotation and offers himself for re-appointment by general meeting, be re-elected as a Director of the Company.

Re-appointment and remuneration of auditors

6. THAT Grant Thornton UK LLP be re-appointed as the Company's auditors to hold office from the conclusion of this meeting until the conclusion of the next meeting at which accounts are laid before the Company and that the Directors be authorised to agree the remuneration of the auditors.

Dividend

7. THAT a final dividend recommended by the Directors for the financial year ended 31 December 2016 of 7.09p per ordinary share of £0.01 each in the capital of the Company ("Ordinary Share") be declared.

Special business

Issue of ordinary shares

8. THAT the Directors of the Company be hereby generally and unconditionally authorised and empowered pursuant to and in accordance with section 551 of the Companies Act 2006 (the "CA 2006"), to exercise all the powers of the Company to allot shares and or grant rights to subscribe for or to convert any security into shares ("Rights"):
 - (i) up to an aggregate nominal value of £264,827 (being the nominal value of approximately one third of the issued share capital of the Company); and
 - (ii) up to an aggregate nominal value of £529,655 (being the nominal value of approximately two thirds of the issued share capital of the Company) (such amount to be reduced by the nominal amount of any shares allotted or Rights granted under paragraph (i)) in connection with an offer by way of a rights issue or other pre-emptive offer to:

- (a) the holders of Ordinary Shares in proportion (as nearly as may be practicable) to the respective numbers of Ordinary Shares held by them; and

- (b) holders of other equity securities, as required by the rights of those securities or, subject to such rights, as the directors otherwise consider necessary,

and so that, in each case, the Directors of the Company may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or the requirements of any regulatory body or stock exchange or any other matter,

such authorities to expire on the earlier of the next Annual General Meeting of the Company and the date 15 months after the passing of this resolution, save that the Company may at any time before such expiry make any offer(s) or enter into any agreement(s) which would or might require shares to be allotted or Rights to be granted after such expiry and the Directors may allot shares or grant Rights in pursuance of any such offer(s) or agreement(s) as if the authority conferred hereby had not expired. This resolution revokes and replaces all unexercised authorities previously granted to the Directors to allot shares or grant Rights but without prejudice to any allotment of shares or grant of Rights already made, offered or agreed to be made pursuant to such authorities.

9. THAT subject to and conditional upon the passing of resolution 8 above, the Directors of the Company be and are hereby generally authorised in accordance with section 570 of the CA 2006 to allot equity securities (as defined in section 560 of the CA 2006) of the Company for cash as if section 561(1) of the CA 2006 did not apply to any such allotment, provided that this authority shall be limited to:

- (i) the allotment of equity securities in connection with an offer by way of a rights issue or other pre-emptive offer to:

- (a) the holders of Ordinary Shares in proportion (as nearly as may be practicable) to the respective numbers of Ordinary Shares held by them; and

- (b) holders of other equity securities, as required by the rights of those securities or, subject to such rights, as the directors otherwise consider necessary,

and so that, in each case, the Directors of the Company may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or the requirements of any regulatory body or stock exchange or any other matter; and

- (ii) the allotment of equity securities (otherwise than pursuant to sub-paragraph (i) above) up to a maximum aggregate nominal value of £79,448 (being the nominal value of approximately 10% of the issued share capital of the Company),

and this authority shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company and the date 15 months after the passing of this resolution save that the Company may make any offer(s) or enter into any agreement(s) before such expiry which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities pursuant to any such offer(s) or agreement(s) as if the authority conferred hereby had not expired. This resolution revokes and replaces all unexercised authorities previously granted to the Directors to allot equity securities but without prejudice to any allotment of equity securities already made, offered or agreed to be made pursuant to such authorities.

Dated 10 April 2017

By order of the Board

Anthony Bailey
Company Secretary

Registered office:
Vinces Road
Diss
Norfolk
IP22 4YT

Notes to the Annual General Meeting

Entitlement to attend and vote

1. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those members registered on the Company's register of members:
 - at the time which is 48 hours prior to the Meeting; or,
 - if this Meeting is adjourned, at the time which is 48 hours prior to the adjourned meeting, shall be entitled to attend and vote at the Meeting.

Appointment of proxies

2. If you are a member of the Company at the time set out in note 1 above, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the Meeting and you should have received a proxy form with this notice of meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
3. If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in this "Appointment of proxies" section.
4. A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Details of how to appoint the Chairman of the Meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the Meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.
5. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, you may photocopy the proxy form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope. Failure to specify the number of shares to which each proxy appointment relates or specifying more shares than the number of shares held by you at the time set out in note 1 above will result in the proxy appointments being invalid.
6. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.

Appointment of proxies using hard copy form

7. The notes to the proxy form explain how to direct your proxy how to vote on each resolution or withhold his or her vote.

To appoint a proxy using the proxy form, the form must be:

- completed and signed;
- sent or delivered to the offices of the Company's registrars, Capita Asset Services in accordance with the reply paid details or by hand or by courier only to Capita Asset Services, PXS 1, 34 Beckenham Road, Beckenham, Kent, BR3 4ZF; and
- received by the Company's registrars no later than 48 hours prior to the time set for the start of the Meeting.

CREST members should use the CREST electronic proxy appointment service and refer to note 9 below in relation to the submission of a proxy appointment via CREST.

In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company.

Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.

In each case the proxy appointment must be received not less than 48 hours before the time for the holding of the Meeting or adjourned meeting together (except in the case of appointments made electronically) with any authority (or notarially certified copy of such authority) under which it is signed.

Appointment of proxies via the web

8. As an alternative shareholders may cast their vote online via the registrars website at www.capitashareportal.com

Appointment of proxies through CREST

9. As an alternative to completing the hard-copy proxy form, CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the Meeting and any adjournment(s) of it by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ("EUI") specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the Company's agent (ID: RA10) by not later than 48 hours prior to the time appointed for the Meeting or adjourned meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Appointment of proxy by joint members

10. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

Changing proxy instructions

11. To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact the Company's registrars, Capita Asset Services, PXS 1, 34 Beckenham Road, Beckenham, Kent, BR3 4ZF.

If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

Termination of proxy appointments

12. In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard-copy notice clearly stating your intention to revoke your proxy appointment to the Company's registrars, Capita Asset Services, PXS 1, 34 Beckenham Road, Beckenham, Kent, BR3 4ZF. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

The revocation notice must be received by the Company's registrars not less than 48 hours before the time for holding the Meeting or adjourned meeting.

If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid.

Appointment of a proxy does not preclude you from attending the Meeting and voting in person. If you have appointed a proxy and attend the Meeting in person, your proxy appointment will automatically be terminated.

Corporate representatives

13. A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.

Issued shares and total voting rights

14. As at 5.00 p.m. on 7 April 2017, the Company's issued share capital comprised 79,448,200 ordinary shares of £0.01 each. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 5.00 p.m. on the 7 April 2017 is 79,448,200.

Communication

15. Except as provided above, members who have general queries about the Meeting should use the following means of communication:

- calling the Company Secretary on +44 (0) 1379 649271; or
- calling our shareholder helpline provided by the Company's registrars, Capita Asset Services, on 0871 664 0300 (calls cost 12 pence per minute plus network extras) or +44 (0)371 664 0300 from outside the UK. Lines are open Monday to Friday, 9:00 a.m. to 5:30 p.m.; or
- emailing the Company Secretary at anthony.bailey@midwich.com.

You may not use any electronic address provided either:

- in this notice of annual general meeting; or
- any related documents (including the proxy form).

to communicate with the Company for any purposes other than those expressly stated.

Directors, officers and advisers

Directors

Mr S B Fenby
Mr A M G Bailey
Mr M Ashley
Mr A C Herbert

Company Secretary

Mr A M G Bailey

Independent Auditor

Grant Thornton UK LLP
Chartered Accountants
Statutory Auditor
101 Cambridge Science Park
Milton Road
Cambridge
CB4 0FY

Registered office

Vinces Road
Diss
Norfolk
IP22 4YT

Bankers

HSBC Bank plc
19 Midsummer Place
Milton Keynes
Buckinghamshire
MK9 3GB

Solicitors

Mills & Reeve LLP
Botanic House
100 Hills Road
Cambridge
CB2 1PH

Company registration number:

08793266

Registrars

Capita Asset Services
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Notes

Notes

The **Midwich** Group Plc
Vinces Road
Diss
Norfolk
IP22 4YT
T: 01379 649200

midwichgroupplc.com