

# Midwich Group Plc

**ANNUAL REPORT & ACCOUNTS 2017**

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

## WE OPERATE IN THE UK, IRELAND, FRANCE, GERMANY, IBERIA, BENELUX, AND AUSTRALASIA

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15	31 December 2017

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## Introduction

## HIGHLIGHTS

## OPERATIONAL



Another year of organically improved revenue and net profits across all territories driven by impressive growth in the specialist audio visual and technical product categories



Completed and integrated three successful acquisitions, strengthening the Group's professional audio and professional lighting credentials and extending its global footprint into Iberia and Benelux



Strong working capital management has generated free cash flow conversion of 83%



Post period end, appointed Hilary Wright to the Board as a Non-executive Director on 9 March 2018



A further year of improved gross margins

## FINANCIAL

## Revenue

**£472m**

2016 – £370m

## Revenue % growth

**27.5%**

24.2% constant currency

## Gross profit %

**15.5%**

2016 – 15.3%

## Adjusted operating profit

**£25.0m<sup>1</sup>**

2016 – £18.5m

## Adjusted operating profit % growth

**35.1%**

31.3% constant currency

## Adjusted profit after tax

**£18.7m<sup>2</sup>**

2016 – £14.4m

## Net debt

**£22.3m**

2016 – £15.0m

## Final dividend

**9.65p<sup>3</sup>**

2016 – 7.09p

- 2017 adjusted operating profit is operating profit of £20.8m adjusted for amortisation of £3.2m, exceptional charges of £0.3m and share based payments of £0.7m. 2016 is operating profit of £14.5m adjusted for amortisation of £2.7m exceptional charges of £1.3m and share based payments of £0.1m.
- adjusted profit after tax is profit after tax of £14.0m adjusted for amortisation of £3.2m, exceptional charges of £0.3m, non operational finance costs of £1.2m, share based payments of £0.6m and the negative tax impact of the adjustments of £0.7m. 2016 is profit after tax of £8.6m adjusted for amortisation of £2.7m, exceptional charges of £1.3m, non operational finance costs of £1.8m and share based payments of £0.1m.
- total dividend of 13.82p (8.62p for the eight months post flotation to December 16)

## The Midwich Group at a glance

# OUR BUSINESS

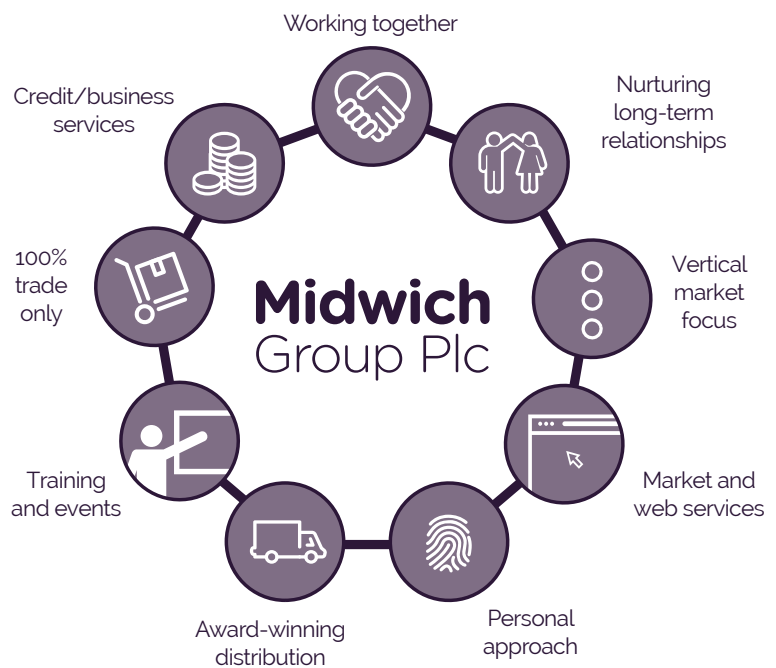
Midwich Group is a specialist Audio Visual (AV) and document solutions distributor to the trade markets, operating across the UK, Ireland, France, Australasia, Germany, Iberia and Benelux.

The Group's staff of around 750, who operate out of 16 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 13,000 customers and long-standing relationships with around 330 vendors, including blue chip organisations.

The Group supports a comprehensive product portfolio across major technology categories such as large format displays, projectors, technical and professional video, audio and digital signage.

## WHY OUR CUSTOMERS CHOOSE US



 **12**  
showroom/demo facilities

 **16**  
offices

 **8**  
countries of operation

 **+13,000**  
accounts serviced in 2017

 **+744**  
staff members

 **£472m**  
turnover 2017

## WHY OUR VENDORS CHOOSE US



# INTERNATIONAL PLATFORM



## UK & IRELAND

**£284m**

revenue (2016 – £247m)

**485**

employees

**midwich**

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

**invision**

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

**PSCo**

**PSCo**  
trade-only rental supplier and specialist distributor of LED technologies

**squareone**  
a Midwich Group company

**Square One**  
trade-only AV and document solutions distributor in Ireland

**holdan**

**Holdan**  
distributor of professional video, streaming and broadcast equipment

**sound**  
TECHNOLOGY

**Sound Technology**  
(1 month post acquisition) specialist distributor of professional audio, musical instruments and professional lighting

## FRANCE

**£39m**

revenue (2016 – £33m)

**48**

employees

**sidev**

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

## GERMANY

**£93m**

revenue (2016 – £64m)

**66**

employees

**KERN & STELLY**

**Kern & Stelly**  
Germany's premier distributor of AV products and solutions, based in Hamburg

## AUSTRALASIA

**£32m**

revenue (2016 – £26m)

**38**

employees

**midwich**

**Midwich**  
distributor of AV technology in Australia and New Zealand

## BENELUX (4 months post acquisition)

**£9m**

revenue (2016 – £7m)

**63**

employees

**van Domburg Partners**  
a Midwich Group company

**van Domburg**  
Rotterdam based specialist distributor of audio visual and lighting solutions.

## IBERIA (9 months post acquisition)

**£15m**

revenue (2016 – £12m)

**44**

employees

**EARPRO**  
a Midwich Group company

**Earpro**  
a value-added distributor of audio, video and lighting solutions, based in Barcelona.



## Chairman's statement

# STRONG RESULTS AND A STRATEGIC FOCUS ON GROWTH

### ANDREW HERBERT

Chairman

“The Board is focused on enhancing the capabilities and reach of the Group in its core business areas.”



I am pleased to report that the Group has continued to deliver strong results in 2017, achieving both revenue and profit growth across all of its markets and geographies.

Revenue of £471.9 million was 275% ahead of prior year (24.2% at constant currency) and reflects an impressive level of organic growth across the business along with contributions from the successful acquisitions during the year of Earpro S.A., the Gebroeders van Domburg B.V. Group of companies and Sound Technology Limited.

Profit margins were improved and adjusted profit before tax grew by 35.7% to £24.3 million. Adjusted earnings per share increased by 22.7% to 22.86 pence per share.

Healthy cash flow performance has helped us maintain a strong balance sheet.

The Board is focused on delivering profitable growth and enhancing the capabilities and reach of the Group in its core business areas.

Organic growth in revenues before the impact of acquisitions (organic growth) was 14.8% reflecting strong performance across all our geographic markets. The sound and Technical product ranges were particularly strong contributors to this growth.

During 2017 we were successful in further expanding the reach of the Group through acquisitions, adding businesses covering the Iberian and Benelux markets and enhancing our position further in the UK. These businesses are already contributing to both sales and profit and have added to our capabilities, in particular in the audio and lighting markets, both of which provide future growth opportunities.

Our strategy of delivering organic growth while adding capability and scale to the business through acquisition is unchanged and we continue to pursue a good pipeline of opportunities.

#### Dividend

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 for investment in longer-term growth.

The Board is recommending a final dividend of 9.65 pence per share (2016: 709 pence), which, if approved, will be paid on 22 June 2018 to shareholders on the register on 25 May 2018. With the interim dividend declared in September 2017, this represents a total dividend for the year to 31 December 2017 of 13.82 pence per share and growth, when compared to a full twelve month equivalent, of 36.2% (note 34). The proposed dividend is covered 1.7 times by adjusted earnings.

#### Board

The Board completed a self-evaluation exercise during 2017, reinforcing our commitment to and success in establishing a strong corporate governance framework. While concluding that the 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, we also identified the opportunity to further strengthen the Board with the appointment of a third independent non-executive director.

I am pleased to confirm that Hilary Wright joined the Board on 9 March 2018. Hilary is an HR professional with a background in international businesses and brings a wealth of complementary experience to the team.

#### People

The success of any company is down to the quality of its leadership and its people. The team at Midwich continues to demonstrate great skill, commitment and drive and it is our people that are the key to the Group's strong track record and continued success.

On behalf of the Board, I would like to thank all employees and our partners for their commitment and hard work and congratulate them all on achieving these impressive results.

#### Andrew Herbert

Chairman

## Managing Director's review

# ORGANIC GROWTH AND TARGETED ACQUISITIONS

**STEPHEN FENBY**  
Managing Director

“ The Group's growth strategy continues to be both organic and inorganic. ”

### Delivering our growth plans

I am very pleased to report that in 2017 we continued successfully to deliver encouraging 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 to build our expertise in a broader range of markets and products.

### Strong financial performance

The Group has delivered a strong growth performance in 2017 with revenue for the year of £471.9 million (2016: £370.1 million) – an increase of 24.2% (2016: 15.1%) on a constant currency basis. This resulted from revenue growth across all regions, with particularly strong growth achieved in Germany and Australia. The three acquisitions made during the year accounted for 6.8% of the 24.2% growth.

Group gross profit increased by 29.5% to £73.1 million (2016: 20.2% to £56.5 million). The growth in gross profit represented a further increase in the Group's gross margin from 15.3% to 15.5%. This increase was delivered as a result of continued focus on margins and driving improvement through improving product mix while working closely with vendors and customers alike to add value to both parties in the supply chain. The growth in Technical Video, LED and Rental sectors also resulted in improved margins. The Group has now successfully increased gross margin every year for over 10 years.

Our adjusted operating profit margin improved from 5.0% to 5.3%. Adjusted profit after tax increased 29.9% to £18.7 million (2016: 22.4% to £14.4 million) and adjusted earnings per share increased 22.7% (2016: 19.5%) to 22.9 pence (2016: 18.6 pence). Reported profit before tax was £18.9 million (2016: £12.1 million) and reported earnings per share increased to

17.1 pence (2016: 10.9 pence). Calculations of adjusted profits are included within the adjustments to reported results which are presented on page 14.

### Our business model

The Midwich Group is a specialist distributor serving only the trade market and specialising in audio visual equipment. With initial operations in the UK, the Group has expanded its footprint to include Ireland, France, Australasia, Germany, Iberia and Benelux. In 2006 the Group commenced an acquisition programme aimed at acquiring smaller businesses to provide access to new products, sectors and geographical markets. Our general strategy was to acquire businesses which not only added to the Group's capabilities, but which also provided exciting opportunities for growth. We continue to have significant success with this strategy and a substantial number of opportunities remain across the globe.

We believe that our primary role as a value added 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 around 330 vendors, including blue-chip organisations such as Samsung, LG, Epson and NEC, supports a comprehensive product portfolio across major audio-visual categories such as large format displays, projectors, technical and professional video, audio and digital signage. 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.



## Managing Director's review continued

The Group offers a range of support to its customers, including demonstrating products, training staff, providing technical assistance through to logistics and post-sales support. We have a large and diverse base of around 13,000 customers, most of which are professional AV integrators and IT resellers serving sectors including corporate, education, retail, residential and hospitality. Although the Group does not sell directly to end users, we believe that the majority of our products are used by corporate, commercial and educational establishments rather than consumers.

The Group has an established track record of acquiring complementary businesses and then assisting them to grow significantly. Although the majority of growth achieved has been organic, over the past five years around one third of turnover and profit growth has derived from acquired businesses. Between 2006 and 2008 our acquisition strategy was focused primarily on adding more technical businesses into the UK segment. From 2009 the focus turned to expanding the business outside the UK, with a primary drive to have a presence in the three largest European AV markets (the UK, France and Germany) and then expanding the business further across Europe. The Group trades as Sidev in France, Kern & Stelly in Germany, Earpro in Iberia, Gebroeders van Domburg in Benelux, and Square One Distribution in Ireland. Our businesses in Australia and New Zealand trade under the Midwich name.

### **A continually evolving and growing market sector**

Our addressable market in professional audio-visual solutions covers areas such as sound, video, lighting, display and projection systems. These solutions 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 functions. 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 these technologies 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, which itself failed to significantly dampen growth, has also been beneficial for the AV 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 2017**

There were a number of important events for our business in 2017. We have continued to reap the benefits of our admission to AIM in 2016, including:

- 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.

In 2017, we continued to build our international network, with acquisitions of Earpro S.A. ("Earpro") and Gebroeders van Domburg B.V. ("van Domburg").

Earpro is a value-added distributor of audio, video and lighting solutions in Spain and Portugal. The company was acquired in March 2017 and it has a notable heritage in the solution driven professional audio market where the business operates with mid to high end specialist brands.

Van Domburg was acquired in September 2017, and is a market leading specialist distributor of audio visual and lighting solutions based in the Netherlands. It has particular strength in the large format display market, with a developing interactive and technical product offering. Through its transport division, Van Domburg also has in-house warehousing and transportation capabilities based out of Rotterdam, a major logistics centre.

In December 2017, our audio and lighting expertise was further enhanced by the acquisition of UK distributor Sound Technology Limited ("Sound Technology"). Sound Technology is a specialist distributor focused on three technology categories – audio, musical instruments and lighting. The Company is based in Letchworth Garden City and has a strong trading history in the professional audio and musical instrument markets where the business operates with mid to high end, specialist brands.

During the course of 2017, our central office function continued to evolve, with a number of appointments designed to support our acquisition and integration capabilities, and also to ensure that we manage the growing legal and regulatory requirements of the business.

### **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 14.9% in the year (2016: 11.5%), helped by the full year effect of the acquisition of Holdan Limited ("Holdan") in the prior year and assisted slightly by the acquisition of Sound Technology in December 2017. Underlying revenue growth (excluding the effects of acquisitions in the current and prior year) was 5.6% (2016: 6.1%). Continued revenue decline in the document solutions product set was compensated for by an improvement in the core audio visual business.

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 full year impact of sales of the SMART brand, launched in 2016.



## France

After more challenging market conditions in the first half of 2017 in France, Sidev continued to build upon its prior year success with a full-year revenue increase of 17.2% (2016: 39.3%) to £39.2 million (2016: £33.4 million). A significant proportion of the sales growth was in large format displays, where we also experienced improved gross margins. Sidev's higher margin technical product sales also improved significantly in the year. Overall, the Company improved its gross margin percentage by 0.7%. The adjusted operating profit margin remained stable at 3.2% for the year (2016: 3.2%), with adjusted operating profit of £1.2 million (2016: £1.1 million) representing a 16.6% increase on prior year.

## Germany

In Germany, Kern & Stelly ("K&S") performed very strongly, with revenue growth of 44.8% (2016: 26.0%) to £93.1 million (2016: £64.3 million). In local currency, the business exceeded the €100 million sales landmark – a major achievement for a business founded just 13 years ago. Although sales of technical products are increasing strongly, K&S continues to grow its mainstream projector and large format displays businesses – products where price competition is high in the German market. As a result, the overall gross margin percentage reduced by 2.1% to 11.1%. A relatively lean overhead cost model ensured that adjusted operating profit improved by 21.7% (2016: 34.5%) to £4.7 million (2016: £3.9 million).

## Australasia

Midwich Australia achieved a 25.7% (2016: 42.8%) growth in sales from £25.5 million to £32.1 million. Much of this growth was achieved in technical product categories, with the result that the gross margin percentage increased in the year. Adjusted operating profit in Australasia increased by 60.8% (2016: 124.5%) from £1.6 million to £2.6 million.

## Rest of Europe

The acquisition of Earpro and van Domburg established the Group's presence on the Iberian Peninsula and within Benelux respectively. Combined revenues from these entities amounted to £24.0 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

The displays category is the largest technology category for the Group, accounting for 43.4% of Group turnover in 2017 (2016: 42.5%). It grew 30.3% (2016: 28.8%) in the year, with strong growth in France and the UK and Ireland, and particularly impressive growth in Germany. Displays is a significant product category for two of the companies acquired in the year – Earpro (Iberia) and van Domburg (Benelux), which between them accounted for 6.1% of the 30.3% growth in this category.

Projection represents 22.1% of Group turnover (2016: 23.9%) and grew 17.5% (2016: 9.4%) in the year, thanks mainly to double digit growth in Germany and France.

Sales of technical products which include the audio, broadcast and technical commercial and technical consumer AV categories, rose 80.5% (2016: 52.2%), partly due to the acquisition of Holdan in 2016 and Earpro in 2017. Technical product sales grew strongly in all other territories. Technical products constituted 20.5% of Group sales in the year (2016: 14.5%).

As expected, Group sales of document solutions products (printers, scanners and consumables) declined in absolute and relative terms. This category (which is only sold in the UK and Ireland) now represents 6.8% of Group revenue (2016: 11.5%) with revenues declining by 25% (2016: 13.4%) in the year.



## 2017

### Acquisition of Sound Technology

- A specialist distributor of professional audio, musical instruments and professional lighting

### Acquisition of Van Domburg Partners

- A market leading audio visual distributor in the Netherlands.

### Acquisition of Earpro

- A specialist audio visual distributor headquartered in Barcelona, and covers both the Spanish and Portuguese markets.



## 2016

- Flotation of The Midwich Group on the AIM market of the London Stock Exchange

### Acquisition of Holdan

- UK-based distributor of broadcast and professional video products

### Acquisition of Wired

- NZ-based AV distributor of AV technology



## 2014 – 2015

### Acquisition of PSCo

- Specialists in Rental and LED



## 2012 – 2013

- Expanded into Germany
- Entry into Australia and New Zealand
- Ranked 23rd in Times Top International Tracker 200



## 2006 – 2010

- 6 bolt-on acquisitions
- Entry into France and Ireland



## 2000 – 2005

- Over £100m annual sales achieved



## 1995 – 1996

- Introduced trade-only channel policy and commenced AV distribution



## 1979 – 1987

- Founded in 1976
- Distributor of computers, components and printers

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## Managing Director's review continued

### Overview of Group acquisition strategy

The Group's growth strategy has been, 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 continuing trend toward the use of, and need for, high quality distributors such as the Midwich Group to support the professional audio visual 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 inorganic growth opportunities that would fit within our strategic acquisition criteria of adding new product ranges, capabilities or geographies to our existing portfolio.

The Board is continuing to pursue its established strategy, and is pleased with the progress made during 2017. Trading in the first few months of 2018 has built on the good growth achieved in the prior year giving the Board confidence in delivering results in 2018 in line with its expectations.

**Stephen Fenby**  
Managing Director

## Market backdrop

# 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 2018, the show hosted 1,200 exhibitors and welcomed over 80,000 visitors – an increase of around 10% on the previous year.

### AV market size and growth drivers

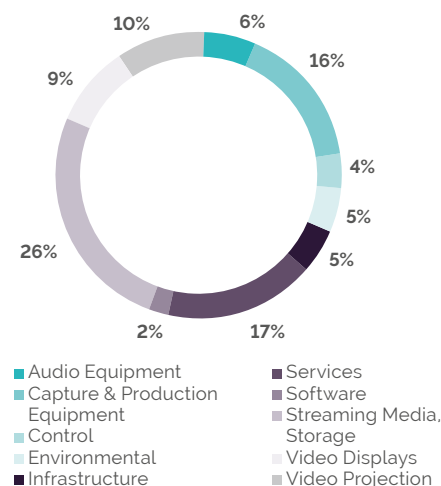
AVIXA, the international trade association representing the professional AV and IT communications industries, has estimated end user spending in the global Pro AV market to have been \$178 billion in 2016, and forecasts it increasing to \$230 billion in 2022, a CAGR of 5%. In its latest report, AVIXA estimates that Europe represented 23.6% of the global AV market in 2016, with annual growth of around 4% expected to 2022. Western Europe is expected to continue to account for approximately 70% of the overall European segment and is the core of the Group's current business.

### AV products

The latest AVIXA report analyses the AV market into a number of product and service categories. Some of these categories are not targeted by the Group as they are either considered to be core to the Group's customer activities (such as installation services) or are low margin commoditised products (such as media storage and servers). The addressable market is considered to be around 55% of the overall market. Displays and projection accounted for around 65% of the Group's revenue and 19% of the overall market in aggregate. Other significant product categories include capture and production equipment (the Group's broadcast

segment) which is around 16% of the overall market, and audio, which accounts for around 6% of the market. By 2022 displays and projection are expected to broadly maintain their current share of the overall market, although displays will increase at the expense of projection. Environmental products (which includes lighting) are expected to increase from 5% to 9% of the overall market. Segments expected to grow at the fastest rate between 2016 and 2022 include flat panel displays (LFD – expected to grow at a CAGR of 14%, lighting fixtures (expected to grow at a CAGR of 25%) and control systems (expected to grow at an average of 11% per annum).

### MARKET BY TECHNOLOGY TYPE



Source: IHS Markit

# 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 eleven 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

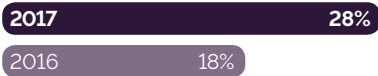
Senior management team with an average of 19 years' experience in the AV market.

## 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 2017 with Germany growing 45% (2016: 26%), Australia growing 26% (2016: 43%), France growing 17% (2016: 39%), and UK and Ireland growing 15% (2016: 12%).

### Change in gross profitability



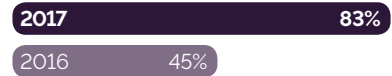
#### Why it is measured

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

- 2017 continued our record of increasing gross margin % year by year. The addition of acquisitions in Iberia and Benelux were beneficial as they boosted the proportion of high margin Professional Audio and Professional Lighting sales. Organic growth of technical products in all territories was strong.

### 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 stock to sales to cash quickly. It gives an indication as to the ability of the Group to pay its dividend and self-fund investments.

#### Comment

- 2017 was a solid year for cash flow conversion with the majority of Group entities contributing to the overall picture.

# PLEASING ALL ROUND STRENGTH IN OUR FIRST FULL YEAR AS A PUBLIC COMPANY

## ANTHONY BAILEY

Finance Director

“Healthy cash flow performance has helped us maintain a strong balance sheet.”



### Trading results

Turnover increased by 27.5% to £471.9 million (2016: £370.1 million). The gross profit margin rose 0.2% (2016: 0.4%) to 15.5% (2016: 15.3%). The increase in turnover and gross profit margin for the Group generated absolute growth in gross profit of £16.7 million (2016: £9.5 million). This translated into adjusted operating profit of £25.0 million (2016: £18.5 million). The £6.5 million (2016: £3.4 million) additional operating profit was an increase of 35.1% (2016: 22.2%) year on year. Operating profit before adjustments grew from £14.5 million to £20.8 million.

As in 2016, 2017's figures benefitted from further weakness in sterling, especially in the first half of the year, boosting our overseas earnings. On a constant currency basis growth in turnover was 24.2% (2016: 15.1%) and growth in adjusted profit after tax was 26.4% (2016: 20.0%).

### Segmental review

Each of the trading segments performed strongly.

#### UK & Ireland

£m	Year to 31 December 2017	Year to 31 December 2016
Revenue	<b>283.7</b>	247.0
Adjusted operating profit	<b>15.0</b>	12.0

The UK and Ireland segment revenue grew 14.9% (2016: 11.5%) to £283.7 million (2016: £247.0 million) generating gross profit of £45.8 million (2016: £39.3 million) at a gross profit margin of 16.2% (2016: 15.9%). This resulted in an adjusted operating profit of £15.0 million (2016: £12.0 million), an increase of 25.0% (2016: 9.1%) on the prior year. Organic revenue growth excluding the effects of acquisitions in the current and prior period was 5.6% (2016: 6.0%).

#### Germany

£m	Year to 31 December 2017	Year to 31 December 2016
Revenue	<b>93.0</b>	64.3
Adjusted operating profit	<b>4.7</b>	3.9

The German segment revenue grew 44.8% (2016: 26.0%) to £93.0 million (2016: £64.3 million) generating gross profit of £10.4 million (2016: £8.5 million) at a gross profit margin of 11.1% (2016: 13.2%) leading to an adjusted operating profit of £4.7 million (2016: £3.9 million) that has increased 21.7% (2016: 34.5%) on the prior year. In constant currency, revenue grew by 35.6% (2016: 18.0%) and adjusted operating profit grew 14.0% (2016: 26.0%).

#### France

£m	Year to 31 December 2017	Year to 31 December 2016
Revenue	<b>39.2</b>	33.4
Adjusted operating profit	<b>1.2</b>	1.1

The French segment revenue grew 17.2% to £39.2 million (2016: £33.4 million) generating gross profit of £5.6 million (2016: £4.5 million) at a gross profit margin of 14.2% (2016: 13.5%). This has resulted in an adjusted operating profit of £1.2 million (2016: £1.1 million), an increase of 16.6% (2016: 103.7%) on the prior year. In constant currency, revenue grew by 9.3% (2016: 30.0%) and adjusted operating profit grew 9.2% (2016: 91.0%).

## Australasia

£m	Year to 31 December 2017	Year to 31 December 2016
Revenue	<b>32.1</b>	25.5
Adjusted operating profit	<b>2.6</b>	1.6

The Australasian segment revenue grew 25.7% (2016: 43.0%) to £32.1 million (2016: £25.5 million) generating gross profit of £5.7 million (2016: £4.1 million) at a gross profit margin of 17.7% (2016: 16.2%) leading to an adjusted operating profit of £2.6 million (2016: £1.6 million) that has increased 60.8% (2016: 124.5%) on the prior year. In constant currency, revenue grew by 17.4% (2016: 34.0%) and adjusted operating profit grew 50.0% (2016: 111.0%).

## Rest of Europe

£m	Year to 31 December 2017	Year to 31 December 2016
Revenue	<b>24.0</b>	-
Adjusted operating profit	<b>1.5</b>	-

The Rest of Europe segment, consisting of Iberia and Benelux, achieved revenue of £24.0 million since the acquisition of Earpro and van Domburg during the year, generating gross profit of £5.7 million at a gross profit margin of 23.8% leading to an adjusted operating profit of £1.5 million.

## Profit before tax

Profit before tax for the year increased by 56.2% (2016: 41.4%) to £18.9 million (2016: £12.1 million), while adjusted profit before tax increased by 35.7% (2016: 22.8%) to £24.3 million (2016: £17.9 million).

## Tax

The effective current tax rate was 23.2% in 2017, representing a small increase on 2016 (22.7%). In France, the Group's business Sidev was subject to a full year of corporate tax charges. In 2016 Sidev benefitted from use of residual accumulated tax losses.

## Earnings per share

Basic earnings per share (EPS) is calculated on the total profit of the Group attributable to shareholders. Basic EPS for the year was 17.1p (2016: 10.9p), representing growth of 56.3% (2016: 52.9%). Diluted EPS was 17.0p (2016: 10.9p).

## Dividend

The Board has recommended a final dividend of 9.65p per share (2016: 7.09p) which, together with the interim dividend of 4.17p paid in October 2017 gives a final dividend of 13.82p for 2017 (2016: 8.62p). If approved by shareholders at the general meeting, the final dividend will be paid on 22 June 2018 to those shareholders on the register on 25 May 2018.

## Cash flow

£m	Year to 31 December 2017	Year to 31 December 2016
Adjusted operating profit	<b>25.0</b>	18.5
Add back depreciation	<b>1.8</b>	1.3
Adjusted EBITDA	<b>26.8</b>	19.8
Increase in stock	<b>(7.2)</b>	(8.4)
Increase in debtors	<b>(12.0)</b>	(5.9)
Increase in creditors	<b>14.7</b>	3.3
Adjusted cash flow from operations	<b>22.3</b>	8.8
EBITDA cash conversion	<b>83.4%</b>	44.5%

The Group's adjusted operating cash flow conversion, calculated comparing adjusted cash flow from operations with adjusted EBITDA, increased to 83.4% compared to 44.5% for the prior year. The performance for the current year was more in line with the long term average for the Group and reflected a strong performance across the majority of the Group entities.

Gross capital spend was £3.1 million (2016: £2.3 million). Rental assets accounted for £2.2 million (2016: £0.7 million) of this spend. Capital expenditure on plant and equipment was £0.9m (2016: £0.8m). In 2016 Holdan incurred £0.8m acquiring the freehold of its new site.

## Net debt

At 31 December 2017, the Group had net debt of £22.3 million (2016: £15.0 million). The Group has a strong balance sheet with closing net debt/EBITDA ratio of just 0.8x (2016: 0.8x). 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. Year-end borrowings of £50.5 million (2016: £35.2 million) compare to facilities totalling £73.3 million (2016: £55.2 million) at that date.

## Goodwill and intangible assets

The Group's goodwill and intangible assets of £31.4 million (2016: £23.4 million) arise from the various acquisitions undertaken. Each year the Board reviews goodwill for impairment and, as at 31 December 2017, 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

	2017 £000	2016 £000
<b>Operating profit</b>	<b>20,809</b>	14,487
IPO and acquisition costs	336	1,300
Share based payments	551	75
Employer taxes on share based payments	118	–
Amortisation	3,230	2,680
<b>Adjusted operating profit</b>	<b>25,044</b>	18,542
<b>Profit before tax</b>	<b>18,898</b>	12,102
IPO and acquisition costs	336	1,300
Share based payments	551	75
Employer taxes on share based payments	118	–
Amortisation	3,230	2,680
Finance costs – deferred and contingent consideration	(81)	–
Finance costs – put option	1,257	1,729
Finance costs – interest on loan notes and preference shares	–	26
<b>Adjusted profit before tax</b>	<b>24,309</b>	17,912
<b>Profit after tax</b>	<b>13,979</b>	8,560
IPO and acquisition costs	336	1,300
Share based payments	551	75
Employer taxes on share based payments	118	–
Amortisation	3,230	2,680
Finance costs – deferred and contingent consideration	(81)	–
Finance costs – put option	1,257	1,729
Finance costs – interest on loan notes and preference shares	–	26
Tax impact – at 20% / 20.25%	(726)	(5)
<b>Adjusted profit after tax</b>	<b>18,664</b>	14,365
<b>Profit after tax</b>	<b>13,979</b>	8,560
Non-controlling interest	422	344
<b>Profit after tax attributable to owners of the parent</b>	<b>13,557</b>	8,216
Number of shares for EPS	<b>79,448,200</b>	75,247,380
<b>Reported EPS – pence</b>	<b>17.06</b>	10.92
<b>Adjusted EPS – pence</b>	<b>22.86</b>	18.63

The directors present adjusted operating profit, adjusted profit before tax and adjusted profit after tax as alternative performance measures in order to provide relevant information relating to the performance of the Group. Adjusted profits are a reflection of the underlying trading profit and are important measures used by directors for assessing Group performance.



## 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 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 and to 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, 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 three 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 around 13,000 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 2.0% (2016: 2.4%) of overall Group revenues for the year ended 31 December 2017. 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 developments funds, early payment discounts and price protections which enable the Group to manage profitability. 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 fulfil their market share aspirations the Group will continue to maintain strong relationships with its vendors.

### Regulatory risk

The Group is subject to an increasingly complex regulatory environment. A failure to follow regulatory laws, orders and codes of practice requirements will expose the Group to regulatory sanction and subsequent reputational damage.

The Group has defined policy statements which articulate the protocols adopted to minimise the risk of a breach. Staff training takes place on a regular basis to ensure behavioural alignment with these policies. Acquired businesses are subject to a post acquisition onboarding process which includes improvement of compliance protocols where necessary. The Board is regularly updated on compliance matters. This includes a full review across the Group on an annual basis.

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 12 March 2018 and signed on its behalf by:

**Andrew Herbert**  
Chairman

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## Board of directors

# EXPERIENCED MANAGEMENT



### **ANDREW HERBERT**

(aged 58) – 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 BA in Business Studies from Hatfield Polytechnic and is a Fellow of the Chartered Institute of Management Accountants.



### **STEPHEN FENBY**

(aged 54) – 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 Midwich as Finance Director in 2004 and became Managing Director in 2010. He has led the Group's acquisition and development programme.

Stephen has a BSc 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 51) – Group Finance Director

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

Previously Tony was Finance Director at Kettle Foods for seven 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 MA in French and German from the University of St. Andrews.



### **MIKE ASHLEY**

(aged 50) – Non-executive Director

Mike is currently the Chief Commercial Officer (CCO) of the P&H division of Travis Perkins plc, having originally joined this group in 2014 as CCO of its retail business Wickes. 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 five 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 MBA modules at Manchester Business School, sponsored by Home Retail Group.



### **HILARY WRIGHT**

(aged 58) Non-executive Director

Hilary is currently the Group HR Director of Domino Printing Sciences plc who she joined in 2016. Her background was formed in retailing and more latterly with Cambridge based engineering and technology companies where she has gained her global experience as well as involvement in a number of acquisitions. She has held both strategic and operational roles and devised and led the HR direction for significant global growth (ensuring people development, succession planning and talent acquisition are aligned for transformational change).

Hilary is a Fellow of the Chartered Institute of Personnel and Development

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## Chairman's corporate governance statement

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### ANDREW HERBERT

Chairman



The Board's view continues to be that sound governance is an essential element of a well-run business. To that end, since our IPO in 2016 we have adopted the code published by the Quoted Companies Alliance (QCA code) as our benchmark for governance matters.

My role as Chairman of the Board remains separate to and independent of that of the Chief Executive (Group Managing Director) and we both have clearly defined responsibilities. Details of the responsibilities of all directors along with matters reserved for the Board and terms of reference for all the Committees of the Board can be found on the Company's website.

The post of Company Secretary is currently held by the Finance Director. The Board considers that the size and nature of the Company means that the two roles can effectively be carried out by the Finance Director. The position will be kept under review.

Executive directors hold service contracts with a nine-month notice period. Non-executive directors are appointed for an initial period of three years with a three-month notice period on each side. All directors retire and submit themselves for re-election each year at the Company's Annual General Meeting.

The Board maintains a regular dialogue with Investec, the Company's nominated advisor, and obtains other legal and financial advice as necessary to ensure compliance with Stock Exchange Listing Rules and other governance requirements.

We continue to review our approach to governance and how the views of stakeholders are represented in our oversight of the business. To that end I have met with a number of shareholders over the past twelve months. Feedback on both operational and governance matters from those meetings has formed a part of the Board's agenda.

The Board has eight scheduled meetings during the year with further meetings held by telephone as necessary. A full pack of papers is made available to all Board members in advance of scheduled meetings, covering both operational and strategic matters. In addition, the Board receives presentations from operational management.

The Board introduced a formal evaluation and appraisal process in 2017. A survey was developed in-house seeking the individual views of directors on Board composition and effectiveness, business leadership, QCA code compliance and other matters. The Group HR Director compiled results and subsequently facilitated a Board discussion during which matters arising were reviewed and actions agreed. There were no major issues or concerns raised about the effectiveness of the Board or its individual members and the minor points raised have been acted upon.

The principal longer-term matter arising was agreement that, assuming the business continued to grow and develop, it would be appropriate to appoint a third independent non-executive director with complementary skills to those of existing Board members. In that regard, I am delighted to confirm that Hilary Wright has joined the Board on 9 March 2018. The Board is now comprised of three independent non-executive directors and two executives.

There were a number of regulatory and government initiatives during 2017 to which the Company has responded. These include implementation of the Modern Slavery Act, and the 2016 Finance Act requirement to publish our tax strategy. Information on the policies and, where appropriate, the performance of the Group is available on the Company's website.

**Andrew Herbert**  
Chairman

## Corporate governance report

The Board met in person eight times during the year and held a number of meetings by telephone to consider specific matters. The Board receives a full pack of reports in advance of each scheduled meeting detailing Group and entity trading performance and containing individual reports from each of the executive directors and local management. During 2017 the Board also received presentations from operational management on topics including HR and succession planning, tax strategy, IT systems and cyber security and acquisition proposals.

Alongside monitoring operational performance, it is the Board's responsibility to formulate, review and approve the Group's strategy, investments (including acquisitions) 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 which are available on the Company's website.

### Attendance at Board and Committee meetings

Board meetings are scheduled in advance for each calendar year. The scheduled Board meetings and attendance during the twelve months ended 31 December 2017 were as follows:

	Board meetings	Audit	Remuneration	Nomination
Andrew Herbert (Chairman)	8	3	2	1
Mike Ashley	8	3	2	1
Stephen Fenby	8			1
Anthony Bailey	8			

### Audit Committee

The Audit Committee consists of the 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. No change was made to those terms of reference during 2017.

#### 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 AGM, in relation to the appointment, re-appointment and removal of the Company's external auditor.

### Nominations Committee

The Nominations Committee consists of the non-executive directors and the Group 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 and remain unchanged.

#### The main roles of the Nominations Committee are:

- to lead the process for Board appointments and make recommendations to the Board;
- to evaluate the structure, size and composition of the Board (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 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. No changes were made to these terms of reference during 2017.

#### The main roles of the Remuneration Committee are:

- to determine the framework and broad policy for setting remuneration for the Group Managing Director (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.

Separate reports from the Audit Committee and Remuneration Committee are presented below. There is no separate report from the Nominations Committee, the business of which during 2017 was purely to review the output from the Board's evaluation of performance and to approve the actions taken to appoint a third non-executive director.

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## Audit Committee report

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### ANDREW HERBERT

Chairman of the Audit Committee

I am pleased to present the Audit Committee Report describing our work during the past year. Grant Thornton UK LLP ("Grant Thornton") was re-appointed as the company's auditor at the Annual General Meeting and during the year, following that firm's normal rotation rules, James Brown replaced Alison Seekings as the engagement partner.

#### Membership and responsibilities of the Committee

During 2017 the Audit Committee was formed of two members, Mike Ashley and myself, both independent non-executive directors. I am the chairman of the Committee and the member with recent and relevant experience. Hilary Wright, independent non-executive director, joined the Committee as a third member with effect from 9 March 2018.

The Committee met three times during 2017.

Key responsibilities include monitoring the audit arrangements, monitoring the integrity of the financial statements, and reviewing internal control and risk management systems.

#### Monitoring audit

The Committee oversees the plans for both the interim review and the full year audit undertaken by the external auditors, Grant Thornton. Grant Thornton drafts initial proposals in consultation with executive management and these are presented to the Committee for review. These plans describe an assessment of the principal risks, the proposed scope of work and the approach to be taken to the audit including materiality. The

Committee has the opportunity to challenge and satisfy itself that the proposed audit plan is appropriate and adequate.

During the year, the Committee was made aware that the audit of the 2016 full year results was subject to review by the FRC's Audit Quality Review team. The Committee reviewed the final AQR report and noted that a small number of limited improvements were recommended. The Committee discussed these with the Grant Thornton audit partner and was satisfied that appropriate actions were being taken and that 2017 audit plans reflected suitable changes in approach.

#### Review of financial statements and audit findings

The Committee reviewed the interim and full year financial statements and the report of the auditors on these statements. The audit partner and relevant senior members of the audit team attended the Audit Committee meetings, presenting the results of the audit and answering questions from the Committee.

#### Significant potential issues presented to the Committee in respect of financial statements were:

- The risk of improper revenue recognition – this is a presumed risk under International Auditing Standards but is relevant to the Group in respect of cut-off, warranty, licence and rental income. The auditors were able to confirm no material misstatement of revenues.
- The risk of acquired intangible assets being improperly accounted for – this risk relates to the assessment of the extent to which acquired intangible assets, liabilities assumed and non-controlling interests are recognised separately from goodwill. The Committee received feedback from the auditors on their separate assessment of goodwill to be recognised and noted that there was no material difference from that proposed by management.
- The risk of management override of controls – this is a presumed risk and relates to both the internal control environment and the basis of management assessment and accounting estimates, including working capital provisions. There were no material issues identified.



In addition to feedback from the auditors on the Annual Report and Accounts, the Committee benefitted from receipt of a review of the Group's 2016 Annual Report and Accounts undertaken by the FRC. Noting that the FRC review was necessarily limited to the application of relevant legal and accounting framework, the Committee was nevertheless pleased to note that there were no issues raised. Recommendations were noted on specific improvements for incorporation in future reports.

The Committee has reviewed the 2017 Annual Report and Accounts to ensure they are fair, balanced and understandable, and that they provide the information necessary for shareholders to assess the Company's performance, business model and strategy in a clear, concise and balanced manner.

### Internal control and risk management

The Group seeks to operate consistent accounting policies and control procedures across its subsidiary operations, including newly acquired entities, and relies upon local management to ensure those policies and procedures are followed. This is confirmed by review by the central finance team.

The Audit Committee receives feedback on the effectiveness of internal controls from executive management and correlates that with separate reports from the external audit process. While there have been no specific internal control issues identified to date, the growth of the business has led the Committee to discuss the possible introduction of an internal audit function, the options for which are under investigation.

The Group operates a risk assessment and monitoring process. This is coordinated by the Group Finance Director who reports principal risks and mitigation actions to the Committee. Further detail on these risks is included at page 15.

### Assessment of auditors

The Committee has assessed the qualification, expertise, resources and independence of the external auditor and is satisfied that Grant Thornton is meeting those requirements.

In addition to seeking the views of the executive team, the Committee considers a range of criteria in that assessment:

- the delivery of a thorough audit, meeting the agreed plan in a timely manner to agreed budget;

- demonstration of a deep understanding of the business of the Group and its subsidiaries, evidenced in the quality and completeness of presentation material;
- the provision of perceptive advice on key accounting and technical matters
- the professionalism and competence of the audit team deployed; and
- confirmation from the firm themselves of their processes to ensure independence.

The Committee also monitors arrangements to ensure the independence of the auditor is not compromised either by the non-audit work undertaken or the relationship they have with executive management.

Further to the IPO, the Committee has determined that the Company's policy should be to limit use of the auditor for non-audit work to tax compliance and acquisition due diligence, both areas where use of the auditors is cost effective given their knowledge of the business.

During the year Grant Thornton was paid fees of £351k (2016: £316k) in respect of audit and non-audit work as follows:

	2017 £000	2016 £000
Audit fees in relation to the audit of the Company	33	31
Audit fees in relation to the audit of subsidiaries	129	61
Audit fees in relation to the interim review	15	11
Total audit fees for audit services	177	103
Total fees for tax compliance services	10	10
Corporate finance services (principally acquisition due diligence)	129	203
Other services	35	-
Total fees for audit and non-audit services	351	316

There was no contingent element to any of these fees and independence was safeguarded as follows:

- Tax compliance work – the teams performing the computation and compliance work were separate and led by a different partner.
- Corporate finance services – the teams performing due diligence work were separate to the audit team and led by a different partner.
- Other services – these include services relating to 'Senior Accounting Officer' tax reporting responsibilities and GDPR compliance. In both cases the teams performing the work were separate to the audit team and led by a different partner.

### Terms of reference

The Committee maintains its terms of reference under review and makes recommendations for changes to the Board as required. There were no changes made during 2017. Details of the full terms of reference are available on the Company's website.

### Andrew Herbert

Chairman of the Audit Committee

## Statement from the Chairman of the Remuneration Committee

### MIKE ASHLEY

Chairman of the  
Remuneration Committee

“The Committee believes that the current remuneration agreements are aligned to our strategic goals.”



As Chairman of the Remuneration Committee, I am pleased to present the Directors' Remuneration Report for the financial year ended 31 December 2017.

The Remuneration Committee comprises the non-executive directors including, from 9 March 2018, Hilary Wright. Whilst Midwich Group plc is listed on the Alternative Investment Market and is therefore only required to prepare remuneration disclosures on a voluntary basis, we have increased the level of our reporting this year to improve transparency and alignment with best practice.

#### The report is split into three parts:

- This *Annual Statement*.
- A *Remuneration Overview* section which provides a brief summary of the Company's remuneration agreements with its directors.
- An *Annual Report on Remuneration* which sets out payments made to the directors and details the link between the Company's performance and remuneration for the 2017 financial year.

#### Our approach to executive pay

The current remuneration of the executive directors is positioned to reflect the newly listed nature of the Company, the high shareholdings of the Group Managing Director (MD) and Group Finance Director (FD) and the value of these shareholdings given the rapid growth in the Company's share price since IPO in May 2016.

The Committee is aware of recent developments in corporate governance and in executive remuneration best practice, and intends to make gradual adjustments to the remuneration levels of the executive directors over time based on the Company's performance. The Committee believes that the current remuneration levels (which are significantly below the market median) are appropriate for the incumbent MD and FD given the significant value of the shareholdings they both hold. However, the Committee recognises that remuneration agreements may need to be reviewed should there be any changes or additions to the Executive Board, and will continue to monitor this going forwards.

In addition to the Committee's remit of the remuneration of the executive directors, the Committee strongly focuses on the development of the next tier of talent in the business. It is our strategy to retain and incentivise the leadership of the future. For example, during 2017, the Company appointed a new UK Managing Director and introduced additional global responsibilities to the European Director.

#### 2017 performance and remuneration

In our first full year since listing on AIM, the Company's performance has been very strong, with improved sales and profit performance across all territories (sales have grown by 27.5% to £471.9 million and adjusted operating profit by 35.1% to £25.0 million) in addition to the strategic acquisitions in target geographies, including Iberia, Benelux and the UK. Our executive team, led by the MD and FD, has been instrumental in driving these results.

The Committee determined that the annual bonuses for the executive directors, which are based on a profit growth, cash conversion and stretching strategic objectives, paid out at the level of 85% of base salary for both MD and FD (equivalent to 85% of maximum opportunity). The stretching nature of the targets is reflected in the fact that the bonus has not paid out at maximum levels, as not all criteria were met, despite the very strong sales, profit, cash conversion and EBITDA performance. Further details are set out in the Annual Report on Remuneration on page 26.



To reflect the substantial shareholdings of the MD and FD, and in line with the approach taken in 2016, no LTIP awards were granted to executive directors during the year.

### Key activities of the Remuneration Committee

The Remuneration Committee sets the overall approach to remuneration and the terms of employment of the executive directors, having regard to pay and conditions elsewhere in the Group. The Committee 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 Remuneration Committee met twice during 2017 and its key activities were as follows:

- Reviewed the 2016 Remuneration Report;
- Discussed annual bonus awards for executive directors and the wider Senior Management Team;
- Discussed annual bonus scheme proposal for executive directors and the wider Senior Management Team for FY17;
- Reviewed the executive directors' remuneration arrangements for 2018;
- Considered the remuneration of the Senior Management Team for 2018;
- Reviewed non-executive director fees for 2018; and
- Gender Pay Reporting.

At the request of the Board, the Remuneration Committee commissioned PricewaterhouseCoopers LLP (PwC) to undertake an independent benchmarking exercise of the remuneration of its executive directors, in view of the significant growth since IPO, as pay arrangements no longer reflect the size and complexity of the business. The results of this analysis are discussed in the "Remuneration Overview" section of the report.

### Outlook for the 2018 financial year

The executive directors received salary increases of 7.0% for the MD and 8.7% for the FD effective from 1 January 2018, following a benchmarking exercise undertaken by PwC in 2017 at the request of the Board which demonstrated below market positioning of the salaries at that time.

In addition, fees for non-executive directors were increased effective from 1 January 2018 following the results of the aforementioned benchmarking exercise, which indicated that non-executive director fee levels were also significantly below the market.

The Company has ambitious plans to grow, and consideration will need to be given to the nature of remuneration arrangements that will be necessary to deliver the Company's strategy.

### Summary

The Committee believes that the current remuneration agreements are in the best interests of the Company and are appropriately aligned to the Company's strategic goals, delivering shareholder value and supporting the long-term success of the Company. The benchmarking exercise undertaken in November 2017 demonstrated that current remuneration levels are significantly below the market. To ensure that strategic alignment is maintained, the Committee will continue to monitor its remuneration agreements in light of the evolving strategic, business and economic climate.

We are committed to a responsible and transparent approach in respect of executive pay and I hope that you find the information in this report helpful and informative.

### Mike Ashley

Chairman of the Remuneration Committee

# Directors' remuneration report

## Remuneration overview

### Summary of remuneration agreements

In setting the remuneration agreements the Remuneration Committee takes into account:

1. The responsibilities of each individual's role and their experience and performance
2. The need to attract, retain and motivate executive directors and senior management, ensuring an appropriate mix between fixed and variable pay
3. The pay and benefits arrangements elsewhere in the Group, and in the sector
4. Periodic external benchmarking to consider market conditions, and remuneration practices for roles of a similar size and complexity
5. The need to align the overall reward arrangements with the Company's strategy, both in the short and long term.

A summary of the Remuneration Agreements applicable to remuneration in 2017 and 2018 is set out below for reference to assist with the understanding of the contents of this report and to demonstrate alignment with strategy.

The following table summarises each element of remuneration and how it supports the Company's short and long term strategic objectives.

Purpose and link to Strategy	Operation	Opportunity	Performance metrics used, weighting and time period applicable
<b>Base Salary</b> Provides a base level of remuneration to support recruitment and retention of executive directors with the necessary experience and expertise to deliver the Company's strategy.	Salaries are reviewed at the discretion of the Committee.	Base salaries will be set by the Committee at an appropriate level, with consideration given to comparable listed companies, experience in role and the Company's performance.	None
<b>Benefits and pension</b> Provides a competitive level of benefits and pension.	The executive directors receive benefits which include pension, car allowance and private medical insurance.	Employer pension contribution of 6% of base salary per annum or a salary supplement representing this contribution net of employer's National Insurance of 13.8%.  The maximum value of other benefits will be set at the cost of providing the benefits described.	None
<b>Annual Bonus</b> The annual bonus provides a significant incentive to the executive directors linked to achievement in delivering strategic goals, including financial performance. Maximum bonus is only payable for achieving demanding targets	Performance is measured annually against a range of pre-determined performance conditions. Outcomes are determined by the Committee after the year end based on performance against these targets.  All bonus payments are at the ultimate discretion of the Committee and the Committee retains an overriding ability to ensure that overall bonus payments reflect its view of corporate performance during the year. Annual bonuses are paid in cash after the end of the financial year to which they relate.	The maximum bonus opportunity is currently 100% of base salary.	Performance is measured over the financial year.  Targets are set annually by the Committee.  Performance metrics for 2018 will include targets for: <ul style="list-style-type: none"> <li>• profit growth</li> <li>• cash conversion</li> <li>• strategic targets</li> </ul>

Purpose and link to Strategy	Operation	Opportunity	Performance metrics used, weighting and time period applicable
<p><b>Long-Term Incentive Plan (LTIP)</b></p> <p>Historically, the Committee has not granted LTIP awards to the executive directors and does not intend to do so in 2018, due to the large shareholdings of the MD and FD. There are therefore currently no formal LTIP agreements in place for executive directors. The executive directors' participation in such awards will continue to be reviewed in future years.</p> <p>Members of the Senior Management Team are eligible for LTIP awards in the form of nil cost options which vest based on performance against targets over a three-year period. It is envisaged that awards to executive directors would follow a similar structure.</p>			
<p><b>Non-executive director fees</b></p> <p>Provides a level of fees to support recruitment and retention of non-executive directors with the necessary experience to advise and assist with establishing and monitoring the Company's strategic objectives.</p>	<p>Non-executive directors are paid a base fee.</p> <p>Fees are reviewed from time to time at the Remuneration Committee's discretion based on equivalent roles in an appropriate comparator group used to review salaries paid to the executive directors.</p>	<p>The base fees for non-executive directors are set at a market rate. No additional fees are awarded for Committee chairmanship or membership.</p>	<p>None</p>

### Positioning of current executive remuneration levels

The results of the benchmarking exercise undertaken by PwC in November 2017 demonstrate that current remuneration levels are significantly below the market in respect of all elements of remuneration.

The Committee takes a pragmatic approach to the remuneration of its executives, recognising that the current remuneration levels reflect the Company's newly listed nature and provide scope to develop the offering over time based on Midwich's performance. In addition, the rapid share price growth since listing in May 2016 has led to a material increase in value of the substantial shareholdings of Stephen and Anthony. The Committee is satisfied that the incumbents are strongly incentivised to achieve strong performance due to their significant stake in the business.

Nevertheless, the Committee acknowledges that, were it necessary to establish a new executive-level Board role, the current remuneration levels may not be sufficient to attract the right calibre of candidate, and internal relativities would need to be addressed at that time. The Committee will therefore continue to monitor its remuneration agreements going forwards.

### Wider employee pay

As outlined in the Chairman's Statement, the Company is committed to developing the next tier of talent and the Committee spent some time during the year reviewing with the executives the remuneration of the Senior Management Team (SMT). In particular the Committee commissioned PwC to assist with its review of the long-term incentive opportunities for the SMT, in light of the shareholdings held by some individuals as a result of the IPO. The MD put forward proposals to the Committee for increases to base salary and bonus potential together with long-term incentive awards in line with these individuals' performance during 2017. The proposals also reflected the executive directors' commitment to retaining and incentivising those individuals who are key to the future success of the Company with succession planning in mind.

Pay and conditions elsewhere in the Group were taken into account when considering arrangements for the remuneration of the executive directors. The same principles apply, but are proportionate to an individual's influence at Group level.

## Directors' remuneration report continued

### Directors' service agreements and letters of appointment

The dates on which directors' initial service agreements/letters of appointment commenced and the current expiry dates are as follows:

Executive directors	Date of contract	Term of appointment	Notice period
Stephen Fenby	13 April 2016	Continuous	Subject to 9 months written notice by either party
Anthony Bailey	13 April 2016	Continuous	Subject to 9 months written notice by either party

Non-executive directors	Date of contract	Term of appointment	Notice period
Andrew Herbert	13 April 2016	3 years	Subject to 3 months written notice by either party
Mike Ashley	13 April 2016	3 years	Subject to 3 months written notice by either party
Hilary Wright	9 March 2018	3 years	Subject to 3 months written notice by either party

### Approach to recruitment remuneration of executive directors

The Company's approach when setting the remuneration of any newly recruited executive director will be assessed in line with the same principles for the executive directors, as set out in the service agreements above. The Remuneration Committee's approach to recruitment remuneration is to pay no more than is necessary to attract candidates of the appropriate calibre and experience needed for the role from the market in which the Company competes. The Remuneration Committee is mindful that it wishes to avoid paying more than it considers necessary to secure the preferred candidate and will have regard to guidelines and shareholder sentiment regarding one-off or enhanced short-term or long-term incentive payments made on recruitment and the appropriateness of any performance measures associated with an award.

### Executive directors' termination payments

The Remuneration Committee will honour executive directors' contractual entitlements. Service agreements do not contain liquidated damages clauses. If a contract is to be terminated, the Remuneration Committee will determine such mitigation as it considers fair and reasonable in each case. There are no contractual arrangements that would guarantee a pension with limited or no abatement on severance or early retirement. There is no agreement between the Company and its executive directors or employees, providing for compensation for loss of office or employment that occurs because of a takeover bid.

The Remuneration Committee reserves the right to make additional payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation), or by way of settlement or compromise of any claim arising in connection with the termination of an executive director's office or employment.

When determining any loss of office payment for a departing individual the Remuneration Committee will always seek to minimise cost to the Company whilst seeking to address the circumstances at the time.

### Annual Report on Remuneration

#### Single total figure of remuneration

#### Executive directors (Audited – see note 7 of the notes to the consolidated financial statements)

The table below sets out the single total figure of remuneration and breakdown for each executive director in respect of the 2017 financial year. Comparative figures for the 2016 financial year have also been provided.

2017	Base salary	Benefits	Annual Bonus	Pension	Total
Executive director	£000	£000	£000	£000	£000
Stephen Fenby	215	14	182	13	424
Anthony Bailey	161	11	137	10	319

2016	Base salary	Benefits	Annual Bonus	Pension	Total
Executive director	£000	£000	£000	£000	£000
Stephen Fenby	197	11	100	12	320
Anthony Bailey	153	12	108	9	282

The pension contributions received for the year ended 31 December 2017 were Company pension contributions of 6% of basic salary. These were payable into defined contribution schemes for both executives until 1 November 2017 when the CEO's contribution was delivered as a salary supplement net of employer's National Insurance of 13.8%. The taxable benefits received in 2017 were principally car allowances and private medical insurance.

### Non-executive directors (Audited)

The table below sets out the single total figure of remuneration and breakdown for each non-executive director.

2017		Fees £000	Total £000
Non-executive director			
Andrew Herbert <sup>1</sup>		49	49
Mike Ashley <sup>1</sup>		32	32
2016		Fees £000	Total £000
Non-executive director			
Andrew Herbert <sup>2</sup>		35	35
Mike Ashley <sup>2</sup>		22	22

1 On 1 May 2017, non-executive director fees for Andrew Herbert and Mike Ashley were increased to £51,000 and £33,000 per annum respectively.

2 Andrew Herbert and Mike Ashley were appointed to the Board on 1 April 2016. Fees on appointment were £46,000 and £29,000 per annum respectively.

### Additional information regarding single figure table

The Remuneration Committee considers that performance conditions for all incentives are suitably demanding, having regard to the business strategy, shareholder expectations, the markets in which the Group operates and external advice. To the extent that any performance condition is not met, the relevant part of the award will lapse. There is no retesting of performance.

### Base Salary

The salaries of the MD and FD were increased on 1 January 2017 by 9.2% and 5.2% respectively.

Salary levels as at the end of the financial period were:

Executive director	Base salary
Stephen Fenby <sup>1</sup>	£215,000
Anthony Bailey	£161,000

1 From 1 November 2017, in addition to his salary, the MD receives a salary supplement of 6% of salary (less employer's National Insurance of 13.8%) in lieu of pension contributions. This amount is not included in base salary for the purposes of bonus opportunities.

Base salaries for the 2018 financial year are set out on page 28 of this report.

### Bonus awards

The annual bonus opportunity for the executive directors in the year was a maximum of 100% of base salary and performance was assessed against the following metrics:

- Profit growth targets (60% weighting).
- Cash conversion rate (20% weighting).
- Strategic targets (20% weighting).

The following bonus awards were approved by the Remuneration Committee for the executive directors:

Executive director	Maximum bonus opportunity (% of salary)	Bonus awarded (% of maximum)	Bonus awarded (% of salary)	Bonus awarded (£000)
Stephen Fenby	100%	85%	85%	183
Anthony Bailey	100%	85%	85%	137

The Remuneration Committee considers that the specific performance targets for the 2017 annual bonus awards remain commercially sensitive.

## Directors' remuneration report continued

### Long term incentives awarded in 2017

To reflect the substantial shareholdings of Stephen and Anthony, and in line with the approach taken in 2016, no LTIP awards were granted to executive directors during the year.

### Non-executive fees in 2017

Fees for the non-executive directors were increased on 1 May 2017 by 10.9% and 13.8% for Andrew Herbert and Mike Ashley respectively.

Fees at the end of the financial period were:

Non-executive director	Fees
Andrew Herbert	£51,000
Mike Ashley	£33,000

Non-executive director fees for the 2018 financial year are set out on page 29 of this report.

### Directors' shareholdings at 31 December 2017

The interests of directors and their connected persons in ordinary shares as at 31 December 2017 are presented in the table below.

	Ordinary shares as at 31 December 2017	% of total ordinary shares of Company
Executive directors		
Stephen Fenby <sup>1</sup>	22,280,000	28.04%
Anthony Bailey	3,178,230	4.00%
Non-executive directors		
Andrew Herbert	20,000	0.03%
Mike Ashley	1,442	<0.01%
Hilary Wright	–	–

1 On 29 January 2018, Stephen Fenby and closely associated persons sold 1,000,000 ordinary shares. Following this sale, Stephen Fenby and closely associated persons retain an interest in 21,280,000 ordinary shares (representing 26.78% of the issued share capital).

The executive directors are subject to a lock-in agreement following the IPO on 6 May 2016 as follows:

- For a period of two years after the IPO (i.e. up to 5 May 2018), the executive directors are obliged to retain a shareholding equal to 60% of the shares held on the IPO.
- For a period of three years after the IPO (i.e. up to 5 May 2019), they must retain a shareholding equal to 40% of the shares held on the IPO.
- For a period of four years after the IPO (i.e. up to 5 May 2020), they must retain a shareholding equal to 20% of the shares held on the IPO.

### Implementation of remuneration agreements in 2018

#### Base salary

The salaries of the MD and FD were increased by 7.0% and 8.7% respectively effective from 1 January 2018 to achieve greater alignment with the market following the benchmarking exercise carried out by PwC.

The table below sets out the base salaries effective from 1 January 2018 (with previous base salaries included for reference):

Executive directors	Date effective from	Base salary
Stephen Fenby	1 January 2018	£230,000
Stephen Fenby (previous base salary)	1 January 2017	£215,000
Anthony Bailey	1 January 2018	£175,000
Anthony Bailey (previous base salary)	1 January 2017	£161,000

### Annual bonus

The maximum bonus opportunity for the MD and FD will be maintained at 100% of base salary. Pay-outs will be determined by performance against the following targets:

- Profit growth targets (60% weighting).
- Cash conversion rate (20% weighting).
- Strategic targets (20% weighting).

### Long term incentive

It is not intended that any long-term incentive awards will be granted during 2018. It is possible the executive directors will participate in this scheme in future years.

### Pension

Company pension contributions will remain at 6% of base salary. The MD receives a salary supplement of 6% of salary (less employer's National Insurance of 13.8%) in lieu of pension contributions.

### Non-executive director fees

Following a review of non-executive director fees as part of the benchmarking exercise carried out in 2017, fees for non-executive directors for 2018 are set out below (with previous fees included for reference):

Non-executive directors	Date effective from	Fees
Andrew Herbert	1 January 2018	£81,000
Andrew Herbert (previous fees)	1 May 2017	£51,000
Mike Ashley	1 January 2018	£41,000
Mike Ashley (previous fees)	1 May 2017	£33,000
Hilary Wright	9 March 2018	£41,000

### Advisor

During the financial year the Committee received independent advice from PwC. As founder members of the Remuneration Consultants Group, PwC voluntarily operate under the Voluntary Code of Conduct in relation to executive remuneration consulting in the UK. The Remuneration Committee is satisfied that the advice received was objective and independent.

### Approval

This report is approved by the Board on 12 March 2018 and signed on its behalf by:

#### Mike Ashley

Chairman of the Remuneration Committee

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## Directors' report for the year ended 31 December 2017

The directors present their report and the financial statements of the Group for the year ended 31 December 2017. Some disclosures that would normally be included in the Directors' Report are included in the Strategic Report. These include the review of the principal risks and uncertainties facing the business and an indication of likely future developments for the Group.

### Results and dividends

The profit after tax for the period amounted to £14.0 million (2016 £8.6 million).

The Company paid dividends in the year of £8.9 million (2016: £1.2 million).

### 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 2017 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, forward exchange contracts, 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 facilities, 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 2017 are set out below:

	Ordinary shares	
	2017	2016
Mr A M G Bailey	<b>3,178,230</b>	3,178,230
Mr S B Fenby	<b>22,280,000</b>	22,280,000
Mr M Ashley <sup>1</sup>	<b>1,442</b>	1,442
Mr A C Herbert <sup>1</sup>	<b>20,000</b>	20,000
Mrs H Wright <sup>2</sup>	<b>-</b>	-
	<b>25,479,672</b>	25,479,672

None of the directors held any interests in share options of the Company in the current or prior year.

1 Appointed 13 April 2016

2 Appointed 9 March 2018

## Directors' remuneration

	2017 Salary/fees £000	2017 Pension £000	2017 Benefits in Kind £000	2017 Share-based Payment £000	2017 Total £000	2016 Total £000
Mr A M G Bailey	<b>298</b>	<b>10</b>	<b>11</b>	-	<b>319</b>	282
Mr S B Fenby	<b>397</b>	<b>13</b>	<b>14</b>	-	<b>424</b>	320
Mr M Ashley	<b>32</b>	-	-	-	<b>32</b>	22
Mr A C Herbert	<b>49</b>	-	-	-	<b>49</b>	35
	<b>776</b>	<b>23</b>	<b>25</b>	-	<b>824</b>	658

## 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.

## Substantial shareholders

The Company has been notified of the following interests of 3% or more in its issued share capital as at 26 January 2018:

Shareholders	Number of Shares	Percent (%)
Midwich Group plc directors & related parties	25,479,672	32.07
Aberdeen Standard Investments	11,164,997	14.05
Schroder Investment Mgt	5,707,729	7.18
Hargreave Hale	5,563,104	7.00
Independent Investment Trust	3,000,000	3.78
Mr Lee Baker	2,449,260	3.08

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## Directors' report for the year ended 31 December 2017 continued

### Directors' Responsibilities Statement

The directors are responsible for preparing the Strategic Report, Directors' Report 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 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 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.

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

### Mr S B Fenby

Director

Date: 12 March 2018

Company registration number: 08793266

## Annual General Meeting - explanatory notes

The notice convening the Annual General Meeting (the "AGM") is set out on pages 85 to 86. Resolutions 1 to 8 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 9 and 10.

Resolutions 1, 2, 3, 4, 5, 6, 7, 8 and 9 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 10 is being proposed as a special resolution (and therefore needs the approval of at least 75 per cent 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 2017.

### Re-election of directors (Resolution 2 to 6)

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 on pages 16 and 17.

### Re-appointment and remuneration of auditors (Resolution 7)

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

### Declaration of dividend (Resolution 8)

The directors are recommending a final dividend for the financial year ended 31 December 2017 of 9.65p per ordinary share which requires approval by shareholders.

### Authority to allot shares (Resolution 9)

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 9, 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 13 April 2018) and up to an additional aggregate nominal value of £529,655 (corresponding to approximately two-thirds of the issued share capital at 13 April 2018) 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 13 April 2018, the Company does not hold any shares in the Company in treasury.

### Disapplication of pre-emption rights (Resolution 10)

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 10 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 per cent of the issued share capital of the Company at 13 April 2018. This figure of 10 per cent 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 per cent to 10 per cent of a company's issued ordinary share capital, provided that the company confirms that it intends to use the additional 5 per cent 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 per cent of the Company's issued share capital for any purpose and an additional amount equal to 5 per cent 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 per cent 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 75 per cent. 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.

# Independent auditor's report to the members of Midwich Group plc

## Opinion

### Our opinion on the financial statements is unmodified

We have audited the financial statements of Midwich Group plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2017 which comprise consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows, company statement of financial position, company statement of changes in equity and the related notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosures Framework' (United Kingdom Generally Accepted Accounting Practice).

### In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2017 and of the Group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Who we are reporting to

This report is made solely to the Company's members, as a body, in accordance with 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.

## Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.



### Overview of our audit approach

- Overall materiality: We determined materiality on the Group as a whole during the planning stage of the audit to be £800,000, which represents 4% of the Group's estimated profit before taxation
- We performed full scope audit procedures at Midwich Group plc, Midwich Limited and Invision UK Limited; targeted audit procedures were performed at Square One Distribution Limited, Sidev SAS, Kern & Stelly Medientechnik GmbH, Midwich Australia Pty Limited, Holdan Limited, Earpro S.A. Gebroeders van Domburg B.V. and Sound Technology Limited; and
- Key audit matters were identified as the risk of improper revenue recognition and intangible assets being improperly accounted for.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter – Group	How the matter was addressed in the audit – Group
<p><b>Improper revenue recognition</b> Under ISA (UK) 240, there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue due to fraud.</p> <p>The Group has reported revenues of £472m (2016: £370m) arising from the sale of goods and ancillary services, and equipment rentals. Other operational income related to promotional activities is also recognised in the amount of £3m (2016: £3m). The nature of the Group's revenue involves the processing of numerous transactions, with each stream possessing different revenue recognition criteria.</p> <p>As the Group's revenue is material to the financial statements and comprises multiple streams and recognition policies, the presumed risk of misstatement around revenue has not been rebutted and has been identified as a key audit risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>Our audit work included, but was not restricted to:</p> <ul style="list-style-type: none"> <li>the review and testing of the Group's revenue recognition policies from the Annual Report to ensure compliance with IAS 18 and appropriateness in line with the Group's activities;</li> <li>performance of analytical reviews over revenue in the year to identify and assess trends and significant transactions in the year; and</li> <li>performance of detailed testing on material revenue streams by agreeing occurrence of revenue to proof of dispatch.</li> </ul> <p>The Group's accounting policy on revenue recognition is shown under Accounting Policies within the notes to the financial statements and related disclosures are included in notes 2, 3 and 4.</p> <p><b>Key observations</b> Our testing did not identify any material deviations in the Group's revenue recognition policies from IAS 18. In addition, our audit work did not identify any material errors in the occurrence of revenue recognised in the year or any material instances of revenue not being recognised in accordance with stated accounting policies.</p>
<p><b>Intangible assets are incorrectly accounted for</b> In accordance with IFRS 3, following the acquisitions of Earpro S.A., Gebroeders van Domburg B.V. and Sound Technology Limited in the year, separate intangible assets are required to be identified and valued.</p> <p>Management is required to fair value separately identifiable assets and liabilities on acquisition. This involves identifying and valuing separable intangibles distinct from goodwill. The Group engages with third parties to assist in the performance of these assessments to ensure they are free from bias.</p> <p>Upon the acquisition of Earpro S.A. in March 2017, key supplier relationships of £1.5m, customer relationships of £0.7m, and the Earpro trade name of £0.1m were identified and valued, resulting in goodwill recognised on the transaction of £1.0m.</p> <p>Gebroeders van Domburg B.V. was acquired in September 2017. Customer relationships valued at £2.2m and the Van Domburg trade name valued at £0.2m were identified, with goodwill of £2.7m arising from the transaction.</p> <p>In November 2017, Sound Technology Limited was acquired by the Group, with supplier relationships of £1.6m and the Sound Technology trade name of £0.2m recognised, with goodwill arising of £0.9m arising from the transaction.</p> <p>Due to the high level of judgements and assumptions necessary to perform valuations of separately identifiable intangible assets arising from the acquisition of a business, and due to the materiality of the assets recognised by the Group as a result, the valuation of and accounting for intangible assets has been identified as a key audit risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>Our audit work included, but was not restricted to:</p> <ul style="list-style-type: none"> <li>the use of our internal valuations team to assess the valuation models prepared by management's experts in respect of each acquisition, including the basis and methodology adopted for identifying and valuing separate intangibles distinct from goodwill;</li> <li>agreeing significant inputs used in the models to supporting documentation;</li> <li>critically assessing and challenging the key judgements and assumptions used by management in the valuation models to ensure reasonableness as compared to historic and industry data; and</li> <li>recalculating the amortisation charge for the period in line with the accounting policy; and</li> <li>agreeing the fair value of the identifiable intangible assets and the amortisation charge for the period to the consolidation schedule.</li> </ul> <p>The Group's accounting policy on intangible assets is shown under Accounting Policies within the notes to the financial statements and related disclosures are included in note 32.</p> <p><b>Key observations</b> The accounting for the acquisition and intangibles recognised were found to be in accordance with supporting documentation. We found no material errors in the valuations.</p>

## Independent auditor's report to the members of Midwich Group plc continued

### There are no separate key audit matters identified in the Parent Company.

#### Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

#### Materiality was determined as follows:

Materiality measure	Group	Parent
Financial statements as a whole	<p>Materiality for the Group was determined during the planning stage to be £800,000 which is 4% of the Group's estimated profit before taxation. This benchmark is considered the most appropriate because earnings before income taxes is a primary measure of profitability used by the directors.</p> <p>Materiality for the current year is higher than the level that we determined for the year ended 31 December 2016 to reflect levels of both organic and acquisition-related growth achieved by the group in the year.</p>	<p>Materiality for the parent was determined during the planning stage to be £385,000 which is 1% of the total assets as at year end. This benchmark is considered the most appropriate as the Parent Company is a non-trading holding company.</p> <p>Materiality for the current year is higher than the level that we determined for the year ended 31 December 2016. In the prior year, the materiality was capped to 75% of group materiality. This year the level of group materiality means that this has not been a factor in limiting parent materiality.</p>
Performance materiality used to drive the extent of our testing	70% of financial statement materiality.	70% of financial statement materiality.
Specific materiality	We have also determined a lower level of specific materiality of £10,000 for directors' remuneration and related party transactions.	We have also determined a lower level of specific materiality of £10,000 for directors' remuneration and related party transactions.
Communication of misstatements to the Audit Committee	£40,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£28,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

#### An overview of the scope of our audit

Our audit approach was a risk-based approach founded on an understanding of the Group's business, its environment and risk profile and in particular included:

- evaluation by the group audit team of identified components to assess the significance of that component and to determine the planned audit response based on a measure of materiality. Significance was determined as a percentage of the Group's total assets, revenues and profit before taxation;
- performance of full scope audits of the financial information of the Parent Company Midwich Group plc, Midwich Limited, and Invision UK Limited. For all other entities in the Group, we have completed targeted or analytical procedures to support the group audit opinion;
- component auditors were used to complete audit procedures for the following subsidiaries: Holdan Limited, Kern & Stelly Medientechnik GmbH, Sidev SAS, Midwich Australia Pty Limited, Earpro S.A., Gebroeders van Domburg B.V. and Sound Technology Limited. The group audit team instructed the component auditors as to the procedures to be completed over the risk areas for group purposes within each component. The group audit team reviewed the audit working papers for these significant areas.
- testing performed over 99% of total Group revenues, either through full-scope or targeted audit procedures;
- testing performed over 97% of the Group's assets through either full-scope or targeted audit procedures
- our audit approach in the current year is consistent with 2016 with the addition of targeted procedures performed over Square One Distribution Limited, in addition to the new subsidiaries, Earpro S.A., Gebroeders van Domburg B.V. and Sound Technology Limited.

## Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report set out on pages 4 to 32, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### **Our opinion on other matters prescribed by the Companies Act 2006 is unmodified**

In our opinion, based on the work undertaken in the course of the audit:

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

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

In the light of the knowledge and understanding of the Group and 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 in relation to which 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.

## Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 32, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### James Brown

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

12 March 2018

## Consolidated income statement

For the year ended 31 December 2017

	Notes	2017 £000	2016 £000
<b>Revenue</b>	3	<b>471,937</b>	370,142
Cost of sales		<b>(398,810)</b>	(313,681)
<b>Gross profit</b>		<b>73,127</b>	56,461
Distribution costs		<b>(45,679)</b>	(35,520)
Total administrative expenses		<b>(9,470)</b>	(9,234)
Other operating income	4	<b>2,831</b>	2,780
<b>Operating profit</b>	5	<b>20,809</b>	14,487
<i>Comprising</i>			
<b>Adjusted operating profit</b>		<b>25,044</b>	18,542
Costs of flotation		–	(1,041)
Costs of acquisitions	6	<b>(336)</b>	(259)
Share based payments	30	<b>(551)</b>	(75)
Employer taxes on share based payments		<b>(118)</b>	–
Amortisation	5	<b>(3,230)</b>	(2,680)
		<b>20,809</b>	14,487
Finance income		<b>5</b>	1
Finance costs	8	<b>(1,916)</b>	(2,386)
<b>Profit before taxation</b>		<b>18,898</b>	12,102
Taxation	9	<b>(4,919)</b>	(3,542)
<b>Profit after taxation</b>		<b>13,979</b>	8,560
<b>Profit for the financial year attributable to:</b>			
The Company's equity shareholders		<b>13,557</b>	8,216
Non-controlling interest		<b>422</b>	344
		<b>13,979</b>	8,560
Basic earnings per share	10	<b>17.06p</b>	10.92p
Diluted earnings per share	10	<b>17.00p</b>	10.91p

The financial statements are also comprised of the notes on pages 43 to 76.



## Consolidated statement of comprehensive income

For the year ended 31 December 2017

	2017 £000	2016 £000
<b>Profit for the financial year</b>	<b>13,979</b>	8,560
<b>Other comprehensive income</b>		
Items that will be reclassified subsequently to profit or loss:		
Foreign exchange gains on consolidation	<b>974</b>	1,707
<b>Other comprehensive income for the financial year, net of tax</b>	<b>974</b>	1,707
<b>Total comprehensive income for the year</b>	<b>14,953</b>	10,267
<b>Attributable to:</b>		
Owners of the Parent Company	<b>14,531</b>	9,923
Non-controlling interests	<b>422</b>	344
	<b>14,953</b>	10,267

The financial statements are also comprised of the notes on pages 43 to 76.

## Consolidated statement of financial position

As at 31 December 2017

	Notes	2017 £000	2016 £000
<b>Assets</b>			
<b>Non-current assets</b>			
Goodwill	12	9,094	4,557
Intangible assets	13	22,310	18,820
Property, plant and equipment	14	7,692	5,035
Deferred tax assets	9	387	–
		<b>39,483</b>	28,412
<b>Current assets</b>			
Inventories	15	62,984	48,142
Trade and other receivables	16	76,361	52,545
Cash and cash equivalents	17	28,203	20,164
		<b>167,548</b>	120,851
<b>Current liabilities</b>			
Trade and other payables	18	(84,617)	(58,234)
Derivative financial instruments	19	(93)	–
Put option liabilities	20	–	(698)
Deferred consideration	21	(4,841)	(1,554)
Borrowings and financial liabilities	22	(50,176)	(35,196)
Current tax		(2,873)	(2,062)
		<b>(142,600)</b>	(97,744)
<b>Net current assets</b>		<b>24,948</b>	23,107
<b>Total assets less current liabilities</b>		<b>64,431</b>	51,519
<b>Non-current liabilities</b>			
Trade and other payables	18	(181)	–
Put option liabilities	20	(5,195)	(1,441)
Deferred consideration	21	(1,197)	(72)
Borrowings and financial liabilities	22	(321)	–
Deferred tax liabilities	9	(4,445)	(3,414)
		<b>(11,339)</b>	(4,927)
<b>Net assets</b>		<b>53,092</b>	46,592
<b>Equity</b>			
Share capital	29	794	794
Share premium		25,855	25,855
Share based payment reserve		751	84
Investment in own shares		(5)	(5)
Retained earnings		24,331	19,765
Translation reserve		1,691	717
Put option reserve		(3,638)	(1,770)
Capital redemption reserve		50	50
Other reserve		150	150
<b>Equity attributable to owners of the Parent Company</b>		<b>49,979</b>	45,640
Non-controlling interests		3,113	952
<b>Total equity</b>		<b>53,092</b>	46,592

The financial statements are also comprised of the notes on pages 43 to 76. The financial statements were approved by the Board of Directors and authorised for issue on 12 March 2018 and were signed on its behalf by:

**Mr S B Fenby**

Director

Company registration number: 08793266

## Consolidated statement of changes in equity

For the year ended 31 December 2017

### For the year ended 31 December 2017

	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
<b>Balance at</b>												
<b>1 January 2017</b>	794	25,855	(5)	84	19,765	717	(1,770)	50	150	45,640	952	46,592
Profit for the year	-	-	-	-	13,557	-	-	-	-	13,557	422	13,979
Other comprehensive income	-	-	-	-	-	974	-	-	-	974	-	974
<b>Total comprehensive income for the year</b>	-	-	-	-	13,557	974	-	-	-	14,531	422	14,953
Acquisition of non-controlling interest (note 31)	-	-	-	-	(79)	-	681	-	-	602	(602)	-
Share based payments	-	-	-	551	-	-	-	-	-	551	-	551
Deferred tax on share based payments	-	-	-	116	-	-	-	-	-	116	-	116
Acquisition of subsidiary (note 32)	-	-	-	-	-	-	(2,549)	-	-	(2,549)	2,341	(208)
Dividends paid	-	-	-	-	(8,912)	-	-	-	-	(8,912)	-	(8,912)
<b>Balance at</b>												
<b>31 December 2017</b>	794	25,855	(5)	751	24,331	1,691	(3,638)	50	150	49,979	3,113	53,092

### 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
<b>Balance at</b>												
<b>1 January 2016</b>	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
<b>Total comprehensive income for the year</b>	-	-	-	-	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 31)	-	-	-	-	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 32)	-	-	-	-	-	-	(1,770)	-	-	(1,770)	863	(907)
Dividends paid	-	-	-	-	(1,210)	-	-	-	-	(1,210)	-	(1,210)
<b>Balance at</b>												
<b>31 December 2016</b>	794	25,855	(5)	84	19,765	717	(1,770)	50	150	45,640	952	46,592

\* See note 29

The financial statements are also comprised of the notes on pages 43 to 76.

## Consolidated statement of cash flows

### For the year ended 31 December 2017

	2017 £000	2016 £000
<b>Cash flows from operating activities</b>		
Profit before tax	18,898	12,102
Depreciation	1,793	1,229
Amortisation	3,230	2,680
(Gain)/loss on disposal of assets	(21)	183
Share based payments	551	75
Foreign exchange losses	156	216
Finance income	(5)	(1)
Finance costs	1,916	2,386
Adjusted profit from operations before changes in working capital	26,518	18,870
Increase in inventories	(7,217)	(8,447)
Increase in trade and other receivables	(11,954)	(5,887)
Increase in trade and other payables	14,724	3,367
<b>Cash inflow from operations</b>	<b>22,071</b>	<b>7,903</b>
Income tax paid	(4,784)	(4,281)
<b>Net cash inflow from operating activities</b>	<b>17,287</b>	<b>3,622</b>
<b>Cash flows from investing activities</b>		
Acquisition of businesses	(9,108)	(3,276)
Deferred consideration paid	(1,511)	(11)
Cash acquired within business combination	2,854	367
Purchase of intangible assets	(48)	(186)
Purchase of plant and equipment	(3,064)	(2,278)
Proceeds on disposal of plant and equipment	528	546
Interest received	5	1
<b>Net cash used in investing activities</b>	<b>(10,344)</b>	<b>(4,837)</b>
<b>Net cash flows from financing activities</b>		
Acquisition of non-controlling interest	(751)	(7,454)
Issue of shares net of issue costs	–	25,980
Dividends paid	(8,912)	(1,210)
Invoice financing inflows	5,673	256
Issue of loan to related party	–	(212)
Repayment received of related party loan	–	212
Repayment of loans	(26)	(13,696)
Interest paid	(647)	(657)
Interest on finance leases	(4)	(16)
Capital element of finance lease payments	(121)	(527)
<b>Net cash (outflow) / inflow from financing activities</b>	<b>(4,788)</b>	<b>2,676</b>
<b>Net increase in cash and cash equivalents</b>	<b>2,155</b>	<b>1,461</b>
Cash and cash equivalents at beginning of financial year	17,201	14,351
Exchange gain on cash and cash equivalents	654	1,389
<b>Cash and cash equivalents at end of financial year</b>	<b>20,010</b>	<b>17,201</b>
<b>Comprising:</b>		
Cash at bank	28,203	20,164
Bank overdrafts	(8,193)	(2,963)
	<b>20,010</b>	<b>17,201</b>

The financial statements are also comprised of the notes on pages 43 to 76.

# Notes to the consolidated financial statements

## For the year ended 31 December 2017

### 1. Accounting policies

#### General information and 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).

#### Basis of preparation

The consolidated financial statements of Midwich Group plc ("the Group") have been prepared in accordance with International Financial Reporting Standards (IFRSs), 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 2017.

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 shareholders' share of changes in equity since the date of the combination.

Non-controlling interests are measured initially at fair value.

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 re-measurement to fair value of net assets acquired that were previously attributable to non-controlling shareholders.

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# Notes to the consolidated financial statements continued

## For the year ended 31 December 2017

### 1. Accounting policies continued

#### 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 2017 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.

#### Revenue

Revenue comprises amounts recognised in respect of goods and services supplied during the period, excluding of sales taxes, trade discounts, customer rebates and provisions for returns.

The majority of revenue arises from the sale of goods and is recognised when goods are despatched, which is when the customer obtains control over the goods and the substantial risks and rewards transfer to the customer. Revenue from the rental of products is recognised evenly over the rental period. Revenue from ancillary services includes the provision of support services, transport, warranties and repairs. Revenue from the provision of ancillary services is recognised over the period in which the service is delivered.

#### Supplier income and vendor rebates

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. Vendor rebates are recognised on completion of the contractual obligation and recorded within cost of sales.

#### 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 derivatives and other financial instruments measured at fair value through profit or loss.

#### 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. Some goods are held on behalf of customers and are not included within the Group's inventory.

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## Notes to the consolidated financial statements continued

### For the year ended 31 December 2017

#### **1. Accounting policies** continued

##### **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 three 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 options to acquire non-controlling interests of subsidiaries are initially recognised at present value and subsequently measured at amortised cost, being the present value of future payments discounted at the original effective interest rate. Details of the measurement of put options are given in the critical accounting judgements and key sources of estimation uncertainty accounting policy.

Financial assets and financial liabilities are measured initially at fair value plus transactions 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, derivative financial instruments and put option liabilities.

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.

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# Notes to the consolidated financial statements continued

## For the year ended 31 December 2017

### 1. Accounting policies continued

#### 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 initial present 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" relates 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.

#### 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 financial statements. 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 2.

### 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 (2014–2016 Cycle)	1 January 2017	Yes	These amendments clarify the requirements of IFRSs and eliminate inconsistencies within and between Standards

### 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 <sup>1</sup>
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	Yes	Measurement and recognition of leases

<sup>1</sup> Based on the current business model and accounting policies, management does not expect material impact on the financial information when the standards become effective, with the exception of IFRS 16. The Group has undertaken a review of the impact of both IFRS 15 and IFRS 16.

### Impact of IFRS 15

The Group does not expect any transition adjustment in respect of IFRS 15 as the key principles have already been adhered to within the current revenue recognition policy.

### Impact of IFRS 16

The Group expects a transition adjustment in respect of IFRS 16. The transition adjustment will recognise right of use tangible fixed assets and finance lease liabilities. The Group is reviewing the transition options in relation to adopting IFRS 16.

### Accounting judgements and sources of estimation uncertainty

The preparation of financial statements in accordance with the principles of the IFRSs requires the directors to make judgements and use estimation techniques in order to provide a fair presentation of the Group's financial position and performance.

Accounting judgements represent the decisions faced by the directors that carry a significant risk of reporting a materially different performance or position for the Group. Sources of estimation uncertainty relate to assumptions made by management that carry significant risks of a material adjustment to the value of assets and liabilities within the next financial year.

Judgements and estimates are evaluated based on historic experience, on-going developments within the Group, and reasonable expectations of future events. Judgements and estimates are subject to regular review by the directors.

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

#### Symmetrical put and call options

As a result of some of the acquisitions the Group has issued a number of symmetrical put and call options over non-controlling interests held by local management.

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 directors have judged that the Group does not currently hold the risks and rewards associated with ownership of these shares. The key judgements in determining whether the risks and rewards regarding control have passed were the proportionate right to dividends and determining if there is exposure to changes in value of shares. The accounting policy discloses the subsequent re-measurement of these options.

The following are the significant sources of estimation uncertainty facing the Group in preparing the financial statements:

## Notes to the consolidated financial statements continued

### For the year ended 31 December 2017

#### 1. Accounting policies continued

##### Aged inventory provisions

Aged inventory provisions are recognised in order to record inventory at the lower of cost and net realisable value. In order to determine aged inventory provisions the Group is required to estimate the future sales volumes, sales prices, costs to sell inventory, and shrinkage. The value inventories and the amounts of inventories impaired in the period are disclosed in note 15.

##### Fair value of separately identifiable intangible assets in business combinations

The Group is required to calculate the fair value of identifiable assets and liabilities acquired in business combinations. In order to estimate the fair value of separately identifiable assets in business combinations assumptions must be made about future trading performance, royalty rates, customer attrition rates and supplier contract renewal rates. The fair values of assets and liabilities acquired in business combinations are disclosed note 32 and the carrying values of separately identifiable intangible assets initially measured at fair value are disclosed in note 13.

##### Contingent considerations and put option liabilities

The Group is required to record contingent considerations at fair value and put option liabilities are initially measured at present value and subsequently measured at amortised cost using the effective interest rate method. The Group use a range of present valuation techniques including both the discount rate adjustment technique and the expected present value technique in order to determine the fair values of contingent considerations and the present values of put option liabilities. The fair value of contingent consideration is disclosed in note 21 and the amortised cost of put option liabilities is disclosed in note 20.

#### 2. Segmental reporting

##### Operating segments

For the purposes of segmental reporting, the Group's Chief Operating Decision Maker (CODM) is the Managing Director. The Group is a distributor of audio visual 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.

2017	UK & Ireland £000	France £000	Australasia £000	Germany £000	Rest of Europe £000	Total £000
Revenue	283,712	39,163	32,062	93,049	23,951	471,937
<b>Gross profit</b>	<b>45,830</b>	<b>5,563</b>	<b>5,660</b>	<b>10,365</b>	<b>5,709</b>	<b>73,127</b>
Gross profit %	16.2%	14.2%	17.7%	11.1%	23.8%	15.5%
<b>Adjusted operating profit</b>	<b>14,998</b>	<b>1,234</b>	<b>2,576</b>	<b>4,723</b>	<b>1,513</b>	<b>25,044</b>
Costs of acquisitions	(336)	-	-	-	-	(336)
Share based payments	(359)	(14)	(50)	(128)	-	(551)
Employer taxes on share based payments	(67)	(10)	-	(41)	-	(118)
Amortisation	(2,450)	(32)	(50)	(405)	(293)	(3,230)
<b>Operating profit</b>	<b>11,786</b>	<b>1,178</b>	<b>2,476</b>	<b>4,149</b>	<b>1,220</b>	<b>20,809</b>
Interest						1,911
<b>Profit before tax</b>						<b>18,898</b>

##### Other segmental information

2017	UK & Ireland £000	France £000	Australasia £000	Germany £000	Rest of Europe £000	Total £000
Segment assets	122,239	14,984	11,162	31,607	26,651	206,643
Segment liabilities	(108,072)	(12,759)	(6,632)	(15,000)	(11,088)	(153,551)
<b>Segment net assets</b>	<b>14,167</b>	<b>2,225</b>	<b>4,530</b>	<b>16,607</b>	<b>15,563</b>	<b>53,092</b>
Depreciation	1,281	158	127	51	176	1,793

##### Other segmental information

	UK £000	International £000	Total £000
Non-current assets	24,808	14,287	39,095

2016	UK & Ireland £000	France £000	Australasia £000	Germany £000	Total £000
Revenue	246,972	33,414	25,498	64,258	370,142
<b>Gross profit</b>	39,319	4,526	4,121	8,495	56,461
Gross profit %	15.9%	13.5%	16.2%	13.2%	15.3%
<b>Adjusted operating profit</b>	12,001	1,059	1,601	3,881	18,542
Costs of flotation	(1,041)	-	-	-	(1,041)
Costs of acquisitions	(247)	-	(12)	-	(259)
Share based payments	(75)	-	-	-	(75)
Amortisation	(2,230)	(33)	(27)	(390)	(2,680)
<b>Operating profit</b>	8,408	1,026	1,562	3,491	14,487
Interest					(2,385)
<b>Profit before tax</b>					12,102

## Other segmental information

2016	UK & Ireland £000	France £000	Australasia £000	Germany £000	Total £000
Segment assets	109,614	11,303	8,712	19,634	149,263
Segment liabilities	(80,498)	(9,878)	(5,747)	(6,548)	(102,671)
<b>Segment net assets</b>	29,116	1,425	2,965	13,086	46,592
Depreciation	(967)	(106)	(121)	(35)	(1,229)

## Other segmental information

	UK £000	International £000	Total £000
Non-current assets	22,129	6,283	28,412

Revenue from the UK, being the domicile of the Parent Company, amounted to £264,514k (2016: £230,524k).

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:

2017	Selling segment: £000				
	UK & Ireland	France	Australasia	Germany	Rest of Europe
<b>Buying segment:</b>					
UK & Ireland	-	294	-	-	-
France	77	-	-	91	-
Australasia	-	-	-	-	-
Germany	57	43	-	-	-
Rest of Europe	67	-	-	-	-

2016	Selling segment: £000			
	UK & Ireland	France	Australasia	Germany
Buying segment:				
UK & Ireland	-	371	-	-
France		222	-	-
Australasia		-	-	-
Germany		150	-	-

## Information about major customers

Included in revenues arising in 2017 are revenues of £9.3m (2016: £8.9m) 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.

## Notes to the consolidated financial statements continued

### For the year ended 31 December 2017

#### 3. Revenue

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

	2017 £000	2016 £000
Sale of goods and ancillary services	<b>469,021</b>	368,158
Rental of goods	<b>2,916</b>	1,984
	<b>471,937</b>	370,142

#### 4. Other operating income

	2017 £000	2016 £000
Promotional receipts	<b>2,606</b>	2,324
Other income	<b>225</b>	456
	<b>2,831</b>	2,780

#### 5. Operating profit

	2017 £000	2016 £000
Operating profit is stated after charging:		
Depreciation of property, plant and equipment		
– owned assets	<b>1,735</b>	1,162
– assets held under finance lease	<b>58</b>	67
Amortisation of intangible fixed assets	<b>3,230</b>	2,680
Auditor's remuneration:		
– audit service in relation to the Company	<b>33</b>	31
– audit services in relation to the subsidiaries	<b>129</b>	61
– audit related assurance services	<b>15</b>	11
– tax compliance services	<b>10</b>	10
– all other taxation advisory services	<b>18</b>	–
– services related to corporate finance	<b>129</b>	203
– all non-audit services not covered above	<b>17</b>	–
Difference on foreign exchange	<b>377</b>	216
Operating lease costs		
– buildings	<b>1,436</b>	731
– motor vehicles	<b>298</b>	300

#### 6. Administrative expenses

Administrative expenses in the period include £336k of acquisition related costs (£259k in 2016). For details of acquisitions in the year see note 32.

## 7. Directors and employees

The aggregate payroll costs of the employees were as follows:

	2017 £000	2016 £000
<b>Staff costs</b>		
Wages and salaries	26,668	19,679
Social security costs	3,368	2,362
Pension costs	879	623
	<b>30,915</b>	22,664

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

	2017 Number	2016 Number
<b>By activity:</b>		
Administration	131	118
Sales and distribution	515	405
	<b>646</b>	523

	2017 £000	2016 £000
<b>Remuneration of directors</b>		
Remuneration	802	638
Employer contribution to defined contribution schemes	22	21
	<b>824</b>	659

	2017 £000	2016 £000
<b>Emoluments of highest paid director</b>		
Remuneration	411	308
Employer contribution to defined contribution scheme	13	12
	<b>424</b>	320

Retirement benefits were accruing to 2 (2016: 2) directors under a money purchase pension scheme. 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 33.

The directors' remuneration report on pages 26 and 27 of this Annual Report forms part of these financial statements.

## 8. Finance costs

	2017 £000	2016 £000
Interest on overdraft and invoice discounting	666	604
Interest on finance leases	4	27
Dividend on preference shares treated as borrowings	-	(14)
Interest on other loans	70	40
Interest, foreign exchange & other finance costs of deferred and contingent considerations	(81)	-
Interest, foreign exchange & other finance costs of put option liabilities	1,257	1,729
	<b>1,916</b>	2,386

Notes to the consolidated financial statements continued  
For the year ended 31 December 2017

## 9. Taxation on ordinary activities

### Analysis of charge

	2017 £000	2016 £000
UK corporation tax	2,579	2,013
Overseas tax	3,054	2,056
Current tax	5,633	4,069
Deferred tax	(714)	(527)
<b>Tax on profit on ordinary activities</b>	<b>4,919</b>	<b>3,542</b>

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:

	2017 £000	2016 £000
<b>Profit on ordinary activities before taxation</b>	<b>18,898</b>	<b>12,102</b>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK (2017: 19.25%; 2016: 20%)	3,638	2,420
Factors affecting tax expense for the year:		
Expenses not deductible for tax purposes	328	602
Effects of different tax rates in foreign jurisdictions	1,067	520
Effects of changes in tax rates	(114)	-
<b>Total amount of tax</b>	<b>4,919</b>	<b>3,542</b>

The main UK Corporation tax rate from 1 April 2016 of 20% was reduced to 19% from 1 April 2017, resulting in an effective corporation tax rate of 19.25% for 2017 (2016: 20%). The Finance Act 2017 (No. 2) was substantially enacted on the 31 October 2017 and maintains the decision to reduce the main rate of corporation tax from 19% to 17% from 1 April 2020.

### Deferred tax

	Accelerated capital allowances £000	Company share schemes £000	Total £000
At 1 January 2016	3,664	-	3,664
Acquired in business combinations	297	-	297
Credited to income statement	(520)	(7)	(527)
Credited to equity	-	(9)	(9)
Other balance sheet movement	(11)	-	(11)
At 31 December 2016	3,430	(16)	3,414
Acquired in business combinations	1,439	-	1,439
Credited to income statement	(617)	(97)	(714)
Credited to equity	-	(116)	(116)
Other balance sheet movement	35	-	35
<b>At 31 December 2017</b>	<b>4,287</b>	<b>(229)</b>	<b>4,058</b>

Presentation of deferred tax in balance sheet:

	2017 £000	2016 £000
Deferred tax asset	387	-
Deferred tax liability	(4,445)	(3,414)
<b>Net Deferred liability</b>	<b>(4,058)</b>	<b>(3,414)</b>



## 10. Earnings per share

Basic earnings per share is calculated by dividing the profit after tax attributable to equity shareholders of the Company by the weighted average number of shares in issue during the year.

Diluted earnings per share is calculated by dividing the profit after tax attributable to equity shareholders of the Company adjusted for the fair value (measured in accordance with IFRS 2) of any goods or services to be supplied to the Group in the future under the share options granted by the balance sheet date by the weighted average number of shares in issue during the year adjusted for the effects of all dilutive potential ordinary shares.

	2017	2016
Profit attributable to equity holders of the Group (£000)	<b>13,577</b>	8,216
Weighted average number of shares in issue <sup>1</sup>	<b>79,448,200</b>	75,247,380
Potentially dilutive effect of the Group's share option schemes	<b>305,464</b>	93,852
Weighted average number of diluted ordinary shares	<b>79,753,664</b>	75,341,232
Basic earnings per share	<b>17.06p</b>	10.92p
Diluted earnings per share	<b>17.00p</b>	10.91p

1 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.

## 11. Subsidiaries

The following principal subsidiary undertakings have been included within the consolidated financial statements and are all held indirectly unless otherwise stated:

Name	Principal activity	Country of incorporation	% ownership held by the Group	
			2017	2016
Midwich Limited <sup>1</sup>	Distribution of audio visual products to trade customers	England and Wales	<b>100%</b>	100%
Midwich Employees' Trustees Limited	Dormant	England and Wales	<b>100%</b>	100%
True Colours Distribution Limited	Dormant	England and Wales	<b>100%</b>	100%
Invision UK Ltd	Distribution of audio visual products to trade customers	England and Wales	<b>100%</b>	100%
Square One Distribution Limited	Distribution of audio visual products to trade customers	Republic of Ireland	<b>100%</b>	100%
Sidev SAS	Distribution of audio visual products to trade customers	France	<b>100%</b>	100%
Midwich Australia Pty Limited	Distribution of audio visual products to trade customers	Australia	<b>100%</b>	100%
Midwich Limited	Distribution of audio visual products to trade customers	New Zealand	<b>100%</b>	100%
Kern & Stelly Medientechnik GmbH	Distribution of audio visual products to trade customers	Germany	<b>100%</b>	100%
PSCo Group Limited <sup>2</sup>	Dormant	England and Wales	–	100%
PSCo Limited <sup>3</sup>	Dormant	England and Wales	<b>100%</b>	100%
PSCo Rentals Limited <sup>2</sup>	Dormant	England and Wales	–	100%
Yellowglade Limited <sup>2</sup>	Dormant	England and Wales	–	100%
Holdan Limited <sup>4</sup>	Distribution of professional broadcast equipment to trade customers	England and Wales	<b>89%</b>	79%
Earpro S.A. <sup>5</sup>	Distribution of audio visual and lighting products to trade customers	Spain	<b>88%</b>	–
Gebroeders van Domburg B.V. <sup>6</sup>	Holding company	Netherlands	<b>70%</b>	–
Van Domburg Partners B.V. <sup>6</sup>	Distribution of audio visual products to trade customers	Netherlands	<b>70%</b>	–
Van Domburg Transport B.V. <sup>6</sup>	Provision of logistics services to trade customers	Netherlands	<b>70%</b>	–
Van Domburg Services B.V. <sup>6</sup>	Provision of administration and support to other companies within the segment	Netherlands	<b>70%</b>	–
Dutch Light Pro B.V. <sup>6</sup>	Distribution of lighting products to trade customers	Netherlands	<b>70%</b>	–
Sound Technology Limited <sup>7</sup>	Distribution of professional audio musical and lighting products to trade customers	England and Wales	<b>100%</b>	–

1 Investments held directly by Midwich Group plc.

2 Company dissolved 31 January 2017.

3 Company being wound up by liquidators appointed by special resolution signed 21 February 2017.

4 Acquired 7 September 2016. See "Holdan" acquisition in note 32.

5 Acquired 27 March 2017. See "Earpro" acquisition in note 32.

6 Acquired 6 September 2017. See "van Domburg" acquisition in note 32.

7 Acquired 30 November 2017. See "Sound Technology" acquisition in note 32.

## Notes to the consolidated financial statements continued

### For the year ended 31 December 2017

#### 12. Goodwill

	£000
<b>Cost</b>	
At 1 January 2016	3,303
On acquisition of Holdan Limited	1,254
At 31 December 2016	4,557
On acquisition of Earpro	1,009
On acquisition of van Domburg	2,667
On acquisition of Sound Technology	851
Foreign exchange gain/(loss)	10
<b>At 31 December 2017</b>	<b>9,094</b>

#### Allocation of goodwill to cash generating units

Goodwill is not amortised but tested for impairment annually with the recoverable amount being determined from value in use calculations. Goodwill has been allocated for impairment testing to groups of Cash Generating Units (CGUs) for each operating segment, as follows:

Allocation of goodwill to groups of CGUs	2017 £000	2016 £000
United Kingdom & Ireland	<b>4,730</b>	3,862
France	<b>176</b>	166
Australasia	<b>120</b>	122
Germany	<b>426</b>	407
Rest of Europe	<b>3,642</b>	-
	<b>9,094</b>	4,557

The value in use calculation is based on cash flow projections from a formally approved 12-month forecast which has been extrapolated using an individual growth rate expected for each group of CGUs over a five-year period from the balance sheet date and cash flows beyond this period exclude growth. Management has concluded that there are no reasonably possible changes in any key assumptions that would cause the carrying amount of goodwill to exceed the value in use.

Other major assumptions are as follows:

#### Forecast profitability assumptions

Management's key assumptions are the achievement of the forecast profits for the 12-month period after the balance sheet date and stable long-term profit margins. The 12-month forecast data is based on the most recent annual financial statements adjusted for management's best estimates of reasonable growth.

#### Growth rates

The annual growth rates used to extrapolate the approved forecast for years 2 to 5 within the value in use calculation are between 0%–2.5% (2016: 0%–1%) and are based on economic data for the wider economy, and represent a prudent expectation of growth.

#### Discount rates

Discount rates are based on management's assessment of the specific risks relating to the groups of CGUs within each operating segment. Discount rates used in the value in use calculation for assessing the recoverable amount of goodwill for each operating segment are as follows:

Operating segment	2017	2016
United Kingdom & Ireland	<b>10.6%–11.0%</b>	10.5%
France	<b>10.7%</b>	10.5%
Australasia	<b>10.6%</b>	10.5%
Germany	<b>10.8%</b>	10.5%
Rest of Europe	<b>10.9% - 11.1%</b>	-

The recoverable amounts for each operating segment's group of CGUs exceed the carrying amounts by the following amounts in each year assessed:

Amount by which recoverable amount exceeds carrying amount:

	2017 £000	2016 £000
United Kingdom & Ireland	<b>189,374</b>	37,806
France	<b>14,113</b>	5,777
Australasia	<b>26,034</b>	12,550
Germany	<b>50,597</b>	16,993
Rest of Europe	<b>28,700</b>	-
<b>Total</b>	<b>308,818</b>	73,126

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.

### 13. Intangible assets

	Patents £000	Software £000	Brands £000	Customer relations £000	Supplier contract £000	Total £000
<b>Cost</b>						
At 1 January 2016	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
<b>At 31 December 2016</b>	<b>26</b>	<b>284</b>	<b>3,600</b>	<b>20,602</b>	<b>1,745</b>	<b>26,257</b>
On acquisition	3	107	415	2,918	3,041	6,485
Additions	3	45	-	-	-	48
Disposals	-	(14)	-	-	-	(14)
Foreign exchange differences	-	6	38	207	37	287
<b>At 31 December 2017</b>	<b>32</b>	<b>428</b>	<b>4,053</b>	<b>23,727</b>	<b>4,823</b>	<b>33,063</b>
<b>Amortisation</b>						
At 1 January 2016	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
<b>At 31 December 2016</b>	<b>6</b>	<b>80</b>	<b>1,067</b>	<b>5,948</b>	<b>336</b>	<b>7,437</b>
Charge for year	5	120	377	2,276	452	3,230
Disposals	-	(14)	-	-	-	(14)
Foreign exchange differences	-	4	13	83	-	100
<b>At 31 December 2017</b>	<b>11</b>	<b>190</b>	<b>1,457</b>	<b>8,307</b>	<b>788</b>	<b>10,753</b>
<b>Net book value</b>						
At 31 December 2016	20	204	2,533	14,654	1,409	18,820
<b>At 31 December 2017</b>	<b>21</b>	<b>238</b>	<b>2,596</b>	<b>15,420</b>	<b>4,035</b>	<b>22,310</b>

Included within intangible assets are £21,257k of separately identifiable intangible assets that were measured at fair value on acquisition in business combinations. These assets have subsequently been measured at amortised cost. The fair value of separately identifiable intangible assets is calculated based on the estimation of future trading performance, royalty rates, customer attrition rates and supplier contract renewals rates. If the estimated fair values of intangible assets on acquisition were 10% higher or 10% lower the effect would be a decrease or increase of £220k respectively in profit after tax for the year.

Notes to the consolidated financial statements continued  
For the year ended 31 December 2017

**14. Property, plant and equipment**

	Freehold land and buildings £000	Leasehold improvements £000	Rental assets £000	Plant and equipment £000	Total £000
<b>Cost</b>					
At 1 January 2016	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
<b>At 31 December 2016</b>	<b>2,795</b>	<b>390</b>	<b>935</b>	<b>2,302</b>	<b>6,422</b>
Additions on acquisition	–	–	–	1,782	1,782
Additions	30	16	2,222	869	3,137
Disposals	–	(16)	(881)	(791)	(1,688)
Foreign exchange differences	–	(3)	–	62	59
<b>At 31 December 2017</b>	<b>2,825</b>	<b>387</b>	<b>2,276</b>	<b>4,224</b>	<b>9,712</b>
<b>Depreciation</b>					
At 1 January 2016	49	28	57	690	824
Charge for year	30	38	608	553	1,229
Disposals	–	–	(514)	(238)	(752)
Foreign exchange differences	–	5	–	81	86
<b>At 31 December 2016</b>	<b>79</b>	<b>71</b>	<b>151</b>	<b>1,086</b>	<b>1,387</b>
Charge for year	53	44	827	869	1,793
Disposals	–	(15)	(472)	(690)	(1,177)
Foreign exchange differences	–	–	–	17	17
<b>At 31 December 2017</b>	<b>132</b>	<b>100</b>	<b>506</b>	<b>1,282</b>	<b>2,020</b>
<b>Net book value</b>					
At 31 December 2016	2,716	319	784	1,216	5,035
<b>At 31 December 2017</b>	<b>2,693</b>	<b>287</b>	<b>1,770</b>	<b>2,942</b>	<b>7,692</b>

Included in freehold land and buildings is land at £254,644 that is not depreciated.

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

	2017 £000	2016 £000
Plant and equipment	324	–
Rental assets	–	85
	<b>324</b>	<b>85</b>

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

	2017 £000	2016 £000
Plant and equipment	58	–
Rental assets	–	67
	<b>58</b>	<b>67</b>

## 15. Inventories

	2017 £000	2016 £000
Finished goods for resale	<b>62,984</b>	48,142
	<b>62,984</b>	48,142
	2017 £000	2016 £000
Amounts of inventories recognised as an expense during the period as cost of sales (gross of vendor rebates) are:	<b>407,596</b>	319,985
	2017 £000	2016 £000
Amounts of inventories impaired during the period are:	<b>167</b>	685

## 16. Trade and other receivables

	2017 £000	2016 £000
Trade receivables	<b>73,325</b>	50,669
Other receivables	<b>245</b>	294
Prepayments and accrued income	<b>2,791</b>	1,582
	<b>76,361</b>	52,545

Trade receivables includes an amount of £41,534k (2016: £31,911k) 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.

	2017 £000	2016 £000
Impairment provision at 1 January	<b>791</b>	671
Impairments arising on acquisitions	<b>2,610</b>	-
New impairment provision in the year	<b>436</b>	343
Release of impairment provision against written off receivables	<b>(2,470)</b>	(245)
Foreign exchange variance	<b>19</b>	22
Impairment provision at 31 December	<b>1,386</b>	791

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

	2017 £000	2016 £000
Trade receivables past due but not impaired at 31 December	<b>1,157</b>	896

## 17. Cash and cash equivalents

	2017 £000	2016 £000
Cash at bank (GBP)	<b>10,738</b>	9,525
Cash at bank (EUR)	<b>16,259</b>	9,942
Cash at bank (USD)	<b>763</b>	506
Cash at bank (AUS \$)	<b>238</b>	85
Cash at bank (NZ \$)	<b>205</b>	106
	<b>28,203</b>	20,164

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

## Notes to the consolidated financial statements continued

### For the year ended 31 December 2017

#### 18. Trade and other payables

Amounts falling due within one year:

	2017 £000	2016 £000
Trade payables	66,117	46,034
Other taxation and social security	9,522	6,403
Other payables	486	565
Accruals	8,492	5,232
	<b>84,617</b>	58,234

Amounts falling due after one year:

	2017 £000	2016 £000
Accruals	181	–

#### 19. Derivative financial instruments

	2017 £000	2016 £000
Current:		
Forward exchange contracts (see note 23)	93	–

During the year the Group entered into forward exchange contracts in relation to foreign currencies. Details of the Group's management of foreign exchange risk are included in note 24

#### 20. Put option liabilities

	2017 £000	2016 £000
Current:		
Put option liabilities (see note 23)	–	698
Non-current:		
Put option liabilities (see note 23)	5,195	1,441
Total put option liabilities	<b>5,195</b>	2,139

#### At 31 December 2017

During the year the Group entered into symmetrical put and call option contracts to acquire the non-controlling interests that were created by the Earpro and van Domburg acquisitions (see note 32). The non-controlling interests are due to be acquired when the put and call options are timed to be exercised in 2020.

During the prior year the Group entered a symmetrical put and call option contract to acquire the non-controlling interests that were created by the Holdan acquisition (see note 32). The non-controlling interests are due to be acquired when the put and call option is timed to be exercised in 2019.

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

## 21. Deferred consideration

	2017 £000	2016 £000
Current:		
- Deferred consideration at amortised cost	4,719	1,499
- Deferred contingent consideration	122	55
<b>Total current deferred consideration</b>	<b>4,841</b>	1,554
Non-current:		
- Deferred contingent consideration	1,197	72
<b>Total non-current deferred and contingent consideration</b>	<b>1,197</b>	72
Total deferred consideration at amortised cost	4,719	1,499
Total deferred contingent consideration	1,319	127
<b>Total deferred consideration</b>	<b>6,038</b>	1,626

During the year, the Group acquired Earpro S.A. ("Eapro"), the Gebroeders van Domburg B.V. group of companies ("van Domburg") and Sound Technology Limited ("Sound Technology") (see note 32). Deferred consideration in relation to the Earpro and Sound Technology acquisitions is due to be settled within one year. The Group is liable, without condition, for €3.9m in respect of the equity interest acquired in Earpro and £1.3m in respect of the equity interest acquired in Sound Technology. These balances are payable in March 2018 and May 2018 respectively. Deferred contingent consideration in relation to the van Domburg acquisition is due to be settled in two instalments due in March 2018 and March 2019. The total fair value of deferred contingent consideration has been valued at €1.5m at 31 December 2017.

The fair value of deferred contingent consideration is based on estimations of future trading performance and discount factors. If the estimated future trading performance were 10% higher or 10% lower the effect would be an increase of £295k and a decrease of £248k respectively in the fair value of the deferred contingent consideration liability. If the estimated discount factors were 1 percentage point higher or lower the effect would be a decrease or increase respectively of £14k in the fair value of the deferred contingent consideration liability.

## 22. Borrowings

	2017 £000	2016 £000
<b>Secured – at amortised cost</b>		
- Bank overdrafts and invoice discounting	49,727	34,874
- Bank loans	236	257
- Finance leases (see note 26)	369	65
	<b>50,332</b>	35,196
<b>Unsecured – at amortised cost</b>		
- Unsecured loan notes	165	-
<b>Total secured and unsecured borrowings</b>	<b>50,497</b>	35,196
Current	50,176	35,196
Non-current	321	-
	<b>50,497</b>	35,196

### Summary of borrowing arrangements:

The Group has invoice discounting facilities which comprised £41.534k at the end of 2017 (2016: £31.911k). 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 2017 are invoice discounting facilities acquired as part of the acquisition of Gebroeders van Domburg B.V and Sound Technology Limited, which had a liability at 31 December 2017 of £2.4m.

The Group has an overdraft facility which comprised £8.2m at the end of 2017 (2016 £3.0m). The facility is uncommitted and secured with fixed and floating charges over the assets of the Group.

As part of the acquisition of van Domburg acquisition the Group acquired loans and finance leases which had a liability at 31 December 2017 of £0.2m and £0.4m respectively.

For details of finance leases please refer to note 26.

## Notes to the consolidated financial statements continued

### For the year ended 31 December 2017

#### 22. Borrowings continued

Reconciliation of liabilities arising from financing activities

	Long term borrowings £000	Short term borrowings £000	Finance leases £000	Total £000
At 1 January 2017	-	35,131	65	35,196
<b>Cash flows:</b>				
(Repaid)/advanced	(5)	10,882	(125)	10,752
<b>Non-cash:</b>				
Acquisitions	170	3,950	360	4,480
Additions	-	-	69	69
	165	49,963	369	50,497

#### 23. Financial instruments

##### Classification of financial instruments

The fair value hierarchy allocates financial assets and liabilities to groups according to three 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); and
- 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 (2016: none).

Financial instruments measured at fair value through profit or loss comprise forward contracts and contingent consideration and put option liabilities.

As at 31 December 2017 the Group had forward exchange contracts, which were measured at fair value. The valuation of the forward exchange contracts is based on observable inputs other than quoted prices and hence is a level 2 valuation.

The contingent consideration in relation to the acquisition of van Domburg (see note 21) has been measured at fair value. The valuation of the contingent consideration is based on unobservable inputs and hence is a level 3 valuation. The fair value has been calculated using the expected present value technique using a discount factor based on the risk-free rate that has been adjusted to include systematic risk. The discount factor of 7.7% has been applied to probability weighted cash flows that are not certainty-equivalent because they have not been adjusted to exclude systematic risk.

The put option liability held by the Group to acquire the remaining non-controlling interest that arose in the Holdan acquisition (see note 32) was initially measured at present value. The valuation of the put option was based on unobservable inputs and hence was a level 3 valuation. The present value was calculated using the discount rate adjustment technique using a discount rate derived from market data for comparable assets. The discount rate of 8.2% was applied to the most likely cash flows.

The put option liability held by the Group to acquire the remaining non-controlling interest that arose in the Earpro acquisition (see note 32) was initially measured at present value. The valuation of the put option was based on unobservable inputs and hence was a level 3 valuation. The present value was calculated using the discount rate adjustment technique using a discount rate derived from market data for comparable assets. The discount rate of 8.2% was applied to the most likely cash flows.

The put option liability held by the Group to acquire the remaining non-controlling interest that arose in the van Domburg acquisition (see note 32) was measured at present value. The valuation of the put option was based on unobservable inputs and hence was a level 3 valuation. The present value was calculated using the expected present value technique using a discount factor based on the risk-free rate that was adjusted to include systematic risk. The discount factor of 7.7% was applied to probability weighted cash flows that are not certainty-equivalent because they were not adjusted to exclude systematic risk.

During the year the Group exercised part of the put option in relation to Holdan and acquired half of the non-controlling interest (see note 31). In 2016 the Group exercised the put option to acquire the non-controlling interest in Kern & Stelly Medientechnik GmbH (see note 31).

The expected cash flows in relation to the put option liabilities are provided in note 24.



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

	2017 £000	2016 £000
Brought forward	2,139	6,094
Interest costs <sup>1</sup>	202	1,214
Other finance being movement in fair value <sup>1</sup>	44	146
Extinguished on partial acquisition of non-controlling interest <sup>2</sup>	(750)	(7,454)
	<b>1,635</b>	-
Recognition of new put option on acquisitions	2,549	1,770
Interest costs on new put option <sup>1</sup>	132	45
Other finance being movement in fair value on new put option <sup>1</sup>	879	324
At 31 December	<b>5,195</b>	2,139
Current	-	698
Non-current	<b>5,195</b>	1,441
	<b>5,195</b>	2,139

1 A total of £1,257k has been recognised within finance costs in the Income Statement for these transactions (2016: £3,499k).

2 See note 31 for details of the acquisitions of non-controlling interest.

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

	2017 £000	2016 £000
Trade and other receivables (note 16)	73,570	50,963
Cash and cash equivalents (note 17)	28,203	20,164
	<b>101,773</b>	71,127

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

##### Financial liabilities at amortised cost

	2017 £000	2016 £000
Trade payables (note 18)	66,117	46,034
Other payables (note 18)	486	565
Accruals (note 18)	8,492	5,232
Finance lease payables (note 26)	369	65
Put option liabilities (note 20)	5,195	2,139
Bank loans, overdrafts and invoice discounting (note 22)	49,963	35,131
Deferred consideration (note 21)	4,719	1,499
Unsecured loan notes (note 22)	165	-
	<b>135,506</b>	90,665

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.

##### Financial liabilities at fair value through profit or loss

	2017 £000	2016 £000
Derivative financial instruments (note 19)	93	-
Deferred contingent consideration (note 21)	1,319	127
	<b>1,412</b>	127

## Notes to the consolidated financial statements continued

### For the year ended 31 December 2017

#### 24. 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 16 to 23.

#### 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 31 December 2017 total credit risk amounted to £101,528k (2016: £70,833k).

#### Interest rate risk

The interest on borrowings, being an overdraft and invoice discounting facilities with HSBC Bank plc, a loan and invoice discounting facility with Barclays Bank PLC, an invoice discount facility with Lloyds Bank Commercial Finance Ltd, and an invoice discounting facility with Coöperatieve Rabobank U.A., is variable. Based on year end balances a 1% increase in interest rates would impact profit and equity by £0.5m (2016: £0.4m).

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 dollar. 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 reports in pounds sterling (GBP) but has significant revenues and costs as well as assets and liabilities that are denominated in euros (EUR) and Australian dollars (AUD). The table below sets out the prevailing exchange rates in the periods reported.

#### Exchange rates

	Annual average		Year end	
	2017	2016	2017	2016
EUR/GBP	<b>1.145</b>	1.222	<b>1.126</b>	1.180
AUD/GBP	<b>1.688</b>	1.814	<b>1.725</b>	1.690
NZD/GBP	<b>1.814</b>	1.875	<b>1.895</b>	1.763

The positive/(negative) impact of changes in the key exchange rates from 2016 to 2017 are summarised as follows:

Currency	EUR £000	AUD £000	NZD £000
Impact on revenues	7,687	1,786	55
Impact on profit before tax	415	106	2
Impact on net debt	214	37	-

The following table illustrates the sensitivity of the reported profit before tax and equity for 2017 to material exchange rate movements in the pound relative to the euro, Australian dollar and New Zealand dollar.

It assumes a +/- 10% change in GBP relative to the average and closing rates for these currencies employed in 2016.

If the GBP had strengthened against the above currencies by 10%, the impact, in GBP terms, on the 2017 financial statements would have been:

2017	EUR £000	AUD £000	NZD £000
Profit before tax	(1,309)	(346)	(7)
Equity	(3,423)	(248)	(14)

If the GBP had weakened against the above currencies by 10%, the impact, in GBP terms, on the 2017 financial statements would have been:

2017	EUR £000	AUD £000	NZD £000
Profit before tax	270	53	7
Equity	1,282	426	15

### 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 2017 and 2016, on the basis of their earliest possible contractual maturity:

#### At 31 December 2017

	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	66,117	54,510	11,262	345	-	-
Other payables	486	486	-	-	-	-
Derivative financial instruments	93	93	-	-	-	-
Put option liabilities	5,461	-	-	-	1,684	3,777
Finance lease payables	369	101	45	67	104	52
Accruals	8,673	7,502	695	295	67	114
Bank overdrafts, loans & invoice discounting	50,128	49,933	12	18	165	-
Deferred & contingent consideration	6,038	-	4,841	-	1,197	-
	<b>137,365</b>	<b>112,625</b>	<b>16,855</b>	<b>725</b>	<b>3,217</b>	<b>3,943</b>

#### 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 liabilities	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
	<b>91,278</b>	<b>86,870</b>	<b>190</b>	<b>2,271</b>	<b>44</b>	<b>1,903</b>

## Notes to the consolidated financial statements continued

### For the year ended 31 December 2017

#### 25. 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:

	2017 £000	2016 £000
Equity	49,979	45,640
Borrowings	50,128	35,131
Cash and cash equivalents	(28,203)	(20,164)
	<b>71,904</b>	60,607

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.

#### 26. 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 5.

##### Non-cancellable operating lease commitments

	2017 £000	2016 £000
<b>Land and buildings</b>		
Not later than 1 year	1,567	671
After 1 year and not later than 5 years	3,640	1,034
After 5 years	543	-
	<b>5,750</b>	1,705
<b>Other</b>		
Not later than 1 year	287	115
After 1 year and not later than 5 years	221	64
After 5 years	-	-
	<b>508</b>	179

##### Finance Leases

The Group leased certain items of property and equipment under finance leases. The average lease term is 2 years for 2017 (2016: 2 years).

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

Finance lease liabilities minimum lease payments:

	2017 £000	2016 £000
Not later than 1 year	221	65
Later than one year and not later than 5 years	163	-
	<b>384</b>	65
Less: future finance charges	(15)	-
Present value of minimum lease payments	<b>369</b>	65

Finance lease liabilities are included in liabilities:

	2017 £000	2016 £000
Current	213	65
Non-current	156	-
	<b>369</b>	65

## 27. 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 2017 were £46,401k (2016: £33,237k).

## 28. Retirement benefit plans

The Group contributes to a number of retirement benefit pension schemes according to employee service contracts. The retirement benefit pension schemes include both defined contribution and defined benefit pension schemes.

### Defined contribution retirement benefit pension schemes

The majority of the retirement benefit pension schemes are defined contribution pension schemes. Group contributions to these schemes are charged as an expense to the consolidated income statement as they fall due. The assets of these schemes are held separately from those of the Group in independently administered funds.

Expenses for retirement benefit pension schemes recognised as defined contribution schemes are as follows:

	2017 £000	2016 £000
Defined contribution pension schemes expense	<b>879</b>	623

### Defined benefit retirement benefit pension schemes

Due to the van Domburg acquisition (see note 32) the Group became a participant to the "Pensioenfonds Vervoer", an industry-wide pension fund in the Netherlands.

The pension scheme is a defined benefit pension scheme offering beneficiaries an average wage retirement benefit plan. The investment risk is shared collectively among the members of the scheme and the employers. The employer is only required to make a fixed contribution for current employees. Fixed contributions could be increased or decreased in future but it is legally prohibited for the pension fund to require any additional contribution in excess of the fixed contributions. Equally the Group has no claim to any excess pension scheme assets.

The Group has accounted for the pension scheme as a defined contribution pension scheme because the records of the industry-wide pension fund are not designed to provide the sufficient information to enable reporting a defined benefit pension scheme.

## 29. Share capital

The total allotted share capital of the Parent Company is:

### Allotted, issued and fully paid

	2017		2016	
	Number	£000	Number	£000
Issued and fully paid ordinary shares of £0.01 each				
At 1 January	<b>79,448,200</b>	<b>794</b>	79,448,200	794
At 31 December	<b>79,448,200</b>	<b>794</b>	79,448,200	794

There were no share transactions effected during the current year.

## Notes to the consolidated financial statements continued

### For the year ended 31 December 2017

#### 29. Share capital continued

Share transactions effected during the prior year (see notes below):

##### 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) took place during the prior 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 2016 for cancellation at par value.
3. Share capital reduction on 13 April 2016, 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 2016, settling the financial liability in full.
5. Re-designation of the Preference shares, B3 shares' and B5 shares' percentages on 29 April 2016, 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 2016.
7. Bonus share issue on 6 May 2016 in the proportion of 99 ordinary shares for each existing ordinary share.
8. Placing of new shares on 6 May 2016 (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.

### Employee benefit trust

The Group's employee benefit trust was allocated 480,700 ordinary shares in 2016. As at 31 December 2017 239,000 of these shares were distributed to the SIP trust, leaving 241,700 ordinary shares in the employee benefit trust as at 31 December 2017 (2016: 344,700).

### 30. Share based payments

The Group operates two share option plans, the Long-Term Incentive Plan and the Share Incentive Plan. There have been two grants for both options, which were made simultaneously. The first grants for both options were in 2016 (the "2016 options") and the second grants were made in 2017 (the "2017 options").

#### 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 of the 2016 Options granted and the assumptions used in the calculation are as follows:

	LTIP	SIP
Date of grant	1 July 2016	1 July 2016
Number granted	190,500	127,000
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	4.8%	0.00%
Fair value at date of grant	£339,353	£198,322
Earliest vesting date	1 July 2019	1 July 2019
Expiry date	1 July 2026	1 July 2026

## Notes to the consolidated financial statements continued

### For the year ended 31 December 2017

#### 30. Share based payments continued

LTIP options and SIP shares were valued using the Black-Scholes option-pricing model. The fair value of the 2017 Options granted and the assumptions used in the calculation are as follows:

	LTIP	SIP
Date of grant	<b>31 May 2017</b>	<b>31 May 2017</b>
Number granted	<b>613,500</b>	<b>128,500</b>
Share price at date of grant (£)	<b>£3.19</b>	<b>£3.19</b>
Exercise price (£)	<b>£0.01</b>	<b>–</b>
Expected volatility	<b>9.0%</b>	<b>9.0%</b>
Expected life (years)	<b>3</b>	<b>3</b>
Risk free rate	<b>1.003%</b>	<b>1.003%</b>
Expected dividend yield	<b>3.33%</b>	<b>0.00%</b>
Fair value at date of grant	<b>£1,563,817</b>	<b>£289,333</b>
Earliest vesting date	<b>31 May 2020</b>	<b>31 May 2020</b>
Expiry date	<b>31 May 2027</b>	<b>31 May 2027</b>

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 £551k (2016: £75k) 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 2017 is shown below:

	As at 31 December 2017		As at 31 December 2016	
	Number of LTIP options	Weighted average exercise price £	Number of LTIP options	Weighted average exercise price £
Outstanding at start of year	<b>188,500</b>	<b>0.01</b>	–	–
Granted	<b>613,500</b>	<b>0.01</b>	190,500	0.01
Lapsed	<b>(14,000)</b>	<b>0.01</b>	(2,000)	0.01
Outstanding at end of year	<b>788,000</b>	<b>0.01</b>	188,500	0.01

A reconciliation of SIP movements over the year to 31 December 2017 is shown below:

	As at 31 December 2017		As at 31 December 2016	
	Number of SIP shares	Weighted average exercise price £	Number of SIP shares	Weighted average exercise price £
Outstanding at 1 January	<b>119,000</b>	–	–	–
Granted	<b>128,500</b>	–	127,000	–
Lapsed	<b>(20,500)</b>	–	(8,000)	–
Outstanding at 31 December	<b>227,000</b>	–	119,000	–

#### 31. Acquisition of non-controlling interest

On 3 October 2017, the Group acquired 10.5% of the 21% non-controlling interest in Holdan Limited, which had a value of £602k, for a consideration of £750k. £681k of the put option reserve was transferred to the retained earnings when this element of the put option was extinguished.

On 6 May 2016, the Group acquired the 49% non-controlling interest in Kern & Stelly GmbH, which had a value of £5,113k, for a consideration of £7,454k. £1,735k of the put option reserve was transferred to retained earnings when the put option was extinguished.



### 32. Business combinations

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

Subsidiaries acquired:

Acquisition	Principal activity	Date of acquisition	Proportion acquired (%)	Fair value of consideration £000
Earpro <sup>1</sup>	Distribution of audio visual and lighting products to trade customers.	27 March 2017	88.5%	8,311
van Domburg <sup>1</sup>	Distribution of audio visual and lighting products to trade customers.	6 September 2017	70%	2,942
Sound Technology <sup>1</sup>	Distribution of professional audio, musical and lighting products to trade customers	30 November 2017	100%	3,858
Holdan <sup>1</sup>	Distribution of professional broadcast equipment to trade customers.	7 September 2016	79%	4,499
Wired <sup>2</sup>	Distribution of audio visual products to trade customers.	22 August 2016	N/A	414

1 See note 11 for details of companies acquired during the year

2 Purchase of trade and assets

#### 2017 acquisitions

Fair value of consideration transferred:

2017	Earpro £000	van Domburg £000	Sound Technology £000
Cash	<b>4,987</b>	<b>1,522</b>	<b>2,600</b>
Deferred consideration	<b>3,324</b>	<b>-</b>	<b>1,258</b>
Deferred contingent consideration	<b>-</b>	<b>1,420</b>	<b>-</b>
<b>Total</b>	<b>8,311</b>	<b>2,942</b>	<b>3,858</b>

Acquisition costs of £81k in relation to the acquisition of Earpro, £164k in relation to the acquisition of van Domburg, £84k in relation to the acquisition of Sound Technology and £7k in relation to the prior year acquisition of Holdan were expensed to the income statement during the year ended 31 December 2017.

On acquisition of Earpro and van Domburg the Group recognised £1,033k and £1,516k in relation to the initial present value of the put option liabilities to acquire the remaining non-controlling interest in each acquisition.

Notes to the consolidated financial statements continued  
For the year ended 31 December 2017

**32. Business combinations** continued

Fair value of acquisitions

2017	Earpro £000	van Domburg £000	Sound Technology £000
<b>Non-current assets</b>			
Goodwill	1,009	2,667	851
Intangible assets – customer relationships	740	2,178	–
Intangible assets – supplier exclusivity	1,488	–	1,553
Intangible assets – trade name	104	158	153
Intangible assets – other	58	–	52
Plant and equipment	66	1,765	28
	<b>3,465</b>	<b>6,768</b>	<b>2,637</b>
<b>Current assets</b>			
Inventories	2,053	2,878	2,694
Trade and other receivables	4,003	3,526	4,132
Cash and cash equivalents	3,172	–	65
Current tax	–	–	6
	<b>9,228</b>	<b>6,404</b>	<b>6,897</b>
<b>Current liabilities</b>			
Trade and other payables	(2,723)	(5,334)	(3,655)
Derivative financial instruments	–	–	(128)
Borrowings and financial liabilities	–	(2,877)	(1,617)
Current tax	–	(4)	–
	<b>(2,723)</b>	<b>(8,215)</b>	<b>(5,400)</b>
<b>Non-current liabilities</b>			
Borrowings	–	(170)	–
Deferred tax	(579)	(584)	(276)
	<b>(579)</b>	<b>(754)</b>	<b>(276)</b>
<b>Non-controlling interests</b>	<b>(1,080)</b>	<b>(1,261)</b>	<b>–</b>
<b>Fair value of net assets acquired attributable to equity shareholders of the Parent Company</b>	<b>8,311</b>	<b>2,942</b>	<b>3,858</b>

Goodwill acquired in 2017 relates to workforce, synergies and sales know how. Goodwill arising on the Earpro acquisition has been allocated to the Rest of Europe operating segment, goodwill arising on the van Domburg acquisition has been allocated to the Rest of Europe operating segment and goodwill arising on the Sound Technology acquisition has been allocated to the United Kingdom and Ireland operating segment.

Gross contractual amounts of trade and other receivables acquired were £14,271k (2016: £3,951k), with bad debt provision of £2,610k (2016: £nil).

Net cash outflow on acquisitions of subsidiaries

	Earpro £000	van Domburg £000	Sound Technology £000
Consideration paid in cash	4,987	1,522	2,600
Plus: overdraft borrowings	–	200	–
Less: cash and cash equivalent balances acquired	(2,989)	–	(65)
<b>Net cash outflow</b>	<b>1,998</b>	<b>1,722</b>	<b>2,535</b>

### 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:

2017	Earpro £000	van Domburg £000	Sound Technology £000
Date acquired	27 March	6 September	30 November
Post-acquisition contribution to Group revenue	15,081	8,870	1,901
Post-acquisition contribution to Group profit after tax	1,103	174	61

### Proforma full year contribution

Acquired subsidiaries would have made the following contributions to the Group's results for the year in which they were acquired if they were acquired on 1 January 2017:

	Earpro £000	van Domburg £000	Sound Technology £000
Full year revenue <sup>1</sup>	20,530	26,600	21,497
Full accounting period profit after tax <sup>1</sup>	1,388	456	637

If the acquisitions had occurred on 1 January 2017, revenue of the Group for the year would have been £514,712k and profit after tax for the year would have been £14,840k.

- 1 These amounts have been calculated using the results of subsidiaries and adjusting them for differences between the accounting policies and Generally Accepted Accounting Principles applicable to the subsidiaries and the accounting policies and IFRS reporting requirements of the Group. The translation adjustments to modify the reported results of the subsidiaries have been applied as if the Group's accounting policies and IFRS reporting requirements had always been applied. The translation adjustment includes the additional depreciation and amortisation charges relating to the fair value adjustments to property, plant and equipment and intangible assets assuming the fair values recognised on acquisition were valid on 1 January 2017, together with the consequential tax effects.

### 2016 acquisitions

Fair value of consideration transferred

2016	Holdan £000	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 2017

#### 32. Business combinations continued

Acquisition costs of £116k were expensed to the income statement in relation to the acquisition of Holdan Limited and costs of £12k were expensed in relation to the acquisition of the trade and assets of Wired Limited during the year ended 31 December 2016.

On acquisition of Holdan the Group recognised £1,770k in relation to the initial present value of the put option liability to acquire the remaining non-controlling interest of Holdan.

2016	Holdan £000	Wired £000
<b>Non-current assets</b>		
Goodwill	1,254	–
Intangible assets – customer relationships	917	–
Intangible assets – supplier exclusivity	566	290
Plant and equipment	967	15
	3,704	305
<b>Current assets</b>		
Inventories	1,775	71
Trade and other receivables	3,774	177
Cash and cash equivalents	367	–
	5,916	248
<b>Current liabilities</b>		
Trade and other payables	(2,103)	(139)
Current tax	(375)	–
	(2,478)	(139)
<b>Non-current liabilities</b>		
Borrowings	(1,483)	–
Deferred tax	(297)	–
	(1,780)	–
<b>Non-controlling interests</b>	(863)	–
<b>Fair value of net assets acquired attributable to equity shareholders of the Parent</b>	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 and Ireland operating segment.

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

#### Net cash outflow on acquisition of subsidiaries

	Holdan £000	Wired £000
Consideration paid in cash	3,000	276
Deferred consideration paid in cash	–	11
Less: cash and cash equivalent balances acquired	(367)	–
<b>Net cash outflow</b>	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:

7 September 2016 to 31 December 2016	Holdan £000
Post-acquisition contribution to Group revenue	9,728
Post-acquisition contribution to Group profit after tax	420

#### Proforma full year contribution

Acquired subsidiaries would have made the following contributions to the Group's results for the year in which they were acquired if they were acquired on 1 January 2016:

	Holdan £000
Full year revenue <sup>1</sup>	26,630
Full accounting period profit after tax <sup>1</sup>	998

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

- 1 These amounts have been calculated using the results of subsidiaries and adjusting them for differences between the accounting policies and Generally Accepted Accounting Principles applicable to the subsidiaries and the accounting policies and IFRS reporting requirements of the Group. The translation adjustments to modify the reported results of the subsidiaries have been applied as if the Group's accounting policies and IFRS reporting requirements had always been applied. The translation adjustment includes the additional depreciation and amortisation charges relating to the fair value adjustments to property, plant and equipment and intangible assets assuming the fair values recognised on acquisition were valid on 1 January 2016, together with the consequential tax effects.

### 33. Related party transactions

Transactions and outstanding balances between the Group companies have been eliminated on consolidation. For transactions between the Company and subsidiaries see note 9 of the separate company financial statements.

Key management personnel are identified as the executive and non-executive directors, and their remuneration is disclosed as follows:

	2017 £000	2016 £000
<b>Remuneration of key management</b>		
Remuneration	804	638
Social security costs	80	73
Company pension contributions to defined contributions scheme	20	21
	<b>904</b>	<b>732</b>

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:

	2017 £000	2016 £000
Mr A M G Bailey	359	49
Mr S B Fenby	2,513	341
Mr M Ashley	-	-
Mr A C Herbert	2	-
	<b>2,874</b>	<b>390</b>

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
<b>Principal</b>	
At 1 January 2016	3,124
Shares redeemed	(3,124)
At 31 December 2016	-
<b>At 31 December 2017</b>	<b>-</b>
	£000
<b>Interest (being preference dividend)</b>	
At 1 January 2016	34
Interest accrued	15
Interest paid	(49)
At 31 December 2016	-
<b>At 31 December 2017</b>	<b>-</b>

## Notes to the consolidated financial statements continued

### For the year ended 31 December 2017

### 33. Related party transactions continued

#### Other Loans

	Mr A M G Bailey <sup>1</sup> £000	Mrs J Fenby <sup>2</sup> £000
<b>Principal</b>		
At 1 January 2016	–	3,700
Loans issued	(212)	–
Loans repaid	212	(3,700)
At 31 December 2016	–	–
At 31 December 2017	–	–
	£000	£000
<b>Interest</b>		
At 1 January 2016	–	57
Interest accrued	–	40
Interest paid	–	(97)
At 31 December 2016	–	–
At 31 December 2017	–	–

- 1 director  
2 employee

#### Related party share transactions are as follows:

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

### 34. Dividends

The Company paid dividends in the year of £8,912k (2016: £1,210k), equating to 11.26 (2016: 1.53) pence per share.

The Board has recommended a final dividend of 9.65 pence per share (2016: 7.09 pence) which, if approved, will be paid on 22 June 2018 to shareholders on the register on 25 May 2018. With the interim dividend declared in September 2017, this represents a total dividend for the year to 31 December 2017 of 13.82 pence per share (2016: 8.62 pence).

### 35. Ultimate controlling party

As at 31 December 2017, Midwich Group plc had no ultimate controlling party.

## Company statement of financial position

As at 31 December 2017

	Notes	2017 £000	2016 £000
<b>Assets</b>			
<b>Non-current assets</b>			
Investments	3	<b>30,918</b>	30,465
Deferred tax	4	<b>307</b>	16
		<b>31,225</b>	30,481
<b>Current assets</b>			
Receivables	5	<b>7,320</b>	16,616
		<b>7,320</b>	16,616
<b>Current liabilities</b>			
Payables	6	<b>(87)</b>	(86)
Current tax		-	-
		<b>7,233</b>	16,530
<b>Net current assets</b>		<b>7,233</b>	16,530
<b>Total assets less current liabilities</b>		<b>38,458</b>	47,011
<b>Non-current liabilities</b>		-	-
<b>Net assets</b>		<b>38,458</b>	47,011
Share capital	7	<b>794</b>	794
Share premium		<b>25,855</b>	25,855
Share based payment reserve		<b>751</b>	84
Investment in own shares		<b>(5)</b>	(5)
Retained earnings:			
Opening retained earnings		<b>20,083</b>	21,765
Loss for the year		<b>(310)</b>	(1,201)
Dividends paid		<b>(8,910)</b>	(1,210)
Other movements		-	729
Total retained earnings		<b>10,863</b>	20,083
Capital redemption reserve		<b>50</b>	50
Other reserve		<b>150</b>	150
<b>Shareholders' funds</b>		<b>38,458</b>	47,011

The financial statements are also comprised of the notes on pages 79 to 84. The financial statements were approved by the Board of Directors and authorised for issue on 12 March 2018 and were signed on its behalf by:

**Mr S B Fenby**

Director

Company registration number: 08793266

## Company statement of changes in equity

### For the year ended 31 December 2017

	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 2017	794	25,855	84	(5)	20,083	50	150	47,011
Loss for the year	-	-	-	-	(310)	-	-	(310)
<b>Total comprehensive income for the year</b>	-	-	-	-	(310)	-	-	(310)
Share based payments	-	-	551	-	-	-	-	551
Deferred tax on share based payments	-	-	116	-	-	-	-	116
Dividends paid	-	-	-	-	(8,910)	-	-	(8,910)
<b>Balance at 31 December 2017</b>	<b>794</b>	<b>25,855</b>	<b>751</b>	<b>(5)</b>	<b>10,863</b>	<b>50</b>	<b>150</b>	<b>38,458</b>
Balance at 1 January 2016	1,398	-	-	(1,000)	21,765	50	1,145	23,358
Loss for the year	-	-	-	-	(1,201)	-	-	(1,201)
<b>Total comprehensive income for the year</b>	-	-	-	-	(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)
<b>Balance at 31 December 2016</b>	<b>794</b>	<b>25,855</b>	<b>84</b>	<b>(5)</b>	<b>20,083</b>	<b>50</b>	<b>150</b>	<b>47,011</b>

\* See note 7

The financial statements are also comprised of the notes on pages 79 to 84.



## Notes to the Company financial statements

### 1. 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 and financial instruments at fair value through profit or loss.

#### Investments

Investments are valued at cost less provision for any permanent impairment.

#### 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 transactions 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.

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# Notes to the Company financial statements continued

## 1. Accounting policies continued

### 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" relate to the Employee Benefit Trust.

### Employee benefit trust

The assets and liabilities of the employee benefit trust (EBT) have been included in the Company financial statements. 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.

### 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.

## 2. Directors and employees

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:

	2017 Number	2016 Number
<b>By activity:</b>		
Administration	<b>3</b>	2

Please see note 7 to the consolidated financial statements for remuneration of directors.

## Notes to the Company financial statements continued

### 3. Investments

	2017 £000	2016 £000
At 1 January	30,465	30,465
Additions	453	–
<b>At 31 December</b>	<b>30,918</b>	<b>30,465</b>

The Company holds 100% of the share capital of Midwich Limited, a company incorporated in England and Wales. Indirect share interests in the Midwich Group of companies are disclosed in note 11 of the consolidated financial statements. Additions in the year represent the capital contributions to subsidiaries in respect of share option schemes, see note 30 of the consolidated financial statements for details of share options.

### 4. Deferred tax

	2017 £000	2016 £000
Deferred tax asset on temporary differences	307	16

### 5. Receivables

	2017 £000	2016 £000
Amounts due from Group undertakings	7,320	16,616

### 6. Payables

	2017 £000	2016 £000
Other payables	87	86

### 7. Share capital

The total allotted share capital of the Company is:

Allotted, issued and fully paid

	2017		2016	
	Number	£000	Number	£000
Issued and fully paid ordinary Shares of £0.01 each				
At start of year	79,448,200	794	79,448,200	794
At end of year	79,448,200	794	79,448,200	794

There were no share transactions effected in the current year.

Share transactions effected during the prior year (see notes below):

#### 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 to the Company financial statements continued

### 7. Share capital continued

#### Notes on share capital movements

As explained further in the admission document, the following share capital changes (as illustrated in the above tables) took place during the prior 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 2016 for cancellation at par value.
3. Share capital reduction on 13 April 2016, 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 2016, settling the financial liability in full.
5. Re-designation of the Preference shares, B3 shares' and B5 shares' percentages on 29 April 2016, 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 2016.
7. Bonus share issue on 6 May 2016 in the proportion of 99 ordinary shares for each existing ordinary share.
8. Placing of new shares on 6 May 2016 (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.

### 8. Dividends

The Company paid dividends in the year of £8,912k (2016: £1,210k), equating to 11.26 pence per share (2016: 1.53 pence).

The Board has recommended a final dividend of 9.65 pence per share (2016: 7.09 pence) which, if approved, will be paid on 22 June 2018 to shareholders on the register on 25 May 2018. With the interim dividend declared in September 2017, this represents a total dividend for the year to 31 December 2017 of 13.82 pence per share (2016: 8.62 pence).

### 9. Related parties and transactions with directors

There were no related party transactions or transactions with the directors during the current or prior year. The directors are predominantly remunerated by subsidiary entities, with a proportion of the non-executive directors' remuneration recharged to the Company.

#### Other related party transactions

Included within other debtors are the following transactions and outstanding amounts with Midwich Limited, a wholly owned subsidiary:

	2017 £000	2016 £000
Outstanding at 1 January	16,616	29
Amounts advanced	–	17,682
Management charges	204	204
Amounts repaid	(9,500)	(1,299)
Outstanding at 31 December	7,320	16,616

Audit fees for the entity are borne by subsidiary entities.

### 10. Ultimate controlling party

As at 31 December 2017, 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 14 May 2018 at 10.00 a.m. You will be asked to consider and vote on the resolutions below. Resolutions 1 to 9 will be proposed as ordinary resolutions and resolution 10 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 2017, 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.
- 6 THAT Hilary Wright, who retires as it is the first Annual General Meeting of the Company since her appointment and who offers herself for re-appointment by general meeting, be re-elected as a director of the Company.

#### Re-appointment and remuneration of auditors

- 7 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

- 8 THAT a final dividend recommended by the directors for the financial year ended 31 December 2017 of 9.65p per ordinary share of £0.01 each in the capital of the Company ("ordinary share") be declared.

### Special business

#### Issue of ordinary shares

- 9 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 held after the date on which this resolution becomes unconditional 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.

- 10 THAT subject to and conditional upon the passing of resolution 9 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

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## Notice of Annual General Meeting continued

(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),

provided that this authority shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company held after the date on which this resolution becomes unconditional 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 16 April 2018

By order of the Board

**Anthony Bailey**  
Company Secretary

Registered office:  
Vinces Road  
Diss  
Norfolk  
IP22 4YT



## Notes to the Annual General Meeting

The following notes explain your general rights as a shareholder and your right to attend and vote at this Meeting or to appoint someone else to vote on your behalf.

1. To be entitled to attend and vote at the Meeting (and for the purpose of the determination by the Company of the number of votes they may cast), shareholders must be registered in the Register of Members of the Company at the time which is 48 hours prior to the Meeting. Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the Meeting.
2. Shareholders, or their proxies, intending to attend the Meeting in person are requested, if possible, to arrive at the Meeting venue at least 20 minutes prior to the commencement of the Meeting so that their shareholding may be checked against the Company's Register of Members and attendances recorded.
3. Shareholders are entitled to appoint another person as a proxy to exercise all or part of their rights to attend and to speak and vote on their behalf at the Meeting. A shareholder may appoint more than one proxy in relation to the Meeting provided that each proxy is appointed to exercise the rights attached to a different ordinary share or ordinary shares held by that shareholder. A proxy need not be a shareholder of the Company.
4. 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).
5. 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.
6. You can vote either:
  - by logging on to [www.signalshares.com](http://www.signalshares.com) and following the instructions;
  - by requesting a hard copy form of proxy directly from the registrars, Link Asset Services (previously called Capita), on Tel: 0371 664 0300. Calls cost 12p per minute plus your phone company's access charge. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 – 17:30, Monday to Friday excluding public holidays in England and Wales.
  - or, in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below.
7. If you return more than one proxy appointment, either by paper or electronic communication, the appointment received last by the Registrar before the latest time for the receipt of proxies will take precedence. You are advised to read the terms and conditions of use carefully. Electronic communication facilities are open to all shareholders and those who use them will not be disadvantaged.
8. The return of a completed form of proxy, electronic filing or any CREST Proxy Instruction (as described in note 11 below) will not prevent a shareholder from attending the Meeting and voting in person if he/she wishes to do so.
9. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Meeting (and any adjournment of the Meeting) by using the procedures described in the CREST Manual (available from [www.euroclear.com/site/public/EUI](http://www.euroclear.com/site/public/EUI)). CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a 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.
10. In order for a proxy appointment or instruction 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 specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent (ID RA10) no less than 48 hours before the time for the holding of the Meeting. For this purpose, the time of receipt will be taken to mean the time (as determined by the timestamp applied to the message by the CREST application host) from which the issuer'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.
11. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. 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 system 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.

In order for a proxy appointment to be valid a form of proxy must be completed. In each case the form of proxy must be received by Link Asset Services at 34 Beckenham Road, Beckenham, Kent, BR3 4ZF by 48 hours before the time for the holding of the Meeting.

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## Notes to the Annual General Meeting continued

12. Any corporation which is a shareholder can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a shareholder provided that no more than one corporate representative exercises powers in relation to the same shares.
13. As at 5:00 p.m. on 13 April (being the latest practicable business day prior to the publication of this Notice), the Company's ordinary issued share capital consists of 79,448,200 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 13 April are 79,448,200.
14. Any shareholder attending the Meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the Meeting but no such answer need be given if: (a) to do so would interfere unduly with the preparation for the Meeting or involve the disclosure of confidential information; (b) the answer has already been given on a website in the form of an answer to a question; or (c) it is undesirable in the interests of the Company or the good order of the Meeting that the question be answered.
15. You may not use any electronic address (within the meaning of Section 333(4) of the Companies Act 2006) provided in either this Notice or any related documents (including the form of proxy) to communicate with the Company for any purposes other than those expressly stated.

A copy of this Notice, and other information required by Section 311A of the Companies Act 2006, can be found on the Company's website at <http://midwichgroupplc.com>

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## Directors, officers and advisers

**Directors**

Mr S B Fenby  
Mr A M G Bailey  
Mr M Ashley  
Mr A C Herbert  
Mrs H Wright (from 9th March 2018)

**Company Secretary**

Mr A M G Bailey

**Independent Auditor**

Grant Thornton UK LLP  
101 Cambridge Science Park  
Milton Road  
Cambridge  
CB4 0FY

**Registered office**

Vinces Road  
Diss  
Norfolk  
IP22 4YT

Company registration number:

08793266

**Bankers**

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

**Solicitors**

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

**Registrars**

Link Asset Services  
34 Beckenham Road  
Beckenham  
Kent  
BR3 4TU

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[midwichgroupplc.com](http://midwichgroupplc.com)