Midwich
Group Plc

2018

ANNUAL REPORT & FINANCIAL STATEMENTS 2018

A SPECIALIST AUDIO VISUAL DISTRIBUTOR TO THE TRADE MARKET

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Another year of strong growth with revenue and net profit increasing in all regions.

Strong working capital management has generated free cash flow conversion of 92%.

Successfully completed and integrated three acquisitions, strengthening the Group's broadcast and professional audio credentials and extending its global footprint into Asia.

Significant improvement in gross margins reflecting the Group's focus on technical products and the positive impact from acquisitions.

Appointed Stephen Lamb as Group Finance Director in July 2018 and Hilary Wright as Non-executive Director in March 2018.

Introduction

HIGHLIGHTS

REVENUE
£574m

2018	£574M
2017	£472M
2016	£370M

ADJUSTED OPERATING PROFIT
£30.2m[2]

2018	£30.2M
2017	£25.0M
2016	£18.5M

GROSS PROFIT %
16.5%

2018	16.5%
2017	15.5%
2016	15.3%

ADJUSTED PROFIT AFTER TAX
£22.3m[3]

2018	£22.3M
2017	£18.7M
2016	£14.4

NET DEBT
£25.7m

2018	£25.7M
2017	£22.3M
2016	£15.0M

FINAL DIVIDEND
10.60p[4]

2018	10.60P
2017	9.65P
2016	7.09P

ADJUSTED OPERATING PROFIT % GROWTH
20.9%[1]

2018	20.9%
2017	31.3%
2016	19.7%

1. At constant currency.
2. 2018 is operating profit of £24.7m adjusted for amortisation of £3.8m, acquisition costs of £0.4m and share based payments (including employer taxes) of £1.3m. 2017 adjusted operating profit is operating profit of £20.8m adjusted for amortisation of £3.2m, acquisition costs of £0.3m and share based payments (including employer taxes) of £0.7m.
3. 2018 profit after tax is profit after tax of £15.3m adjusted for amortisation of £3.8m, acquisition costs of £0.4m, non operational finance costs of £2.5m, share based payments (including employer taxes) of £1.3m and the negative tax impact of the adjustments of £1.0m. 2017 profit after tax is profit after tax of £14.0m adjusted for amortisation of £3.2m, acquisition costs of £0.3m,non operational finance costs of £1.2m, share based payments (including employer taxes) of £0.7m and the negative tax impact of the adjustments of £0.7m.
4. Total dividend of 15.20p (13.82p for the year ending December 2017).

WE OPERATE IN THE UK & IRELAND, CONTINENTAL EUROPE AND ASIA PACIFIC

OUR BUSINESS

Midwich is a specialist AV distributor to the trade market, with operations in the UK and Ireland, Continental Europe and Asia Pacific.

The Group's long-standing relationships with over 400 vendors, including blue-chip organisations, support a comprehensive product portfolio across major audio-visual categories such as large format displays, projectors, digital signage and professional audio. The Group operates as the sole or largest in-country distributor for a number of its vendors in their respective product sets.

The directors attribute this position to the Group's technical expertise, extensive product knowledge and strong customer service offering built up over a number of years. The Group has a large and diverse base of over 17,000 customers, most of which are professional AV integrators and IT resellers serving sectors such as corporate, education, retail, residential and hospitality. Although the Group does not sell directly to end users, it believes that the majority of its products are used by commercial and educational establishments rather than consumers.

Initially a UK only distributor, the Group now has 900 employees across the UK and Ireland, Continental Europe and Asia Pacific. A core component of the Group's growth strategy is further expansion of its international operations and footprint into strategically targeted jurisdictions.

12 showroom/demo facilities

26 offices

staff members 900+

+17,000 accounts serviced in 2018

countries of operation 16

turnover 2018 £574m

OUR JOURNEY

1979 Midwich Computer Company was formed

1995 Introduced trade-only policy

1996 Commenced distribution of projectors

1999 Name changed to Midwich Limited

2000 Launched distribution of large format displays

2005 Launched distribution of consumer electronics

2006 Acquired True Colours Distribution

2007 Acquired Invision UK Ltd

2008 Acquired Owl Visual Systems

2010 Acquired French Distributor, Sidev

2012 Acquired RW Salt

2012 Acquired Australian Distributor, IDT (now Midwich Australia)

WHY OUR CUSTOMERS CHOOSE US

- Credit/business services
- Working together
- 100% trade only
- Nurturing long-term relationships
- Training and events
- Vertical market focus
- Market and web services
- Award-winning distribution
- Personal approach

"We help our customers to win and deliver successful projects"

WHY OUR VENDORS CHOOSE US

- Market focus
- Efficient logistics
- Scale and flexibility
- Marketing and sales support
- Events
- Long-term relationships
- Cross-border projects
- Market intelligence and trends

"We help our vendors build and deliver successful market development strategies"

2013 Entered the market in Germany through the acquisition of Kern & Stelly.

2015 Acquired PSCo UK

2016 Acquired Holdan, UK to build on pro-video and broadcast opportunity

2016 Acquired New Zealand based distributor, Wired

2017 Ventured into the Iberia region, through the acquisition of distributor, Earpro

2017 Strengthened audio presence through acquisition of Sound Technology

2017 Ventured into the Benelux region, through the acquisition of Van Domburg Partners

2017 AV Awards – Winner Distributor of the Year

InAVate Awards – Winner Distributor of the Year

2018 AV Awards – Winner Distributor of the Year

CRN Awards – Winner Best Company to Work For

2018 Acquired New Media AV to expand the broadcast opportunity in Germany

2018 Created an audio division in France through the acquisition of Perfect Sound (now Sidev audio)

2018 Ventured into the Asia Pacific region, through the acquisition of Blonde Robot

INTERNATIONAL PLATFORM

UK & IRELAND

Revenue (+11.3%)

£315.8m

2018	£315.8M
2017	£283.7M

Adjusted Operating Profit

£19.6m

2018	£19.6M
2017	£16.7M

Midwich
The UK's leading trade-only, value-added distributor of technology solutions to the AV and IT channels.

Square One
Trade-only AV and document solutions, value-added distributor in Ireland.

Invision
Specialist distributor of technology solutions for homes and businesses, supplying custom installers across UK, Ireland,Belgium and the Netherlands

Holdan
Trade-only distributor and specialist in professional video, streaming and broadcast equipment. Supplying customers across UK, Ireland and Benelux.

PSCo
Trade-only rental supplier and specialist distributor of LED technologies.

Sound Technology
Trade-only distributor and specialist in professional audio, professional lighting and musical instruments.

CONTINENTAL EUROPE

Revenue (+42.2%)

£222.0m

2018	£222.0M
2017	£156.2M

Adjusted Operating Profit

£10.2m

2018	£10.2M
2017	£7.5M

GERMANY

Kern & Stelly
Germany's premier trade- only distributor of AV products and solutions, based in Hamburg.

New Media AV
Nuremberg-based trade-only, specialist distributor for broadcast, video, livestreaming and post-production solutions.

BENELUX

Van Domburg Partners
Rotterdam based specialist, value-added, trade-only distributor of audio visual solutions.

FRANCE

Sidev
Lyon and Paris based trade-only, value-added, specialist distributor of AV solutions throughout France.

ASIA PACIFIC

Revenue (+11.8%)

£35.9m

2018	£35.9M
2017	£32.1M

Adjusted Operating Profit

£2.9m

2018	£2.9M
2017	£2.6M

Midwich

Trade-only, value-added distributor of AV technology in Australia and New Zealand.

Blonde Robot

Trade-only distributor of specialist professional video, photographic and broadcast equipment.

IBERIA

Earpro

A value-added, specialist distributor of audio, video, lighting and technical video solutions, based in Madrid, Barcelona and Lisbon.

2019 ACQUISITIONS

ITALY

Prase Engineering

Italy's leading specialist value-added distributor of professional audio and video products.

SWITZERLAND

Mobile Pro

A leading Swiss, value-added, trade-only AV distributor, based in Zurich.

STRONG RESULTS AND CONTINUED GROWTH

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

ANDREW HERBERT
Chairman

I am pleased to report that the Group has continued to deliver strong results in 2018, achieving both revenue and profit growth across all its markets and geographies.

Revenue of £573.7 million was 21.6% ahead of prior year (21.4% at constant currency) and reflects an impressive level of organic growth across the business along with contributions from the successful acquisitions during the year and the full year impact of those acquisitions completed in 2017.

The gross profit margin improved again and adjusted profit before tax grew by 19.7% to £29.1 million. Adjusted earnings per share increased by 19.3% to 27.28 pence per share.

Healthy operating cash flow performance, slightly above our long-term average, helped us maintain a strong balance sheet. We also increased our bank borrowing facilities to support our acquisition strategy.

The Board remains 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, was 8.7% reflecting the strong performance across all our geographic markets. The Displays, LED and Technical Video product ranges were particularly strong contributors to this growth.

During 2018 we successfully further expanded the reach of the Group through acquisitions, adding specialist broadcast businesses in Germany and Asia Pacific and an audio business in France. These businesses are being integrated as expected, are already contributing to both sales and profit and have added to our capabilities. After the year-end, we completed two acquisitions entering new markets in Switzerland, with MobilePro AG, and in Italy, with Prase Engineering S.p.A ("Prase"). The Prase deal is one of the largest undertaken by the Group and brings us a market leading business in one of the largest European AV territories. Prase has a very strong heritage in the audio segment and has been integral to the successful delivery of a number of high profile and complex installations in Italy and further afield.

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 is recommending a final dividend of 10.60 pence per share (2017: 9.65 pence), which if approved will be paid on 21 June 2019 to shareholders on the register on 17 May 2019. With the interim dividend declared in September 2018, this represents a total dividend for the year to 31 December 2018 of 15.20 pence per share and growth of 10% on the prior year 13.82 pence per share. The proposed dividend is covered 1.8 times by adjusted earnings.

> "The team at Midwich continues to demonstrate great skill, commitment and drive."

The Board has adopted a progressive dividend policy to reflect the Group's strong earnings and cash flow. While there is no hard or fixed target, in order to allow for continued investment in targeted acquisitions the Board intends to pay future dividends within a cover range of 2 to 2.5 times adjusted earnings.

Board

In our 2017 evaluation of Board effectiveness, we identified the opportunity to further strengthen the Board with the appointment of a third independent non-executive director. We were pleased to welcome Hilary Wright to 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.

2018 also saw a change in Group Finance Director. Following the retirement of Anthony Bailey, we were pleased to welcome Stephen Lamb to the Board. Having overseen the Group's IPO and initial period of operation as a new public company, Anthony left the business to pursue personal interests. We are grateful to him for his commitment and contribution to the business. Stephen Lamb, who is also appointed as Company Secretary, brings considerable experience gained in senior finance roles in international businesses.

The Board once again completed a self-evaluation exercise during 2018, reinforcing our commitment to and success in establishing a strong corporate governance framework. We took the opportunity of this review to confirm strong and effective governance and reaffirmed the role of the Board and its individual members in ensuring compliance with the revised provisions of the QCA code. There were no major issues or concerns raised about the effectiveness of the Board or its individual members.

In formally adopting the QCA code (as revised April 2018) as its governance framework, the Board has reviewed all aspects of compliance and has acted to improve disclosures on the Group's corporate website.

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.

During 2018, the Board has reviewed and approved changes in organisation structure and capability through creation of additional roles to ensure the Group is prepared for and capable of further expansion. Specifically, we have strengthened the central team responsible for acquisition and business integration.

Also, as part of the process of exposure to the business and people throughout the Group, the Board has committed to visiting and holding meetings with at least two subsidiary businesses in any twelve month period. We continue to be pleased and impressed with the engagement and quality of our teams.

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

ORGANIC GROWTH AND TARGETED ACQUISITIONS

"The growth in specialist Audio, Technical Video, LED and Lighting categories particularly helped improve margins."

STEPHEN FENBY
Group Managing Director

Continued growth from a proven model

I am very pleased to report that in 2018 we again achieved strong growth across all the Group's businesses and regions at both a revenue and profit level. Our organic growth continued to be strong, and we have continued to undertake targeted acquisitions to drive future growth as well as build our expertise in a broader range of markets and products.

Strong financial performance

Midwich has delivered strong growth performance in 2018 with revenue for the year of £573.7 million (2017: £471.9 million), an increase of 21.4% (2017: 24.2%) on a constant currency basis. The performance resulted from revenue growth across all regions within the Group, with particularly strong growth in our Continental European business. The three acquisitions made in the second half of the year (Sound Directions (trading as Perfect Sound), Bauer & Trummer (trading as New Media) and Blonde Robot) accounted for 1.9% of the 21.4% growth.

Group gross profit increased by 29.3% to £94.6 million (2017: 29.5% to £73.1 million). The growth in gross profit resulted from a further strong increase in the Group's gross margin, from 15.5% to 16.5%. This increase was delivered through the Group's focus on margins, driving improvement through product mix and working closely with vendors and customers alike to add value to both throughout the supply chain. The growth in specialist Audio, Technical Video, LED and Lighting categories particularly helped improve margins. These product areas require a higher level of investment in specialist knowledge, facilities and personnel, which means that, although the improved gross profit margin does not fully flow down to operating margins, the business is much more specialist and therefore defensible. Midwich has now successfully increased Group gross margin percentage every year for over 10 years.

Our adjusted operating profit margin remained in line with prior year at 5.3% and adjusted profit before tax increased by 19.9% (at constant currency) to £29.1 million. Adjusted profit after tax increased 19.7% to £22.3 million (2017: 29.9% to £18.7 million) and adjusted earnings per share increased 19.3% (2017: 22.7%) to 27.28 pence (2017: 22.86 pence). Reported profit before tax was £21.1 million (2017: £18.9 million) and reported earnings per share increased to 18.5 pence (2017: 17.1 pence).

I am particularly pleased to note that the Group's adjusted profit before tax has doubled in the last three years, from £14.5 million in 2015 to £29.1 million in 2018.

Our business model

Midwich 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, Continental European (Benelux, France, Germany and Iberia, with businesses in Italy and Switzerland joining the Group post year-end) and Asia Pacific (Australia, New Zealand, Hong Kong, Malaysia and Singapore). The Group has a long-standing programme of supplementing its organic growth with the acquisition of smaller businesses which provide it with access to new products, sectors and geographical markets. Our general strategy is to acquire businesses which not only add to the Group's capabilities, but which provide exciting opportunities for growth and widen our addressable market. We continue to have significant success with this strategy.

We believe that our primary role as a distributor is to facilitate growth in the markets in which we operate.

> "Midwich has an established track record of acquiring complementary businesses and then assisting them to grow significantly."

We believe that our ability to help our manufacturer partners to gain access and grow their businesses in geographical and vertical markets is a particular strength of Midwich. This ability often results in a number of manufacturers wishing to follow the Group as it enters new markets; providing us with an ability to rapidly develop newly acquired businesses.

The Group's long-standing relationships with over 400 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 many of its vendors in their respective product sets. We attribute this position to the Group's technical expertise, extensive product knowledge, focused sales capability and strong customer service offering built up over many years.

The Group offers a range of support to our customers, including demonstrating products, training their staff, providing technical advice, logistics, and post-sales support. We have a large and diverse base of over 17,000 customers, most of which are professional AV integrators and IT resellers serving sectors such as corporate, education, retail, residential and hospitality. Although the Group does not sell directly to end users, we believe that the majority of our products are used by commercial and educational establishments rather than consumers.

Midwich has an established track record of acquiring complementary businesses and then assisting them to grow significantly. Over the past five years around one third of revenue and profit growth has been derived from acquired businesses, with the majority of growth being organic. Between 2006 and 2008 our acquisition strategy was focused primarily on adding more technical businesses into the UK 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 and New Media in Germany, Earpro in Iberia, van Domburg in the Benelux, Prase in Italy, MobilePro in Switzerland and Square One Distribution in Ireland. Our businesses in Australia and New Zealand trade under the Midwich name and also as Blonde Robot.

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 uses. The application of AV systems is found in areas such as workplace collaboration, 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 this technology is being driven by a number of inter-related factors, such as an increased pace of both technological advancements and technology adoption, changes to working day practices, continued technology convergence, and evolving social and consumer trends.

Economic recovery since the global recession has also been beneficial for the AV market, albeit even a more benign corporate and consumer investment environment failed to significantly dampen growth in the market. Fundamentally, we believe that AV solutions are used to enhance efficiency or provide organisations with a competitive advantage – they therefore have an appeal in periods of economic growth and more challenging times.

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).

We acquired New Media in August 2018. Headquartered in Nuremburg, New Media is a specialist distributor of broadcast and professional video products including cameras, recording hardware, editing software and accessories. New Media predominantly serves the German, Austrian and Swiss markets and is believed to be the leading distributor of its kind in this region. After the successful purchase of Holdan Limited in the UK in 2016, the acquisition underlines the Group's investment in broadcast technology, which continues to converge with the traditional market covered in Germany by Kern & Stelly.

Perfect Sound is a value-added distributor of professional audio products based in France and serves predominantly the French and French speaking Swiss markets. Headquartered in St Etienne, Perfect Sound has a particular focus on the audio integration market, and is a strong complementary fit with Sidev, the Group's French business.

Blonde Robot was acquired shortly before the year end and is a value-add distributor of professional video, broadcast and photography products. Headquartered in Melbourne, Australia, with subsidiaries in Hong Kong, Malaysia and Singapore, Blonde Robot distributes product in a number of countries across the Asia Pacific region, including Australia, New Zealand, Hong Kong, Singapore, Thailand and Malaysia.

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 achieved revenue of £315.8 million, an improvement of 11.3% compared to last year (2017: £283.7 million), helped by the full year effect of the acquisition of Sound Technology Limited in December 2017. Underlying revenue growth (excluding the effects of the acquisition in the prior year) was 1.8% (2017: 5.6%).

The audio, lighting and technical video product sets grew particularly strongly in the UK and Ireland segment, as did some of the more specialist display categories such as interactive and LED. Such changes to the product mix in the UK and Ireland led to an improvement in the gross profit margin from 16.2% to 17.4% and an increase in the adjusted operating profit of 17.2% to £19.6 million (2017: 25.0% to £16.7 million).

Continental Europe

The Continental European division comprises our businesses in the Benelux, France, Germany and Iberia. Post period end we expanded our Continental European division to include businesses in Switzerland and Italy.

We improved revenue by 42.2% in the year to £222.0 million (2017: 60% to £156.2 million), helped by the full year effect of the acquisitions of Earpro and Gebroeders van Domburg in 2017 and New Media and Perfect Sound in the second half of 2018. Underlying revenue growth (excluding the effects of the acquisition in the current and prior year) was 20.4% (2017: 26.5%).

Revenue in France and Germany increased by 27% and 23% respectively, and our Iberian and Benelux businesses, which were acquired in 2017 contributed an additional £33.7 million of revenue in 2018.

KEY EVENTS IN 2018

This year has seen a number of important events for our business, including:

- Continued development of our broadcast and professional video capabilities;
- Expansion of our audio business in the UK and Ireland and France;
- Three acquisitions: Sound Directions (trading as Perfect Sound), Bauer & Trummer (trading as New Media) and Blonde Robot, which added additional product specialisms into our French, German and Australasian businesses respectively;
- Entry into the South East Asian market through the acquisition of Blonde Robot;
- Strong full year performance from each of the three businesses acquired in 2017 (Earpro, van Domburg and Sound Technology);
- Recruitment of Stephen Lamb as Group Finance Director; and
- Strengthening of the Group's central team, which should enable us to acquire and integrate businesses quicker and more effectively.

All product categories grew strongly in Continental Europe, with technical video, audio and lighting showing the greatest improvement. The gross margins in each of these categories are above average for the division. Overall changes to the product mix in Continental Europe led to an improvement in the gross profit margin from 13.9% to 14.9% and an increase in the adjusted operating profit of 36.9% to £10.2 million (2017: 51.2% to £7.5 million).

Asia Pacific

Asia Pacific achieved an 11.8% (2017: 25.7%) growth in sales from £32.1 million to £35.9 million. The gross margin percentage increased from 17.7% to 18.4% in the year as a combination of stronger sales and margins in the displays category, including particularly interactive and LED displays, offset to some degree by lower audio sales. Adjusted operating profit in Asia Pacific increased by 14% (2017: 60.8%) from £2.6 million to £2.9 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 43.3% of Group revenue in 2018 (2017: 42.6%). This category grew 23.7% (2017: 30.4%) in the year, with strong growth in interactive sales across the Group, large format displays in Germany and the full year impact of Large Format Displays ("LFD") sales in the Benelux and Iberia.

Projection represented 18.4% of Group revenue (2017: 22.1%), with sales remaining broadly flat in the year (2017: growth 17.5%). We believe that the overall long-term trend is for certain parts of the projector market to be replaced by LFD.

Sales of technical products, which include Audio, Broadcast, Lighting, LED and Technical Video rose by an aggregate of 54.7% (2017: 80.0%). Audio sales more than doubled, helped significantly by the full year impact of the acquisitions of Earpro and Sound Technology in 2017. Lighting and LED sales also increased significantly. Technical Video product revenue increased in every territory. In aggregate, these technical product categories constituted 26.4% of Group sales in the year (2017: 20.5%), with most technical product categories enjoying gross margins in excess of the Group average. We believe that our technical expertise, focus and scale mean that the Group is the defacto distributor of choice for customers and vendors involved in complex, technically challenging projects.

Summary of Group 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 continued trend in the increasing use and need for high quality distributors such as Midwich to support the professional AV market. As a result, we continue to exploit a significant number of organic growth opportunities from targeting new vendors while continuing to grow our customer base.

We are pursuing acquisition opportunities that would fit within our strategic focus of adding new product ranges, capabilities or geographies to our existing portfolio. Shortly after the year end we established a presence in Switzerland through the acquisition of MobilePro and entered the Italian market through the acquisition of Prase.

The Board is continuing to pursue its established strategy and is pleased with the progress made during 2018. Trading in the first two months of 2019 has built on the good growth we saw through last year, giving the Board confidence in delivering 2019 performance in line with its existing expectations.

Stephen Fenby
Group Managing Director

COMMITMENT TO OUR PEOPLE, LOCAL COMMUNITIES AND ENSURING A SUSTAINABLE ENVIRONMENT

We take our social responsibility seriously and this year have chosen to include information about how we engage with our people, environment and local communities. We are committed to behaving in a way that is beneficial to all stakeholders.

Our People

The nature of our business, as a value-adding distributor, means expertise and people skills are at the core of what we do and how we maintain our competitive advantage. Having a people-oriented ethos, where team work and commitment are recognised, is central to the success of our strategy. We are committed to developing and supporting our staff across all Group companies and we pride ourselves on our home-grown talent, with a significant number of our senior managers having built their careers from within the Group.

We strive to create the best possible working environment for our workforce, which in turn allows our people to deliver an outstanding service to our external stakeholders. Continued investment in our people's technical expertise, extensive product knowledge, working culture and strong customer service offering sets us apart. We believe that supporting growth and development of individuals, helps us attract and retain talented people, at all levels within the Group.

The Group is committed to promoting a strong ethical and values driven culture throughout the organisation. We have developed and continually communicate a set of values that we consider important to success:

- **Giving our best**
- **Empathy and respect**
- **Cooperation and engagement**
- **Continuous improvement**
- **Trustworthiness**
- **Open communication**
- **Fairness**

We understand that our people need to enjoy what they do. We recognise those who demonstrate our values both informally and through recognition schemes. We also believe in our employees participating in the ownership of the Group. Our directors and employees owned over 40% of our share capital at the end of December 2018. For each of the last three years we have awarded free shares to eligible employees across our geographies, with approximately 400,000 free shares being awarded to 515 employees since our IPO in 2016.

When we welcome new companies to the Group through acquisition, we take particular care to plan the integration in a way that blends the culture and values of the acquired businesses with those of the Group. We run a robust onboarding process, so that newly acquired businesses have a clear understanding of the key activities and processes required for a smooth transition into the Group, but we also appreciate that each business has its own character. We have invested in our integration capabilities and believe that our approach accelerates an acquired business's growth whilst remaining sensitive to its values. We have found time and time again, that when we seek to acquire a business, we are searching for partnerships where we have a natural cultural fit and a matched outlook in terms of how we behave – this approach has served us well.

Midwich recognises wellbeing and mental health as paramount to a happy working environment and we back this up with an extensive package of staff benefits and professional support services. In 2018, we strengthened our support offering by training some of our employees as mental health first aiders. We are now better positioned to provide initial support to a colleague who may be experiencing a mental health issue and guide them towards appropriate treatment and other sources of help.

In 2018, Midwich Limited celebrated winning Distributor of the Year at the industry's leading awards ceremony, the AV Awards. It is the first company to win this prestigious award for three consecutive years. The team also celebrated winning the 'Best Company to work for' award at the CRN Sales and Marketing Awards.

Kern & Stelly won three manufacturer awards in 2018, including, SMART's Distributor of the year 2018 (EMEA), ATLONA's Distributor of the year 2018 (worldwide, outside the US) and Legrand's Distributor of the Year.

In Spain, Earpro celebrated Harman's EMEA 30 Year Anniversary Award.

We place great emphasis on providing an environment where our people can develop their skills and enhance their knowledge. Over the last few years we have invested in a variety of programmes to enhance our talent and skills base. For example, in the UK, we operate a variety of programmes to help develop the technical, leadership and personal skills of our team. We believe that the success of our internal talent programmes has resulted in a high proportion of senior management having developed their careers within the business.

Our environment

We are conscious of our broader environmental responsibilities and are taking positive steps towards environmental good practice.

We are focused on improving our energy efficiency, reducing packaging, managing our waste responsibly and reducing our carbon emissions. For example, as a distributor of video conferencing (VC) equipment, we have utilised this technology across our Group by installing VC capabilities in each meeting space, which has meant colleagues have reduced the need to travel for meetings.

> "We are conscious of our broader environmental responsibilities and are taking positive steps towards environmental good practice."

Our activities do not stop there. In addition to ensuring we make the best use of our own technology, we also have a number of initiatives taking place across the globe further enhancing our 'sustainability for the future' mentality, including but not limited to:

- Midwich Australia joined the Australian Packaging Covenant Association during the year. The association provides initiatives to reduce the harmful effects of packaging on the Australian environment.
- In France, Sidev has implemented schemes for WEEE collect and payment; paper recycling and cartridge ink recycling. In our French offices we are discouraging the use of plastic and encourage healthier lifestyles including giving staff access to free fruit.
- Having reviewed the energy efficiency of their offices, Holdan and Sound Technology, both based in the UK, installed Solar panels, LED efficient lighting and motion lighting to reduce their electricity consumption.
- In Germany, Kern & Stelly introduced healthy organic snacks into the office for employees and is championing the reduction of the use of paper through better processes as part of their "green" office initiative.

These are examples of how our Group companies are taking steps towards a more sustainable working environment. Better waste management and minimising our use of resources across the businesses will be a strong focus over the next twelve months.

Our local communities

To promote our ethical values, we actively encourage and support community involvement. We are dedicated to making a real difference to the communities in which we operate across the Group. We also respect and value the things that make our people individuals and we are committed to creating a culture of inclusion.

Our teams regularly engage in volunteering and fundraising. In return, we support our people by providing time off and support to facilitate work in the community.

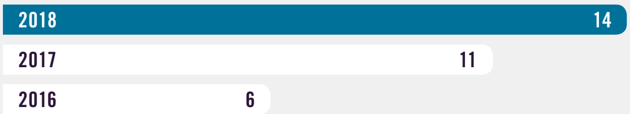
Our head office operates an in-house Charity Committee whose purpose is to raise awareness and funds for our chosen charities and employee members are proud to choose a local charity to support every two years. In 2017/2018, our UK employees chose to support a local charity called Nelson's Journey. This charity supports children and young people, living in Norfolk (UK), who have experienced the death of a significant person in their life, helping them to move forward positively. Over the two-year period, staff have raised donations through an enjoyable series of fundraising events, ranging from sporting events, silent auctions, quiz nights, community raffles and cake baking through to more daring events such as sky diving. For the 2017–18 years, staff based at our head office raised an impressive £45,834 for Nelson's Journey.

We are also getting involved around the globe in supporting our local communities and have some fantastic examples of how we are really making a difference to those around us. We are happy to raise donations through a range of creative activities, whilst having fun along the way. These can range from 'happy waffle days' to charity golf days and cycling challenges.

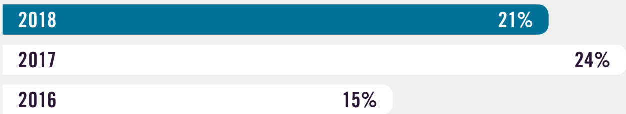
- In Midwich Australia, there has been increased focus on autism awareness, especially in children, which has resulted in campaigns to support the ongoing funding of the 'national disability insurance scheme' for those affected, as well as appearance on national TV and newspapers further promoting autism awareness. We have also supported other charities including 'Can Teen' (teenagers with cancer), Puka Up and the McGrath Foundation.
- In Kern & Stelly in Germany, we invited our employees to support homeless people by donating small product packages. Further charities that have been supported have included 'Save the Children' and 'The last Wish', which provides donations for the elderly or very sick people, where we can help fulfil one of their last wishes.
- Within our Spanish office, Earpro have brought together the power of donations and social media, by associating donations with the number of 'likes' they receive (€1 for each like). This activity has supported fund raising for 'Fundacion Pequeno Deseo' in Spain and 'Make a Wish' in Portugal. In addition, Earpro support a foundation called 'Fundacio Ginesta' which offers services to companies working with people with disabilities.
- Sound Technology in the UK has committed to supporting children through an education focus by donating musical instruments to local schools, encouraging children to play with instruments, which are often out of reach for many due to cost. In addition, directors and senior staff are encouraged to become involved in charities within the music sector. The MD and FD are trustees for 'Music for Youth' which is a registered charity with the aim of providing events which allows children the opportunity to perform. The charity targets schools in areas of hardship, those who may be outside the reach of normal education channels and special schools for children with learning disabilities.
- Within our Holdan office in the UK, we support 'Prevent-UK' which is a charity that works with young children to ensure they are given the best support through education for issues such as substance abuse, crime and Internet safety.

HOW WE PERFORMED

COUNTRIES WITH A PRESENCE[1]

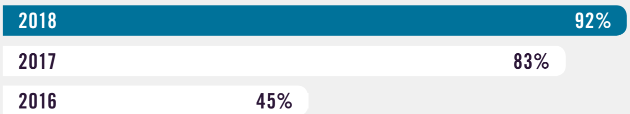


REVENUE GROWTH



GROSS PROFIT MARGIN

CASH FLOW CONVERSION



1. After the year end we entered two new countries (Switzerland and Italy) taking the total countries with a presence to sixteen.

Countries with a presence

Why it is measured?

Geographic footprint is an indicator of scale and the opportunity to further grow revenue by supporting our customers and vendors in their international growth.

Comment

The Group continued to increase its international presence in 2018, both broadening its product range with further acquisitions in France and Germany and starting trading in Asia (from Hong Kong, Malaysia and Singapore) through the acquisition of Blonde Robot.

Revenue growth (at constant currency)

Why it is measured?

Revenue growth (at constant currency) 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 2018 with organic growth in all regions and a strong contribution from acquisitions made in 2017 and 2018.

Gross profit margin

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

2018 continued our record of increasing gross margin. The 2017 acquisitions in Iberia, Benelux and the UK were beneficial as they boosted the proportion of high margin Professional Audio and Professional Lighting sales.

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

2018 was a very strong year for cash flow conversion with the majority of Group entities contributing to the overall picture.

Financial Review

ANOTHER YEAR OF STRONG GROWTH

Summary

We achieved further strong growth in 2018 with revenue increasing by 21.6% to £573.7 million (2017: £471.9 million). Excluding the impact of acquisitions and currency movements, organic revenue growth was 8.7% (2017: 11.9%). Our gross profit margin increased by 1.0% (2017: 0.2%) to 16.5% (2017: 15.5%).

The £5.2 million (2017: £6.5 million) additional adjusted operating profit was an increase of 20.9% at constant currency (2017: 31.3%) year on year. Operating profit before adjustments grew from £20.8 million to £24.7 million.

Statutory financial highlights

	Year to 31 December 2018 £m	Year to 31 December 2017 £m	Total growth %
Revenue	**573.7**	471.9	21.6%
Gross profit	**94.6**	73.1	29.3%
Operating profit	**24.7**	20.8	18.9%
Profit before tax	**21.1**	18.9	11.5%
Profit after tax	**15.3**	14.0	9.3%
Basic EPS – pence	**18.53**	17.06	8.6%

Adjusted financial highlights[1]

	Year to 31 December 2018 £m	Year to 31 December 2017 £m	Total growth %	Growth at constant currency %
Revenue	**573.7**	471.9	21.6%	21.4%
Gross profit	**94.6**	73.1	29.3%	29.2%
Gross profit margin %	**16.5%**	15.5%		
Adjusted operating profit	**30.2**	25.0	20.8%	20.9%
Adjusted profit before tax	**29.1**	24.3	19.7%	19.9%
Adjusted profit after tax	**22.3**	18.7	19.7%	19.8%
Adjusted EPS – pence	**27.28**	22.86	19.3%	

1 Definitions of the alternative performance measures are set out on page 60.

Currency movements had a limited impact across the Group in 2018. On a constant currency basis, growth in revenue was 21.4% (2017: 24.2%) and growth in adjusted profit after tax was 19.8% (2017: 26.4%).

“A very strong close to the year which resulted in an operating cash conversion ahead of our longer-term average.”

STEPHEN LAMB
Group Finance Director

Segmental reporting

The Board has taken the decision to amend the presentation of segmental information to more closely fit the management structure of the Group. Accordingly, our mainland European businesses have now been amalgamated for presentation purposes into Continental Europe. Following our investment in Blonde Robot, which has a presence in both Australia and South East Asia, our Australasia region has been renamed Asia Pacific ('APAC'). Group costs have also been separated from the UK and Ireland segment.

Each of the trading segments performed strongly.

UK & Ireland

	Year to 31 December 2018 £m	Year to 31 December 2017 £m
Revenue	**315.8**	283.7
Adjusted operating profit	**19.6**	16.7

The UK and Ireland segment revenue grew 11.3% (2017: 14.9%) to £315.8 million (2017: £283.7 million) generating gross profit of £54.9 million (2017: £45.8 million) at a gross profit margin of 17.4% (2017: 16.2%). This resulted in an adjusted operating profit of £19.6 million (2017: £16.7 million), an increase of 17.2% (2017: 25.0%) on the prior year. Organic revenue growth excluding the effects of acquisitions in the current and prior period was 1.8% (2017: 5.6%).

Continental Europe

	Year to 31 December 2018 £m	Year to 31 December 2017 £m
Revenue	**222.0**	156.2
Adjusted operating profit	**10.2**	7.5

The Continental Europe segment revenue grew 42.2% (2017: 59.9%) to £222.0 million (2017: £156.2 million). Gross profit increased to £33.1 million (2017: £21.6 million) at a gross profit margin of 14.9% (2017: 13.9%) leading to an adjusted operating profit of £10.2 million (2017: £7.5 million) that has increased 36.9% (2017: 51.2%) on the prior year. In constant currency, revenue grew by 40.5% (2017: 49.5%) and adjusted operating profit grew 35.6% (2017: 41.7%). Organic revenue growth, excluding the effects of acquisitions in the current and prior period, increased by 20.4% (2017: 26.5%).

Asia Pacific

	Year to 31 December 2018 £m	Year to 31 December 2017 £m
Revenue	**35.9**	32.1
Adjusted operating profit	**2.9**	2.6

The Asia Pacific segment revenue grew 11.8% to £35.9 million (2017: £32.1 million) generating gross profit of £6.6 million (2017: £5.7 million) at a gross profit margin of 18.4% (2017: 17.7%). This has resulted in an adjusted operating profit of £2.9 million (2017: £2.6 million), an increase of 14.0% (2017: 60.8%) on the prior year. In constant currency, revenue grew by 18.0% (2017: 17.4%) and adjusted operating profit grew 20.4% (2017: 50.0%). Organic revenue growth, excluding the effects of acquisitions in the current and prior period, increased by 13.4% (2017: 17.4%).

Group costs

Group costs for the year were £2.5 million (2017: £1.7 million). The increase reflects additional investment in legal, compliance, information technology and acquisition and business integration capabilities to support the Group's growth strategy.

Profit before tax

Profit before tax for the year increased by 11.5% (2017: 56.2%) to £21.1 million (2017: £18.9 million), while adjusted profit before tax increased by 19.9% (2017: 31.9%), at constant currency, to £29.1 million (2017: £24.3 million).

Tax

The adjusted effective tax rate was 23.3% in 2018, representing a small increase on 2017 (23.2%) which reflects an increase in the mix of profits arising in higher tax jurisdictions.

Earnings per share

Basic earnings per share is calculated on the total profit of the Group attributable to shareholders. Basic EPS for the year was 18.53p (2017: 17.06p), representing growth of 9% (2017: 56%). Diluted EPS was 18.36p (2017: 17.0p). Adjusted EPS grew by 19.3% (2017: 22.7%) to 27.28 pence (2017: 22.86 pence).

Dividend

The Board has recommended a final dividend of 10.60p per share (2017: 9.65p) which, together with the interim dividend of 4.60p paid in October 2018 gives a final dividend of 15.20p for 2018 (2017: 13.82p). If approved by shareholders at the general meeting, the final dividend will be paid on 21 June 2019 to those shareholders on the register on 17 May 2019.

Cash flow

	Year to 31 December 2018 £m	Year to 31 December 2017 £m
Adjusted operating profit	**30.2**	25.0
Add back depreciation	**2.5**	1.8
Adjusted EBITDA	**32.7**	26.8
Increase in adjusted stocks	**(9.4)**	(7.2)
Increase in adjusted debtors	**(3.2)**	(12.0)
Increase in adjusted creditors	**10.0**	14.7
Adjusted cash flow from operations	**30.1**	22.3
EBITDA cash conversion	**91.9%**	83.4%

The Group's adjusted operating cash flow conversion, calculated comparing adjusted cash flow from operations with adjusted EBITDA, increased to 91.9% compared to 83.4% for the prior year. The performance for the current year reflected a very strong close to the year and resulted in an operating cash conversion ahead of our longer-term average of between 70–80%.

Gross capital spend on tangible assets was £2.4 million (2017: £3.1 million). Rental assets accounted for £1.3 million (2017: £2.2 million) of this spend. Capital expenditure on plant and equipment was £1.0 million (2017: £0.9 million). Intangible asset additions in 2018 include £0.6 million (2017: nil) in relation to the Group's new ERP solution.

Net debt

At 31 December 2018, the Group had net debt of £25.7 million (2017: £22.3 million). The Group has a strong balance sheet with closing net debt/adjusted EBITDA ratio of 0.8 (2017: 0.8). 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 continue to pursue accretive acquisitions. Year-end borrowings of £42.4 million (2017: £50.5 million) compare to facilities totalling £92 million (2017: £73 million) at that date. During the year the Group added a £15 million revolving credit facility to support its buy and build acquisition strategy where appropriate opportunities arise. This was increased to £20 million after the year end.

> "During the year the Group added a £15 million revolving credit facility to support its buy and build acquisition strategy."

Goodwill and intangible assets

The Group's goodwill and intangible assets of £36.0 million (2017: £31.4 million) arise from the various acquisitions undertaken. Each year the Board reviews goodwill for impairment and, as at 31 December 2018, 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.

Working capital

Working capital management is a core part of the Group's performance. At 31 December 2018, the Group had working capital (trade and other receivables plus inventories less trade and other payables) of £59.8 million (2017: £54.7 million). This represented 10.4% of current year revenue (2017: 11.6%).

Adjustments to reported results

	2018 £000	2017 £000
Operating profit	**24,747**	20,809
Acquisition costs	**365**	336
Share based payments	**1,120**	551
Employer taxes on share based payments	**221**	118
Amortisation	**3,792**	3,230
Adjusted operating profit	**30,245**	25,044
Profit before tax	**21,077**	18,898
Acquisition costs	**365**	336
Share based payments	**1,120**	551
Employer taxes on share based payments	**221**	118
Amortisation	**3,792**	3,230
Finance costs – deferred and contingent consideration	**2,219**	(81)
Finance costs – put option	**311**	1,257
Adjusted profit before tax	**29,105**	24,309
Profit after tax	**15,285**	13,979
Acquisition costs	**365**	336
Share based payments	**1,120**	551
Employer taxes on share based payments	**221**	118
Amortisation	**3,792**	3,230
Finance costs – deferred and contingent consideration	**2,219**	(81)
Finance costs – put option	**311**	1,257
Tax impact	**(981)**	(726)
Adjusted profit after tax	**22,332**	18,664
Profit after tax	**15,285**	13,979
Non-controlling interest	**(561)**	(422)
Profit after tax attributable to owners of the Parent Company	**14,724**	13,557
Number of shares for EPS	**79,448,200**	79,448,200
Reported EPS – pence	**18.53**	17.06
Adjusted EPS – pence	**27.28**	22.86

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. The definitions of the alternative performance measures are set out on page 60.

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.

The Board has made succession planning a key agenda item.

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 n 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.

Full business appraisal and diligence reports are prepared and presented to the Board.

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 over 17,000 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% (2017: 2.0%) of overall Group revenues for the year ended 31 December 2018. 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.

Brexit uncertainty

The Group operates across multiple geographies and relies on the availability of physical goods, the majority of which are manufactured outside of the European Union ("EU"), but distributed within the EU by its vendors. A "hard" Brexit could lead to disruption in the availability of goods to the Group's UK and Ireland businesses (55% of Group revenue in 2018).

The Board is monitoring Brexit risks and reviewing action plans, although the outcome of Brexit negotiations is currently subject to a high degree of uncertainty.

In the short-term, disruption to the supply of products could affect the ability of UK and Ireland operations to meet customer demand. The UK business expects to hold approximately two months' inventory at the time of Brexit and is working closely with key vendors to maintain availability of goods during any initial post-Brexit disruption.

Longer-term risks include tariffs and divergence of regulation and standards between the UK and the EU. Whilst the range of tariffs for our principal products under World Trade Organisation rules is from 0% to 14%, the average tariff is approximately 1.5%. This is expected to affect the wider AV industry consistently. The Group is, and will continue to, work closely with its vendors to minimise any Brexit related disruption.

The Group currently services its Republic of Ireland business from the UK. Following a review of alternatives, this model is expected to continue, although direct EU to Ireland options will be evaluated in the event of material tariffs or permanent disruptions to the UK to Ireland supply chain.

The Group's European businesses each operate locally, with export sales from the UK to Continental Europe representing less than 5% of UK revenue. There are no significant dependencies on migrant labour, cross border financing or centralised infrastructure.

Based on the Board's review of the current Brexit risks the directors do not believe, at this time, that Brexit will result in any impairment of Group assets or materially impact the Group's ability to continue as a going concern.

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 11 March 2019 and signed on its behalf by:

Andrew Herbert
Chairman

EPSON 15,000 LM USED FOR WORLD FIRST AT STONEHENGE

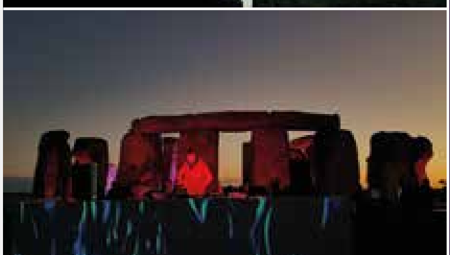
Projection mapping specialists

Motion Mapping has made history by bringing prehistoric monument Stonehenge to life with a spectacular video projection display for a show by DJ Paul Oakenfold. The Midwich group is pleased to work with Motion Mapping, who delivered a stunning digital display that dazzled the select group of guests as the sun set.

PSCo was the selected partner to support the product supply/selection for this project.

Motion Mapping used a combination of Epson's EB-L1755u projectors with the U03 lens for the stones and paired with the W05 for the DJ booth. The size of the projectors along with their brightness was an ideal match for the show which relied on only one team member to move them.

As the sun set and darkness fell, all challenges had been overcome and the projections created a hypnotic, almost spiritual event as the bright spotlights danced on the surfaces of the rock.



> "We had the huge responsibility of transforming Stonehenge artistically like never before,"
>
> **Stuart Harris**
> Owner and creative director, Motion Mapping.

EXPERIENCED MANAGMENT

	ANDREW HERBERT (59) Non-Executive Chairman	STEPHEN FENBY (55) Group Managing Director
Experience	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.	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.
Qualifications and External Responsibilities	Andrew has a BA in Business Studies from Hatfield Polytechnic and is a Fellow of the Chartered Institute of Management Accountants. He is also a non-executive director of Xaar plc.	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.

STEPHEN LAMB (45)
Group Finance Director

Stephen joined Midwich as Group Finance Director in July 2018. He has over 20 years' experience in finance, working in high growth, international business services organisations. Before joining Midwich, Stephen was the International CFO at Iron Mountain Inc, supporting the profitable and cash generative development of the International business. He has held senior financial positions at IWG plc (CFO, Europe) and Experian plc (Group Director of FP&A, FD, Decision Analytics and CFO, Asia Pacific).

Stephen has a BA in Economics and Econometrics from the University of Nottingham and is a Fellow of the Institute of Chartered Accountants in England and Wales.

MIKE ASHLEY (51)
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 (59)
Non-Executive Director

Hilary is currently the Group HR Director of Domino Printing Sciences plc which 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 acquisitions. She has held both strategic and operation 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.

THE BOARD CONSIDERS SOUND GOVERNANCE TO BE AN ESSENTIAL ELEMENT OF A WELL-RUN BUSINESS AND HAS FOLLOWED THE QUOTED COMPANIES ALLIANCE (QCA) GUIDELINES SINCE IPO.

ANDREW HERBERT
Chairman

In line with the recent changes to the AIM Rules, we have now formally adopted the updated QCA code as our benchmark for governance matters. The statement of compliance with the QCA Corporate Governance Code was formally adopted by the Board on 11 September 2018 and is available on the Company's website.

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 and separate 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 Board is comprised of three independent non-executive directors (including the Chairman who was independent upon appointment) and two executive directors. The Board is satisfied that it has a suitable balance between independence and knowledge of the business to allow it to discharge its duties and responsibilities effectively.

Executive directors hold service contracts with a nine-month notice period. Non-executive directors' letters of appointment were updated in March 2019 and included 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 post of Company Secretary is presently held by an executive director. The Board considers that the size and nature of the Company means that the two roles can be carried out effectively by the Group Finance Director. The position is kept under review.

The Board maintains a regular dialogue with Investec, the Company's nominated adviser, and obtains other legal and financial advice as necessary to ensure compliance with the AIM 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 continue to meet with shareholders as necessary. Feedback on both operational and governance matters from those meetings continues to form part of the Board's agenda.

We take our social responsibility seriously and this year have chosen to include information (page 12) about how we engage with our people, our environment and our local communities. We are committed to behaving in a way that is beneficial to all stakeholders.

There have been a number of regulatory and government initiatives introduced in recent years to which the Company has responded. These include implementation of the General Data Protection Regulation 2016 ("GDPR"), the Modern Slavery Act 2015, the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017, the 2016 Finance Act requirement to publish our tax strategy and AIM's requirements to formally adopt a recognised corporate governance code. 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 2018 the Board also received presentations from operational management on topics including business unit strategy, 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, (Audit, Nominations and Remuneration), 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 2018 were as follows:

	Board meetings	Audit	Remuneration	Nomination
Andrew Herbert (Chairman)	8	3	5	2
Mike Ashley	8	3	5	2
Hilary Wright[1]	7	3	4	2
Stephen Fenby	8			2
Anthony Bailey[2]	4			
Stephen Lamb[3]	4			

1 Hilary Wright was appointed on 9 March 2018 and attended all board and committee meetings from that date.

2 Anthony Bailey left the role of Group FD and resigned as a director from 30 June 2018.

3 Stephen Lamb was appointed on 26 July 2018 and attended all board meetings from that date.

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. Hilary Wright was appointed to the Audit Committee upon joining the Board. No change was made to those terms of reference during 2018.

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. Hilary Wright was appointed to the Nominations Committee upon joining the Board.

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 three times 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 2018. Hilary Wright was appointed to the Remuneration Committee upon joining the Board.

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, Nomination Committee and Remuneration Committee are presented on the following pages.

"This year we have added a third independent non-executive director and appointed a new Group Finance Director."

ANDREW HERBERT
Chairman of the Nomination and Audit Committees

I am pleased to present the report of the Nomination Committee.

Board composition

The Committee is responsible for monitoring the Board's balance of skills, knowledge, experience and diversity, and makes recommendations to the Board throughout the year.

This year we have added a third independent non-executive director and appointed a new Group Finance Director.

Appointment of a non-executive director

Following a self-evaluation in 2017, the opportunity was identified to further strengthen the Board through the appointment of a third independent non-executive director. We spent time considering the key attributes that the Board would require, considering the Company's strategy, opportunities and challenges; together with the current Board composition.

Following an internally managed candidate identification, review and selection process, we were pleased to recommend to the Board the appointment of Hilary Wright as an independent non-executive director and as a member of the Audit, Remuneration and Nomination Committees.

Group Finance Director succession

On 11th May 2018, the Company announced that Anthony "Tony" Bailey was retiring from the company and resigning his role as Group Finance Director on 30 June 2018.

The Committee appointed third-party recruitment consultants to identify, evaluate and shortlist candidates for assessment by the Board members. Stephen Lamb was appointed Group Finance Director and joined the Group Board on 26 July 2018.

The Group Finance Director undertakes the role of Company Secretary. The Committee keeps this position under review and believes that, at this present time, the two roles can be combined effectively.

Board evaluation

Following the introduction of a formal Board evaluation and appraisal process in 2017, this process was repeated in 2018. A survey seeking the individual views of directors on Board composition and effectiveness, business leadership, QCA code compliance and other matters was undertaken.

The Group Head of Human Resources 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 were acted upon.

The Board will continue to monitor its approach to the evaluation of effectiveness including the use from time to time of external facilitation.

Succession planning

During the year the members of the Committee worked closely with the executive directors on definition of organisation, capability and resourcing necessary to support longer term business growth. This resulted in the promotion of internal candidates to regional leadership positions and the addition of skills and capability to support business acquisition and integration.

Audit Committee Report

I am pleased to present the Audit Committee Report describing our work during the past year.

Auditors

Grant Thornton UK LLP ("Grant Thornton") was re-appointed as the Company's Auditor at the Annual General Meeting. James Brown remains the engagement partner.

Membership and responsibilities of the Committee

On 9 March 2018 Hilary Wright, independent non-executive director joined the Audit Committee, taking the membership to three, Hilary, Mike Ashley and myself, all independent non-executive directors. I am the Chairman of the Committee and the member with recent and relevant experience.

The Committee met three times during 2018.

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 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.

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:

- Under International Standard on Auditing (UK) 240 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements', there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue due to fraud. The auditors were able to confirm no material misstatement of revenues;
- The risk of intangible assets being improperly accounted for on acquisition of Group companies – 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; and
- 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.

The Committee has reviewed the 2018 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 places the onus on 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 review.

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 18.

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
- 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.

During the year, and to reflect best governance practice, the Committee tightened the Company's policy to limit use of the auditor for non-audit work to tax and other compliance activities where use of the auditors is cost effective given their knowledge of the business. The auditor is no longer used for acquisition due diligence.

During the year Grant Thornton was paid fees of £220k (2017: £351k) in respect of audit and non-audit work as follows:

	2018 £000	2017 £000
Audit fees in relation to the audit of the Company	**33**	33
Audit fees in relation to the audit of subsidiaries	**143**	129
Audit related assurance fees in relation to the interim review	**15**	15
Total audit fees for audit services	**191**	177
Total fees for tax compliance services	**10**	10
Corporate finance services (principally acquisition due diligence)	**–**	129
Other services	**19**	35
Total fees for audit and non-audit services	**220**	351

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

- the teams performing tax compliance work including the computation and compliance work were separate and led by a different partner;
- the teams performing the corporate finance services including the due diligence work were separate to the audit team and led by a different partner. No due diligence work was undertaken by Grant Thornton in 2018; and
- other services 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 2018. Details of the full terms of reference are available on the Company's website.

Andrew Herbert
Chairman of the Audit Committee

SUPPORTING THE NEW OFFICES FOR DELOITTE IN NEW STREET, LONDON

"Unique opportunity, using a range of technologies across the Midwich Group specialist businesses."

Steve Fay
Director – External Sales, Midwich

The successful integration of multiple technologies, required technical support throughout the project. There was a need to ensure interoperability of different vendors' technologies across the Midwich Group's different business portfolios, which was a significant challenge over a limited timescale. Being a trusted adviser was key to working with SmartComm to deliver this complex install.

The Midwich Group has an extremely close working relationship with manufacturers and its team maintains specific and detailed product knowledge. This up-to-date experience means that any integration challenges were highlighted at an extremely early stage in the project, preventing surprises close to the delivery date.

The requirements of this full AV project included control systems, broadcast, audio, LED and display technologies. Working together, a number of the Group's different business units were able to fulfil all of the requirements of the project – a unique offering for a UK distributor. This specialist support enabled our customer to successfully deliver a large, complex project.

Statement from the Chairman of the Remuneration Committee

As Chairman of the Remuneration Committee, I am pleased to present the Directors' Remuneration Report for the financial year ended 31 December 2018.

The Remuneration Committee comprises the non-executive directors including, from 9 March 2018, Hilary Wright.

Changes to AIM Rule 26, effective from 28 September 2018, required AIM companies to adopt a recognised corporate governance code. Since our IPO in 2016, we have adopted the corporate governance code published by the Quoted Companies Alliance (the 'QCA Code') and continue to do so. The Remuneration Committee carried out a review during the year and is satisfied it continues to meet, and exceed, the standards set by the QCA Code.*

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; and
- An Annual Report on Remuneration which sets out payments made to the directors and details the link between Company's performance and remuneration for the 2018 financial year.

This Annual Report on Remuneration will be put to an advisory shareholder vote at the forthcoming AGM on 13 May 2019.

Our approach to executive pay

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

Furthermore, the remuneration arrangements for the executive directors are designed to be in the best interests of the Company and appropriately aligned to its strategic goals, delivering shareholder value and supporting the long-term success of the Company.

In our 2017 Directors' Remuneration Report, the Committee acknowledged that, were it necessary to establish a new executive-level Board role, the remuneration levels may not be sufficient to attract the right calibre of candidate, and internal relativities would need to be addressed at that time. During the year, and to support the appointment of a new FD, we have acted to align executive pay to the market. The Committee believes that remuneration levels are now competitive and better reflect the scale and responsibilities of these roles. Further details are set out in the Annual Report on Remuneration.

Following a review of the existing long-term incentive plan ('LTIP'), which was put in place in 2016, we have made several changes to the scheme rules that apply to LTIP awards from 2018 onwards. The LTIP was put in place for the Group's senior management and has now been expanded to include the executive directors. The most significant change to the LTIP is the introduction of a minimum two-year post-vesting holding period awards from 2018 onwards, bringing the total period of the awards to five years. We believe that this additional holding period better aligns the executive directors' and senior leaders' interests to the long-term goals of the Company and its stakeholders, as well as wider market practice. Further details of the grant made in 2018 under the LTIP can be found on page 33.

The Committee takes a pragmatic approach to the remuneration of its executives, recognising the substantial shareholdings of the MD and the recent changes to the remuneration levels of both the MD and FD. The Committee is satisfied that the incumbents are incentivised to achieve strong performance. However, the Committee recognises that remuneration agreements may need to be reviewed should there be any changes or additions to the Executive Board or changes in the scope or responsibilities of a role and will continue to monitor this going forward.

"Appropriately aligned to its strategic goals, delivering shareholder value and supporting the long-term."

MIKE ASHLEY
Chairman of the Remuneration Committee

In addition to the Committee's remit of the remuneration of the executive directors, the Committee strongly focuses on succession and the development of the next tier of talent in the business. It is our strategy to retain and incentivise the leadership of the future and the Committee takes an active role in reviewing the remuneration structures of the senior leadership.

Changes to the Board

Hilary Wright was appointed as a non-executive director and member of the Remuneration Committee on 9 March 2018. The terms of her employment and her fees are aligned with those of the other non-executive directors.

On 11 May 2018, the Company announced that Anthony Bailey was retiring as FD and from the Board on 30 June 2018.

To reflect Midwich's strategic growth aspirations, the Board was keen to attract the new FD from a larger company with international experience and considered a variety of factors when determining appropriate remuneration for the role, including market benchmarking and the existing remuneration package of candidates. Stephen Lamb was appointed to succeed Anthony as FD and joined the Group Board on 26 July 2018.

2018 performance and remuneration

In the past year, the Company's performance has been very strong, with improved sales and profit performance across all territories (sales have grown by 22% to £573.7 million and adjusted operating profit by 20% to £29.1 million). In addition, the Group completed three strategic technical product acquisitions; broadcast in both Germany and Asia Pacific and audio in France. 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 profit growth, cash conversion and stretching strategic objectives, pay out at 50% of the maximum opportunity for both the MD and the FD. The annual bonus for the year was therefore 50% and 21.6% (Being 50% pro-rated from his joining date) for the MD and FD respectively. Following his departure from the Board during the year, Anthony Bailey was not awarded a bonus for 2018.

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 performance. Further details are set out in the Annual Report on Remuneration on page 32.

Stephen Lamb joined the Company as FD on 26 July 2018 on a base salary of £250,000. On appointment, the Committee determined that it was appropriate to consider bonus payments and deferred unvested incentive awards forfeited from his previous employer as a result of his appointment at Midwich. The Committee has taken particular care in ensuring that these arrangements are appropriate and replicate, as closely as possible, the expected value and time horizons of the forfeited awards. To reflect the forfeiture of his bonus and deferred unvested awards from his previous employer, he was awarded a one-off payment of £68,000 and 50,000 nominal value share options which vest over three years, subject to continued employment.

In addition, the FD was awarded share options under the LTIP, which vest after three years from his date of joining subject to the achievement of performance criteria. A two-year minimum post-vesting holding period also applies.

In order to address the relative remuneration levels of the executive directors, and the MD's remuneration level being significantly below the market median, the Committee decided to increase the base salary of Stephen Fenby from 1 July 2018, with a further increase from 1 January 2019. However, due to his substantial shareholding he did not participate in LTIP awards made in 2018. Details of the MD's remuneration can be found on page 32.

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 five times during 2018 and its key activities were as follows:

- Reviewed the 2017 Directors' Remuneration Report;
- Agreed 2017 annual bonus awards for executive directors and the wider Senior Management Team;
- Discussed 2018 annual bonus scheme proposal for executive directors and the Senior Management Team for 2018;
- Introduced a two-year post-vesting holding period on the LTIP;
- Proposed the remuneration for the new FD;
- Proposed changes to the remuneration of the MD for the remainder of 2018;
- Reviewed the executive directors' remuneration arrangements for 2019;
- Considered the remuneration of the Senior Management Team for 2019; and
- Reviewed the gender pay gap figures for Midwich Limited.

The results of a benchmarking exercise, undertaken by PricewaterhouseCoopers ("PwC") in November 2017 demonstrated that the executive directors' remuneration levels were significantly below the market in respect of all elements of remuneration and no longer reflected the size and complexity of the business. A benchmarking update was provided in October 2018 and the Committee used this to further validate the salary increases made in 2018 and inform salary increases for 2019.

In May 2018, the Committee also engaged PwC to conduct a market review of its Long-Term Incentive Plans ("LTIP"). The LTIP scheme is now offered to both executive directors and the Group's senior management. Following this review, we have made a number of changes to the LTIP scheme that apply to LTIP awards from 2018 onwards. The principal change being the introduction of a two-year post-vesting holding period.

Both the remuneration policy and LTIP scheme are summarised in the "Remuneration Overview" section of this report.

Outlook for the 2019 financial year

The MD's salary was increased by 6.8% to £315,000 from 1 January 2019. The FD was appointed in the second half of 2018 at a market-aligned salary of £250,000. His salary is unchanged from 1 January 2019.

As discussed in the 2017 Directors' Remuneration Report, non-executive director fees were increased from 1 January 2018 to better reflect market rates. Non-executive director fees are unchanged from 1 January 2019.

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. We have acted to align remuneration with the market in 2018 and believe that we are appropriately positioned for 2019 and beyond. 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 and will support the advisory vote on the Directors Remuneration Report at the forthcoming Annual General Meeting.

Mike Ashley
Chairman of the Remuneration Committee

Remuneration overview

Summary of remuneration agreements

In setting the remuneration arrangements 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; and
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 arrangements applicable to remuneration in 2018 and 2019 is set out below for reference to assist with the understanding of the contents of this report and to demonstrate alignment with strategy.

Purpose and link to strategy	Operation	Opportunity	Performance metrics used, weighting and time period applicable
Base salary 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
Benefits and pension Provides a competitive level of benefits and pension.	The executive directors receive benefits which include pension, car allowance and private medical insurance. The FD also receives a contribution towards weekday accommodation near the Company's head office. Further benefits may also be provided for relocation following the appointment of new executives.	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
Annual bonus 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 2019 will include targets for: • profit growth • cash conversion • strategic targets

Purpose and link to strategy	Operation	Opportunity	Performance metrics used, weighting and time period applicable
Long-term incentive plans ('LTIP') The LTIP provides a significant incentive to the executive directors linked to achievement in delivering longer term strategic goals, including sustained financial performance. Maximum awards are only payable for achieving demanding targets.	LTIP awards are made using nominal cost share options. Performance is measured over three financial years against a range of pre-determined performance conditions. LTIP awards are subject to a two-year post-vesting holding period. All LTIP awards are at the ultimate discretion of the Committee and the Committee retains an overriding ability to ensure that overall LTIP awards reflect its view of corporate performance during the period. LTIP awards may attract dividend equivalents for the duration of the performance period.	The maximum LTIP award is 200% of base salary. This may be increased to 300% in exceptional circumstances.	Performance is measured over a minimum three-year performance period. Targets are set for each performance period by the Committee. Performance metrics for the 2018 awards and 2019 awards are based on adjusted EPS growth.
Non-executive director fees 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.	Non-executive directors are paid a base fee. 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.	The base fees for non-executive directors are set at a market rate. No additional fees are awarded for committee chairmanship or membership.	None

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 executive directors, the remuneration of the senior leadership. 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. 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. For example, the executive directors' pension contributions are consistent with those for the wider employee population. The same overarching remuneration principles apply, but are proportionate to an individual's influence at Group level.

The Committee also encourages the participation of Midwich employees in share ownership and is supportive of the Group's share participation and free share award programmes. At 31 December 2018, over 50% of Group employees were participants in the Group's share ownership programmes.

Directors' service agreements and letters of appointment

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

Executive directors	Date of original appointment	Term of appointment	Notice period
Stephen Fenby	13 April 2016	Continuous	Subject to nine months written notice by either party
Stephen Lamb	26 July 2018	Continuous	Subject to nine months written notice by either party

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

The non-executive directors' letters of appointment were renewed in March 2019 at which time the term of appointment was changed from three years to continuous. Performance of the Board and independence of the non-executive directors is assessed annually.

Executive and non-executive directors are subject to annual re-election by shareholders at the AGM.

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 existing 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

Executive director remuneration

(Audited – see note 7 of the notes to the consolidated financial statements).

The table below sets out the total remuneration with a breakdown for each executive director in respect of the 2018 financial year. Comparative figures for the 2017 financial year have also been provided.

	Base salary		Benefits[1]		Annual Bonus		Pension[2]		Other		Total	
£'000	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Stephen Fenby	263[3]	215	12	14	131	182	14	13	–	–	420	424
Anthony Bailey[4]	90	161	3	11	–	137	5	10	–	–	98	319
Stephen Lamb[5]	108	–	12	–	54	–	6	–	68[6]	–	248	–

1 The taxable benefits received in 2017 and 2018 were principally car allowances and private medical insurance. Stephen Lamb also receives a contribution to weekday accommodation near the Company's head office.

2 Executive directors receive pension contributions of 6% of base salary. From 1 November 2017 for Stephen Fenby and 26 July 2018 for Stephen Lamb, contributions were delivered as a salary supplement net of employer's National Insurance of 13.8%. The pension contribution for Anthony Bailey was payable into a defined contribution scheme.

3 Stephen Fenby's base pay was increased from £230,000 to £295,000 from 1 July 2018.

4 Anthony Bailey left the role of Group FD and resigned as a director from 30 June 2018.

5 Stephen Lamb was appointed to the Board on 26 July 2018.

6 On appointment, Stephen Lamb received a cash award of £68,000 based on the forfeited pro rata expected annual bonus payment from his previous employer. In addition, he received 50,000 nominal cost options which vest over a three-year period, from his date of appointment, subject to continued employment. The value of these awards was £265,000 based on the share price of 530 pence at the date of grant and an exercise price of 1 penny. The final value of these awards will be disclosed upon vesting.

Non-executive directors (Audited)

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

	Fees		Total	
£'000	2018	2017	2018	2017
Andrew Herbert[1]	81	49	81	49
Mike Ashley[1]	41	32	41	32
Hilary Wright[2]	34	–	34	–

1 On 1 January 2018, non-executive director fees for Andrew Herbert and Mike Ashley were increased to £81,000 and £41,000 per annum respectively.

2 Hilary Wright was appointed non-executive director on 9 March 2018. Her fees are £41,000 per annum.

Additional information regarding directors' remuneration

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

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

Executive director	Base salary
Stephen Fenby	£295,000
Stephen Lamb	£250,000

Base salaries for the 2019 financial year are set out on page 34 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%	50%	50%	131
Anthony Bailey[1]	100%	0%	0%	–
Stephen Lamb	43.2%[2]	50%	21.6%[2]	54

1 Anthony Bailey left the role of Group FD and resigned as a director from 30 June 2018.

2 Stephen Lamb joined the Group on 26 July 2018 and his bonus is payable on a pro forma basis for 2018; this reduced the maximum bonus opportunity from 100% to 43.2% for 2018.

The Remuneration Committee considers that the specific pro-rata targets for the 2018 annual bonus awards remain commercially sensitive.

Long-term incentives awarded in 2018

To reflect the substantial shareholdings of Stephen Fenby, and in line with the approach taken in 2016 and 2017, no LTIP awards were granted to him during the year.

Details of the awards granted to Stephen Lamb during the year are set out below:

Scheme	Date of Grant	Performance conditions	Market price of shares on the date of grant	Earliest date of vesting	Exercise price	Number of shares
Award on joining	20 December 2018	Continued employment	530p	26 July 2019	1p	30,000
Award on joining	20 December 2018	Continued employment	530p	26 July 2020	1p	10,000
Award on joining	20 December 2018	Continued employment	530p	26 July 2021	1p	10,000
2018 LTIP	20 December 2018	Adjusted EPS growth	530p	26 July 2021[1,2]	1p	50,000

1 Subject to a two-year post-vesting holding period.

2 The Board determined that the vesting date should be three years from date of appointment (26 July 2018).

All share options lapse, if they are not exercised, ten years after the grant date.

Non-Executive fees in 2018

Fees for the non-executive directors were increased with effect from 1 January 2018.

Fees at the end of the financial period were:

Non-executive director	Fees
Andrew Herbert	£81,000
Mike Ashley	£41,000
Hilary Wright	£41,000

Non-executive director fees for the 2019 financial year are set out on page 35 of this report.

Directors' shareholdings at 31 December 2018

The interests of directors and their connected persons in Ordinary Shares as at 31 December 2018 are presented in the table below.

Executive directors	Ordinary Shares as at 31 December 2018	% of total Ordinary Shares of Company
Stephen Fenby[1]	20,040,000	25.22%
Stephen Lamb	7,500	<0.01%
Non-executive directors		
Andrew Herbert	30,000	0.04%
Mike Ashley	1,442	<0.01%
Hilary Wright	4,000	<0.01%

1 On 29 January 2018, Stephen Fenby and closely associated persons sold 1,000,000 Ordinary Shares. Stephen Fenby and closely associated persons no longer includes the shares held by his children as they are considered independent adults.

Stephen Fenby is subject to a lock-in agreement following the IPO on 6 May 2016 as follows:

- For a period of three years after the IPO (i.e. up to 5 May 2019), he 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), he must retain a shareholding equal to 20% of the shares held on the IPO.

Implementation of remuneration agreements in 2019

Base salary

The salary of the MD was increased by 6.8% 1 January 2019 to achieve greater alignment with the market. Stephen Lamb was appointed FD on 26 July 2018 and was not eligible for a salary increase on 1 January 2019.

The table below sets out the base salaries effective from 1 January 2019 (with previous base salaries included for reference):

	Base salary	
	As at 31 December 2018	As at 1 January 2019
Stephen Fenby	£295,000	£315,000
Stephen Lamb	£250,000	£250,000

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

The Group MD and FD will be eligible to participate in any long-term incentive awards will be granted during 2019. However, due to his significant existing shareholding, it is expected that the MD will not participate in the 2019 award. The Remuneration Committee will keep this under review in future years.

Pension

Company pension contributions will remain at 6% of base salary. The MD and FD each elect to receive this via salary supplement of 6% of salary (less employer's National Insurance of 13.8%) in lieu of pension contributions.

Non-executive director fees

Non-executive director fees were revised following a benchmarking exercise from 1 January 2018. The table below sets out the 2019 fees for the non-executive directors, which are unchanged from 2018:

	Fees	
	As at 31 December 2018	**As at 1 January 2019**
Andrew Herbert	**£81,000**	£81,000
Mike Ashley	**£41,000**	£41,000
Hilary Wright	**£41,000**	£41,000

Adviser

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 11 March 2019 and signed on its behalf by:

Mike Ashley
Chairman of the Remuneration Committee

Directors' Report

The directors present their report and the financial statements of the Group for the year ended 31 December 2018. 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 (on page 18) and an indication of likely future developments for the Group (on page 11).

Results and dividends

The profit after tax for the period amounted to £15.3 million (2017 £14.0 million).

The Company paid dividends in the year of £11.3 million (2017: £8.9 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 2018 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. In February 2019, the Group increased both its working capital facilities and revolving credit facility to increase headroom for future growth.

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 take on new customers and 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 invoice finance facilities and overdraft facilities.

Directors

The directors of the Company during the year and their beneficial interest in the Ordinary Shares of the Company at 31 December 2018 are set out below:

	Ordinary Shares	
	2018	2017
Mr S B Fenby[1]	20,040,000	22,280,000
Mr A M G Bailey[2]	2,523,480	3,178,230
Mr S Lamb[3]	7,500	–
Mr A C Herbert	30,000	20,000
Mr M Ashley	1,442	1,442
Mrs H Wright[4]	4,000	–
	22,606,422	25,479,672

1 On 29 January 2018, Stephen Fenby and closely associated persons sold 1,000,000 Ordinary Shares. Stephen Fenby and closely associated persons no longer includes the shares held by his children as they are now considered independent adults.

2 Resigned 30 June 2018.

3 Appointed 26 July 2018.

4 Appointed 9 March 2018.

Stephen Lamb is the only director with interests in share options of the Company. These are detailed on page 86.

Directors' remuneration

	2018 Salary/fees and bonus £'000	2018 Pension £'000	2018 Benefits in kind £'000	2018 Total £'000	2017 Total £'000
Mr S B Fenby	394	14	12	420	424
Mr A M G Bailey[1]	90	5	3	98	319
Mr S Lamb[2]	230	6	12	248	–
Mr A C Herbert	81	–	–	81	49
Mr M Ashley	41	–	–	41	32
Mrs H Wright[3]	34	–	–	34	–
	870	25	27	922	824

1 Resigned 30 June 2018.

2 Appointed 26 July 2018.

3 Appointed 9 March 2018.

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 25 January 2019:

Shareholders	Number of Shares	Percent (%)
Midwich Group plc directors & related parties	20,082,942	25.28
Aberdeen Standard Investments	11,448,488	14.41
Canaccord Genuity Group Inc	5,768,260	7.26
Schroders	5,053,260	6.36
Octopus Investments Limited	4,553,538	5.73
Independent Investment Trust	2,500,000	3.15
Mr Anthony Bailey	2,473,480	3.11

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 Group 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: 11 March 2019

Company registration number: 08793266

Annual General Meeting

The notice convening the Annual General Meeting (the "AGM") is set out on pages 96 to 99 Resolutions 1 to 9 set out in the notice of the AGM deal with the ordinary business to be transacted at the AGM. The special business to be transacted at the meeting is set out in Resolutions 10 to 12.

Resolutions 1 to 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 Resolutions 11 and 12 are being proposed as special resolutions (and therefore need 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 Company's annual accounts for the financial year ending 31 December 2018.

Re-election of Directors (Resolution 2 to 6)

The Company's Articles of Association require the number nearest to one third of the Board to retire by rotation at each Annual General. The UK Corporate Governance Code provides that all Directors should be subject to re-election by their shareholders every year. In accordance with this provision of the UK Corporate Governance Code and in keeping with the Board's aim of following best corporate governance practice, the Board has decided that, as at recent Annual General Meetings of the Company, all Directors should retire at each Annual General Meeting and offer themselves for re-election.

Information about the directors is set out on pages 20 and 21.

Re-appointment and remuneration of auditors (Resolution 7)

Resolution 7 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 2018 of 10.60p per ordinary share, which requires the approval of the shareholders.

Directors' Remuneration Report (Resolution 9)

This Resolution seeks shareholder approval for the Directors' Remuneration Report (excluding the remuneration policy). The Directors' Remuneration Report can be found on pages 30 to 35 (inclusive) of the Annual Report and Financial Statements.

In accordance with regulations which came into force on 1 October 2013, Resolution 9 offers shareholders an advisory vote on the implementation of the Company's existing remuneration policy.

Authority to allot shares (Resolution 10)

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 the shareholders to do so.

Resolution 10, 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 16 April 2019 and up to an additional aggregate nominal value of £529,655 (corresponding to approximately two-thirds of the issued share capital at 16 April 2019) 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 the 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 16 April 2019, the Company does not hold any shares in the Company in treasury.

Disapplication of pre-emption rights (Resolutions 11 and 12)

Under section 561(1) of the CA 2006, if the Directors wish to allot equity securities (as defined in section 560 of the CA 2006) they must in the first instance offer them to existing shareholders in proportion to their holdings. In addition, there may be occasions, when the Directors will need the flexibility to finance business opportunities by the issue of shares without a pre-emptive offer to existing shareholders. This cannot be done under the CA 2006 unless the shareholders have first waived their pre-emption rights.

In accordance with institutional guidelines, under Resolution 11, to be proposed as a special resolution, authority is sought to allot shares:

(i) in relation to a pre-emptive rights issue only, up to an aggregate nominal amount of £529,655 (being the nominal value of approximately two thirds of the issued share capital of the Company); and

(ii) in any other case, up to an aggregate nominal amount of £39,724 (representing 5% of the issued share capital of the Company).

Disapplication of pre-emption rights (Resolutions 11 and 12) continued

In addition, Resolution 12 asks the shareholders to waive their pre-emption rights in relation to the allotment of equity securities or sale of treasury shares up to an aggregate nominal amount of £39,724 (representing 5% of the issued share capital of the Company), with such authority to be used only for the purpose of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the Directors of the Company determine to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights.

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 confirms that it does not intend to issue shares for cash representing more than 7.5 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.

Shareholders will note that Resolution 12 will be proposed as a special resolution.

If Resolutions 11 and 12 are passed, the authorities will expire at the conclusion of the next Annual General Meeting of the Company, or, if earlier, the date which is 15 months after the date of passing of the Resolutions. It is the Board's current intention to seek renewal of such authorities 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') forthe year ended 31 December 2018, which comprise the 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 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 2018 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.

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: £1,000,000, which represents 4% of the group's estimated profit before taxation;
- We performed full scope audit procedures for Midwich Group plc, Midwich Limited and Kern & Stelly Medientechnik GmbH; targeted audit procedures were performed for Holdan Limited, Square One Distribution Limited, Sidev SAS, Midwich Australia Pty Limited, Earpro S.A., Gebroeders van Domburg B.V group and Sound Technology Limited; analytical procedures were performed for all other components; and
- Key audit matters were identified as
  - the risk of improper recognition of revenue due to fraud; and
  - risk of intangible assets being incorrectly accounted for on acquisition of group companies.

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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
The risk of improper recognition of revenue due to fraud Under International Standard on Auditing (UK) 240 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements', there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue due to fraud. The group has reported revenues of £574m (2017: £472m) arising from the sale of goods and ancillary services and equipment rentals. The group has other operational income of £3m (2017: £3m) which relates to promotional activities. The nature of the group's revenue involves the processing of numerous transactions with each stream possessing different revenue recognition criteria. The group's revenue is material to the financial statements. We therefore identified the risk of improper recognition of revenue due to fraud as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • Review and testing of revenue recognition policies to ensure they are consistent and in accordance with IFRS 15 'Revenue from Contracts with Customers'; • Testing of the design and operating effectiveness of relevant controls in the sales process over a sample of sales orders for significant components; • Corroborating a sample of revenue transactions, with a higher focus on sales in the final two months of the year, to proof of delivery to verify the occurrence of the sale; • Review and testing of credit notes issued since year end against the credit note provision; • Undertaking a review of revenue trends across the period for the group reported revenue (month by month analysis of current year against prior year revenue) to identify and analyse key movements and significant transactions which have occurred in the year; and • Testing a sample of sales transactions in the final quarter of the year and either side of the balance sheet date to evidence of dispatch, to assess the timing of delivery and verify whether revenue has been recognised in the correct period. 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 1,2 and 3. **Key observations** Based on our audit work, we did not identify any material misstatement of revenue or any instances where revenue was not recognised in accordance with the stated accounting policies.
The risk of intangible assets being incorrectly accounted for on acquisition of group companies In accordance with IFRS 3, following the acquisitions of Bauer & Trummer GmbH and the group Blonde Robot Pty Limited separate intangible assets are required to be identified and valued. Management are required to fair value separately identifiable assets and liabilities on acquisition. This involves identifying and valuing intangible assets distinct from goodwill. The group engages with third parties to assist in the performance of these assessments for material acquisitions to ensure they are free from bias. Upon the acquisition of Bauer & Trummer GmbH on 23 August 2018, separate intangible assets for key supplier relationships (£0.9m), customer relationships (£0.6m), licensing rights of £15k and the Bauer & Trummer trade name (£0.3m) were identified and valued, resulting in goodwill of £1.5m arising on the transaction. Blonde Robot Pty Limited was acquired on 4 December 2018. Key supplier relationships (£0.4m), customer relationships (£1.7m) and the Blonde Robot trade name (£0.3m) were recognised, with goodwill of £0.9m arising from the transaction. Due to the high level of judgement and assumptions necessary to perform valuations of separately identifiable intangible assets arising on acquisitions, and due to the materiality of the assets recognised by the group, we have identified the risk of intangible assets being incorrectly accounted for on acquisition of group companies as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • For material acquisitions, assessing the valuation models prepared by management's experts in respect of each acquisition, including the basis and methodology adopted for identifying and valuing separate intangible assets distinct from goodwill; • Agreeing significant inputs used in the models to underlying purchase agreements and other supporting documentation; • Critically assessing and challenging the key judgements and assumptions, such as revenue growth rates and discount rates, used by management in the valuation models to ensure reasonableness as compared to historic and industry data; and • Agreeing the fair value of identified intangible assets to the consolidation schedule. 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 33. **Key observations** Our audit work did not identify any material errors in the accounting for intangible assets.

There are no separate key audit matters identified in the parent company.

Our application of materiality

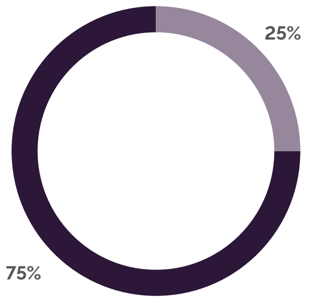
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating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

Materiality was determined as follows:

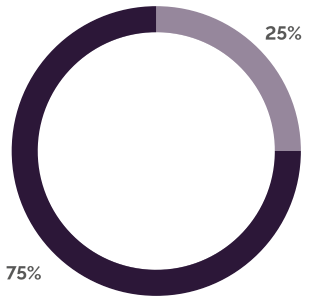
Materiality measure	Group	Parent
Financial statements as a whole	£1,000,000 which is 4% of the group's estimated profit before taxation. This benchmark is considered the most appropriate because earnings before taxation is a primary measure of profitability used by the directors. Materiality for the current year is higher than the level that we determined for the year ended 31 December 2017 to reflect levels of organic and acquisition-related growth achieved by the group in the year.	£369,000 which is 1% of total assets. This benchmark is considered the most appropriate because the parent company is a non-trading holding company. Materiality for the current year is lower than the level that we determined for the year ended 31 December 2017, due to a reduction in total assets from the prior year.
Performance materiality used to drive the extent of our testing	75% of financial statement materiality.	75% of financial statement materiality.
Specific materiality	We have determined a lower level of specific materiality of £10,000 for directors' remuneration and related party transactions.	We have determined a lower level of specific materiality of £10,000 for directors' remuneration and related party transactions.
Communication of misstatements to the audit committee	£50,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£18,450 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

OVERALL MATERIALITY – GROUP



OVERALL MATERIALITY – PARENT



■ Tolerance for potential uncorrected mistatements
■ Performance materiality

An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough 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 Kern & Stelly Medientechnick GmbH. 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: Kern & Stelly Medientechnik GmbH, Holdan Limited, Square One Distribution Limited, 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 98% of total group revenues, either through full scope or targeted audit procedures;
- testing performed over 97% of total group assets, either through full scope or targeted audit procedures;
- we have revised our approach in the current year to adopt a controls-based approach on revenue for significant components in the group, compared to our approach for the year ended 31 December 2017, which was fully substantive in nature.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report and financial statements, 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 38, 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. This description forms part of our auditor's report.

Use of our report

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.

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

11 March 2019

Consolidated income statement
for the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Revenue	3	**573,682**	471,937
Cost of sales		**(479,120)**	(398,810)
Gross profit		**94,562**	73,127
Distribution costs		**(56,329)**	(45,679)
Total administrative expenses		**(16,511)**	(9,470)
Other operating income	4	**3,025**	2,831
Operating profit	5	**24,747**	20,809
Comprising			
Adjusted operating profit		**30,245**	25,044
Costs of acquisitions	6	**(365)**	(336)
Share based payments	31	**(1,120)**	(551)
Employer taxes on share based payments		**(221)**	(118)
Amortisation	5	**(3,792)**	(3,230)
		24,747	20,809
Finance income		**81**	5
Finance costs	8	**(3,751)**	(1,916)
Profit before taxation		**21,077**	18,898
Taxation	9	**(5,792)**	(4,919)
Profit after taxation		**15,285**	13,979
Profit for the financial year attributable to:			
The Company's equity shareholders		**14,724**	13,557
Non-controlling interest		**561**	422
		15,285	13,979
Basic earnings per share	10	**18.53p**	17.06p
Diluted earnings per share	10	**18.36p**	17.00p

The financial statements are also comprised of the notes on pages 51 to 87.

Consolidated statement of comprehensive income
for the year ended 31 December 2018

	2018 £'000	2017 £'000
Profit for the financial year	**15,285**	13,979
Other comprehensive income Items that will be reclassified subsequently to profit or loss:		
Foreign exchange gains on consolidation	**158**	974
Other comprehensive income for the financial year, net of tax	**158**	974
Total comprehensive income for the year	**15,443**	14,953
Attributable to:		
Owners of the Parent Company	**14,894**	14,531
Non-controlling interests	**549**	422
	15,443	14,953

The financial statements are also comprised of the notes on pages 51 to 87.

Consolidated statement of financial position
as at 31 December 2018

	Notes	2018 £'000	2017 £'000
Assets			
Non-current assets			
Goodwill	12	**11,188**	9,094
Intangible assets	13	**24,766**	22,310
Property, plant and equipment	14	**7,391**	7,692
Deferred tax assets	9	**1,222**	387
		44,567	39,483
Current assets			
Inventories	15	**74,379**	62,984
Trade and other receivables	16	**83,139**	76,361
Derivative financial instruments	20	**25**	–
Cash and cash equivalents	17	**16,685**	28,203
		174,228	167,548
Current liabilities			
Trade and other payables	18	**(97,729)**	(84,617)
Derivative financial instruments	20	**–**	(93)
Put option liabilities	21	**(1,746)**	–
Deferred consideration	22	**(4,005)**	(4,841)
Borrowings and financial liabilities	23	**(35,151)**	(50,176)
Current tax		**(2,892)**	(2,873)
		(141,523)	(142,600)
Net current assets		**32,705**	24,948
Total assets less current liabilities		**77,272**	64,431
Non-current liabilities			
Trade and other payables	18	**(736)**	(181)
Put option liabilities	21	**(4,654)**	(5,195)
Deferred consideration	22	**(757)**	(1,197)
Borrowings and financial liabilities	23	**(7,211)**	(321)
Deferred tax liabilities	9	**(5,512)**	(4,445)
Other provisions	19	**(56)**	–
		(18,926)	(11,339)
Net assets		**58,346**	53,092
Equity			
Share capital	30	**794**	794
Share premium		**25,855**	25,855
Share based payment reserve		**1,837**	751
Investment in own shares		**(5)**	(5)
Retained earnings		**27,766**	24,331
Translation reserve		**1,861**	1,691
Put option reserve		**(4,532)**	(3,638)
Capital redemption reserve		**50**	50
Other reserve		**150**	150
Equity attributable to owners of the Parent Company		**53,776**	49,979
Non-controlling interests		**4,570**	3,113
Total equity		**58,346**	53,092

The financial statements are also comprised of the notes on pages 51 to 87. The financial statements were approved by the Board of Directors and authorised for issue on 11 March 2019 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 2018

	Share capital £'000	Share premium £'000	Share based payment reserve £'000	Investment in own share £'000	Retained earnings £'000	Translation reserve £'000	Put option reserve £'000	Capital redemption reserve £'000	Other reserve £'000	Equity attributable to owners of the Parent £'000	Non-controlling interests £'000	Total £'000
Balance at 1 January 2018	794	25,855	751	(5)	24,331	1,691	(3,638)	50	150	49,979	3,113	53,092
Profit for the year	–	–	–	–	14,724	–	–	–	–	14,724	561	15,285
Other comprehensive income	–	–	–	–	–	170	–	–	–	170	(12)	158
Total comprehensive income for the year	–	–	–	–	14,724	170	–	–	–	14,894	549	15,443
Share based payments	–	–	1,120	–	–	–	–	–	–	1,120	–	1,120
Deferred tax on share based payments	–	–	(34)	–	–	–	–	–	–	(34)	–	(34)
Acquisition of subsidiary (note 33)	–	–	–	–	–	–	(894)	–	–	(894)	908	14
Dividends paid	–	–	–	–	(11,289)	–	–	–	–	(11,289)	–	(11,289)
Balance at 31 December 2018	794	25,855	1,837	(5)	27,766	1,861	(4,532)	50	150	53,776	4,570	58,346

For the year ended 31 December 2017

	Share capital £'000	Share premium £'000	Share based payment reserve £'000	Investment in own share £'000	Retained earnings £'000	Translation reserve £'000	Put option reserve £'000	Capital redemption reserve £'000	Other reserve £'000	Equity attributable to owners of the Parent £'000	Non-controlling interests £'000	Total £'000
Balance at 1 January 2017	794	25,855	84	(5)	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
Total comprehensive income for the year	–	–	–	–	13,557	974	–	–	–	14,531	422	14,953
Acquisition of non-controlling interest (note 32)	–	–	–	–	(79)	–	681	–	–	602	(602)	–
Share based payments	–	–	551	–	–	–	–	–	–	551	–	551
Deferred tax on share based payments	–	–	116	–	–	–	–	–	–	116	–	116
Acquisition of subsidiary (note 33)	–	–	–	–	–	–	(2,549)	–	–	(2,549)	2,341	(208)
Dividends paid	–	–	–	–	(8,912)	–	–	–	–	(8,912)	–	(8,912)
Balance at 31 December 2017	794	25,855	751	(5)	24,331	1,691	(3,638)	50	150	49,979	3,113	53,092

The financial statements are also comprised of the notes on pages 51 to 87.

Consolidated statement of cash flows
for the year ended 31 December 2018

	2018 £'000	2017 £'000
Cash flows from operating activities		
Profit before tax	**21,077**	18,898
Depreciation	**2,504**	1,793
Amortisation	**3,792**	3,230
Loss/(gain) on disposal of assets	**27**	(21)
Share based payments	**1,120**	551
Foreign exchange losses	**4**	156
Finance income	**(81)**	(5)
Finance costs	**3,751**	1,916
Profit from operations before changes in working capital	**32,194**	26,518
Increase in inventories	**(9,468)**	(7,217)
Increase in trade and other receivables	**(3,221)**	(11,954)
Increase in trade and other payables	**10,246**	14,724
Cash inflow from operations	**29,751**	22,071
Income tax paid	**(7,377)**	(4,784)
Net cash inflow from operating activities	**22,374**	17,287
Cash flows from investing activities		
Acquisition of businesses, net of cash and debt acquired	**(5,152)**	(6,254)
Deferred consideration paid	**(5,507)**	(1,511)
Purchase of intangible assets	**(778)**	(48)
Purchase of plant and equipment	**(2,360)**	(3,064)
Proceeds on disposal of plant and equipment	**382**	528
Interest received	**81**	5
Net cash used in investing activities	**(13,334)**	(10,344)
Net cash flows from financing activities		
Acquisition of non-controlling interest	**–**	(751)
Dividends paid	**(11,289)**	(8,912)
Invoice financing (outflows)/inflows	**(8,704)**	5,673
Proceeds from borrowings	**10,668**	–
Repayment of loans	**(2,107)**	(26)
Interest paid	**(1,362)**	(647)
Interest on finance leases	**(28)**	(4)
Capital element of finance lease payments	**(99)**	(121)
Net cash outflow from financing activities	**(12,921)**	(4,788)
Net (decrease)/increase in cash and cash equivalents	**(3,881)**	2,155
Cash and cash equivalents at beginning of financial year	**20,010**	17,201
Effects of exchange rate changes	**228**	654
Cash and cash equivalents at end of financial year	**16,357**	20,010
Comprising:		
Cash at bank	**16,685**	28,203
Bank overdrafts	**(328)**	(8,193)
	16,357	20,010

The financial statements are also comprised of the notes on pages 51 to 87.

Notes to the consolidated financial statements

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 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 2018.

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 value 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.

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. During 2018 the Company agreed to a revolving credit facility (RCF) to support the acquisitive growth strategy. At the end of 2018 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. In February 2019, the Group increased both its working capital facilities and revolving credit facility to increase headroom for future growth.

1. Accounting policies continued

Revenue

The majority of revenue arises from the sale of goods, rental of products and ancillary services including the provision of support services, transport, warranties, and repairs.

To determine whether to recognise revenue, the Group follows a five-step process:

- Identifying the contract with a customer;
- Identifying the performance obligations;
- Determining the transaction price;
- Allocating the transaction price to the performance obligations; and
- Recognising revenue when/as performance obligation(s) is/are satisfied.

The Group often enters into transactions involving a range of the Group's products and services, for example for the supply of goods and provision of services. In all cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as other liabilities in the statement of financial position. Similarly, if the Group satisfies a performance obligation before it receives the consideration, the Group recognises either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

The sale of goods for a fixed fee is recognised when or as the Group transfers control of the assets to the customer. Invoices for goods or services transferred are due upon receipt by the customer.

For stand-alone sales of goods that are neither customised by the Group nor subject to significant integration services, control transfers at the point in time the goods are despatched. When such items are either customised or sold together with significant integration services, the goods and services represent a single combined performance obligation over which control is considered to transfer over time. This is because the combined product is unique to each customer (has no alternative use) and the Group has an enforceable right to payment for the work completed to date. Revenue for these performance obligations is recognised over time as the customisation or integration work is performed, using the cost-to-cost method to estimate progress towards completion. As costs are generally incurred uniformly as the work progresses and are considered to be proportionate to the entity's performance, the cost-to-cost method provides a faithful depiction of the transfer of goods and services to the customer.

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.

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	3–10 years
Software	3–10 years
Brands	5–15 years
Customer relationships	5–15 years
Exclusive supplier contracts	5–15 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:

Land	Not depreciated
Freehold land and buildings	50 years
Leasehold improvements	Period of the lease
Plant and equipment (including rental assets)	3–10 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.

1. Accounting policies continued

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. Cost comprises purchase price and directly attributable costs incurred in bringing products to their present location and condition. Some goods are held on behalf of customers and are not included within the Group's inventory.

Financial instruments

Financial instruments are comprised of financial assets and financial liabilities, which are recognised when the Group becomes party to the contractual provisions of the instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or substantially all the risks and rewards of ownership of the financial asset are transferred. Financial liabilities are derecognised when extinguished.

Financial assets

Financial assets include trade and other receivables, cash and cash equivalents, and derivative financial instruments with a positive market value.

The Group classifies financial assets into three categories;

- financial assets measured at amortised cost;
- financial assets measured at fair value through other comprehensive income; and
- financial assets measured at fair value through profit or loss.

The classification of a financial asset depends on the Group's business model for managing the asset and the contractual cash flow characteristics associated with the asset.

Financial assets with embedded derivatives are recognised as hybrid contracts. Hybrid contracts are classified in their entirety and not in separate components.

Investments in equity instruments that are not held for trading are classified as financial assets measured at fair value through profit and loss unless the Group makes an irrevocable election on initial recognition to classify the asset as measured at fair value through other comprehensive income.

Trade receivables that do not contain a significant financing component are initially measured at transaction price. All other financial assets classified as either financial assets measured at amortised cost, or financial assets measured at fair value through other comprehensive income are initially measured at fair value plus transaction costs directly attributable to the acquisition of the financial asset.

Financial assets measured at fair value through profit and loss are initially measured at fair value and any transaction costs directly attributable to the acquisition of the financial asset are recognised in the profit and loss.

Financial assets measured at amortised cost are subsequently measured using the effective interest method. The effects of discounting within the effective interest method are omitted if immaterial. Where the contractual cash flows of the financial asset are renegotiated or otherwise modified the financial asset is recalculated at the present value of the modified contractual cash flows discounted at the financial asset's original effective interest rate.

Financial assets measured at fair value through other comprehensive income and financial assets measured at fair value through profit and loss are subsequently measured at fair value.

Expected credit loss impairments are recognised in respect of financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income immediately on initial recognition of the respective financial asset being impaired.

Expected credit losses are measured using an expected credit loss model. The expected credit loss model reflects a probability weighted amount derived from a range of possible outcomes that are discounted for the time value of money and based on reasonable and supportable information.

Where trade receivables contain a significant financing component the Group applies the simplified approach to measure the loss allowance at an amount equal to lifetime expected credit losses.

Financial liabilities

Financial liabilities include trade and other payables; put option liabilities; deferred consideration; bank loans, overdrafts and invoice discounting facilities; and derivative financial instruments with a negative market value.

The Group classifies financial liabilities into six categories:

- financial liabilities measured at amortised cost;
- financial liabilities measured at fair value through profit or loss;
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;
- financial guarantee contracts;
- commitments to provide loans at below market interest rates; and
- contingent consideration recognised in a business combination.

Financial liabilities measured at fair value through profit or loss are initially measured at fair value and any transaction costs directly attributable to the issue of the financial liability are recognised in the profit and loss.

Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies are initially measured at the amount of the consideration received in respect of the financial asset.

All other financial liabilities are initially measured at fair value minus transaction costs directly attributable to the issue of the financial liability.

Financial liabilities measured at amortised cost are subsequently measured using the effective interest method. The effects of discounting within the effective interest method are omitted if immaterial. Where the contractual cash flows of the financial liability are renegotiated or otherwise modified the financial liability is recalculated at the present value of the modified contractual cash flows discounted at the financial liability's original effective interest rate.

Financial liabilities measured at fair value through profit and loss are subsequently measured at fair value.

The subsequent measurement of financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies depends upon whether the transferred asset is measured at amortised cost or fair value. If the transferred asset is measured at amortised cost then associated liability is measured in such a way that the net carrying amount of the transferred asset and the associated liability is the amortised cost of the rights and obligations retained by the entity. However, if the transferred asset is measured at fair value the associated liability is measured in such a way that the net carrying amount of the transferred asset and the associated liability is equal to the fair value of the rights and obligations retained by the entity when measured on a stand-alone basis.

Financial guarantee contracts are subsequently measured at the higher of the amount of the loss allowance calculated in accordance with the expected credit loss model and the amount of the initially recognised.

Commitments to provide loans at below market interest rates are subsequently measured at the higher of the amount of the loss allowance calculated in accordance with the expected credit loss model and the amount initially recognised.

Contingent consideration recognised in a business combination is subsequently measured at fair value.

Trade and other receivables

Trade and other receivables are financial assets recognised when the Group becomes party to the contractual provisions of the instrument.

Trade receivables that do not contain a significant financing component are initially measured at transaction price, which is equivalent to fair value. All other trade and other receivables are initially measured at fair value plus transaction costs directly attributable to the acquisition of the financial asset. Trade and other receivables are subsequently measured at amortised cost using the effective interest method, less loss allowances.

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.

Borrowings

Borrowings include bank loans and overdrafts, loan notes, amounts advanced under invoice factoring arrangements, and finance leases. Bank loans and overdrafts, loan notes, and amounts advanced under invoice factoring arrangements are financial liabilities that are recognised when the Group becomes party to the contractual provisions of the instrument.

Bank loans and overdrafts, loan notes, and amounts advanced under invoice factoring arrangements are initially measured at fair value minus transaction costs directly attributable to the issue of the financial liability.

Bank loans and overdrafts, loan notes, and amounts advanced under invoice factoring arrangements are subsequently measured using the effective interest method. The effects of discounting within the effective interest method are omitted if immaterial.

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.

Trade and other payables

Trade and other payables are financial liabilities recognised when the Group becomes party to the contractual provisions of the instrument.

Trade and other payables are initially measured at fair value minus transaction costs directly attributable to the issue of the financial liability. Trade and other payables are subsequently measured at amortised cost using the effective interest method.

Derivative financial instruments

Derivative financial instruments are recognised when the Group becomes party to the contractual provisions of the instrument.

Derivative financial instruments are initially and subsequently measured at fair value. Any transaction costs directly attributable to the acquisition of the financial asset are recognised in the profit and loss. The fair values are determined by reference to active markets or using a valuation technique where no active market exists.

Put option liabilities

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 accounting judgements and key sources of estimation uncertainty accounting policy.

Foreign currency

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

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

Current taxation

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

Deferred taxation

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

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

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

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

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

Employment benefits

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

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

Leases

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

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

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

Equity

Equity comprises the following:

- "Share capital" represents the nominal value of equity shares issued.
- "Share premium" represents amounts subscribed for share capital, net of issue costs, in excess of nominal value.
- "Investment in own shares" represents amounts of the Parent Company's own shares held within an Employee Benefit Trust.
- "Share based payment reserve" represents the accumulated value of share based payments expensed in the income statement.
- "Retained earnings" represents the accumulated profits and losses attributable to equity shareholders.
- "Translation reserve" represents the exchange differences arising from the translation of the financial statements of subsidiaries into the Group's presentational currency.
- "Put option reserve" represents the 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.

1. Accounting policies continued

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 during the vesting period, the cumulative charge expensed up to the date of forfeiture and 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 adopted IFRS 9 'Financial instruments' and IFRS 15 'Revenue from contracts with customers' on 1 January 2018. The Group has elected to apply the modified retrospective approach to the transition to both IFRS 9 and IFRS 15. The modified retrospective approach requires the transition to be implemented without restatement of the prior year results. The new standards have not had a material impact on the reported results and there is no adjustment to equity at 1 January 2018 as a result of the implementation of the new standards.

International Financial Reporting Standards in issue but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g. personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

Transition to IFRS 16

The Group plans to adopt IFRS 16 retrospectively to each prior reporting period presented. The Group will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e. personal computers, printing and photocopying machines) that are considered of low value.

During 2018, the Group has performed a detailed impact assessment of IFRS 16. In summary the impact of IFRS 16 adoption is expected to be, as follows:

Impact on the statement of financial position as at 31 December 2018:

	£000
Assets	
Goodwill	380
Property, plant and equipment (right-of-use assets)	9,732
Deferred tax	199
	10,311
Liabilities	
Lease liabilities	(10,538)
Impact on net assets and equity	(227)

Impact on the income statement for 2018:

	£000
Income statement	
Increase in depreciation expense	1,654
Increase in foreign exchange gain	(4)
Decrease in operating lease expense	(1,847)
Increase in operating profit	(197)
Increase in finance costs	239
Decrease in tax cost	(18)
Decrease in profit for the year	24

Due to the adoption of IFRS 16, the Group's operating profit will improve, while its interest expense will increase. This is due to the change in the accounting for expenses of leases that were classified as operating leases under IAS 17.

1. Accounting policies continued

Use of alternative performance measures

The Group has defined certain measures that it uses to understand and manage performance. These measures are not defined under IFRS and they may not be directly comparable with other companies' adjusted measures. These non-GAAP measures are not intended to be a substitute for any IFRS measures of performance, but management has included them as they consider them to be key measures used within the business for assessing the underlying performance.

Growth at constant currency: This measure shows the year on year change in performance after eliminating the impact of foreign exchange movement, which is outside of management's control.

Organic growth: This is defined as growth at constant currency growth excluding acquisitions until the first anniversary of their consolidation.

Adjusted operating profit: Adjusted operating profit is disclosed to indicate the Group's underlying profitability. It is defined as profit before acquisition related expenses, share based payments and associated employer taxes and amortisation of intangible assets.

Adjusted EBITDA: This represents adjusted operating profit plus the reported depreciation charge for the period.

Adjusted profit before tax: This is profit before tax adjusted for acquisition related expenses, share based payments and associated employer taxes, amortisation of intangible assets, changes in contingent consideration and financing fair value remeasurements.

Adjusted profit after tax: This is profit after tax adjusted for acquisition related expenses, share based payments and associated employer taxes, amortisation of intangible assets, changes in contingent consideration and financing fair value remeasurements and the tax thereon.

Adjusted EPS: This is adjusted profit after tax less profit, amortisation and tax thereon due to non-controlling interests divided by the number of shares in issue.

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 accounting decisions made by the directors that have the most significant effect on amounts recognised in the financial statements. Sources of estimation uncertainty represent the 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 a 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 following are the significant sources of estimation uncertainty facing the Group in preparing the financial statements:

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 of inventories and the amount 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 certain 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 in note 33 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. The Group initially measures put option liabilities at present value and subsequently measures put option liabilities at amortised cost using the effective interest rate method. Where the contractual cash flows of the put option liability are renegotiated or otherwise modified the financial liability is recalculated at the present value of the modified contractual cash flows discounted at the financial liability's original effective interest rate. 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 22 and the amortised cost of put option liabilities is disclosed in note 21.

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 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. Therefore, the Group's operating segments are geographic in nature.

On 1 January 2018 the Group restructured its internal reporting and combined the results of its previously reported segments into three main trading segments.

2018	UK & Ireland £'000	Continental Europe £'000	APAC £'000	Other £'000	Total £'000
Revenue	315,808	222,017	35,857	–	573,682
Gross profit	54,890	33,086	6,586	–	94,562
Gross profit %	17.4%	14.9%	18.4%	–	16.5%
Adjusted operating profit	19,567	10,227	2,936	(2,485)	30,245
Costs of acquisitions	–	–	–	(365)	(365)
Share based payments	(557)	(382)	(106)	(75)	(1,120)
Employer taxes on share based payments	(72)	(109)	(14)	(26)	(221)
Amortisation	(2,672)	(1,050)	(70)	–	(3,792)
Operating profit	16,266	8,686	2,746	(2,951)	24,747
Interest					(3,670)
Profit before tax					21,077

Other segmental information

2018	UK & Ireland £'000	Continental Europe £'000	APAC £'000	Other £'000	Total £'000
Segment assets	115,529	84,858	18,066	342	218,795
Segment liabilities	(101,431)	(45,705)	(12,957)	(356)	(160,449)
Segment net assets	14,098	39,153	5,109	(14)	58,346
Depreciation	1,644	778	82	–	2,504

Other segmental information

	UK £'000	International £'000	Total £'000
Non-current assets	21,853	22,714	44,567

2. Segmental reporting continued

2017	UK & Ireland[1] £'000	Continental Europe[1] £'000	APAC £'000	Other[1] £'000	Total £'000
Revenue	283,712	156,163	32,062	–	471,937
Gross profit	45,830	21,637	5,660	–	73,127
Gross profit %	16.2%	13.9%	17.7%	–	15.5%
Adjusted operating profit	16,701	7,470	2,576	(1,703)	25,044
Costs of acquisitions	–	–	–	(336)	(336)
Share based payments	(351)	(142)	(50)	(8)	(551)
Employer taxes on share based payments	(66)	(50)	–	(2)	(118)
Amortisation	(2,450)	(730)	(50)	–	(3,230)
Operating profit	13,834	6,548	2,476	(2,049)	20,809
Interest					(1,911)
Profit before tax					18,898

Other segmental information

2017	UK & Ireland[1] £'000	Continental Europe[1] £'000	APAC £'000	Other[1] £'000	Total £'000
Segment assets	122,259	73,242	11,223	307	207,031
Segment liabilities	(108,312)	(38,847)	(6,693)	(87)	(153,939)
Segment net assets	13,947	34,395	4,530	220	53,092
Depreciation	1,281	385	127	–	1,793

Other segmental information

	UK £'000	International £'000	Total £'000
Non-current assets	25,135	14,348	39,483

1 Restated to combine France, Germany and the Rest of Europe into one segment and show Group office functions within the Other segment due to internal restructuring undertaken on 1 January 2018.

Revenue from the UK, being the domicile of the Parent Company amounted to £295,067k (2017: £264,514k).

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:

2018	Selling segment: £'000			
Buying segment:	UK & Ireland	Continental Europe	APAC	Other
UK & Ireland	–	108	–	–
Continental Europe	280	–	–	–
APAC	–	–	–	–
Other	–	–	–	–

2017	Selling segment: £'000			
Buying segment:	UK & Ireland	Continental Europe1	APAC	Other[1]
UK & Ireland	–	294	–	–
Continental Europe[1]	201	–	–	–
APAC	–	–	–	–
Other[1]	–	–	–	–

1 Restated to combine France, Germany and the Rest of Europe into one segment and show Group office functions within the Other segment due to internal restructuring undertaken on 1 January 2018.

Information about major customers

Included in revenues arising in 2018 are revenues of £9.0m (2017: £9.3m) that arose from sales to the Group's largest customer, which is based in Germany. No single customer contributed 10% or more to the Group's revenue in any period presented.

3. Revenue

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

	2018 £'000	2017 £'000
Sale of goods and ancillary services	570,107	469,021
Rental of goods	3,575	2,916
	573,682	471,937

4. Other operating income

	2018 £'000	2017 £'000
Promotional receipts	2,743	2,606
Other income	282	225
	3,025	2,831

5. Operating profit

	2018 £'000	2017 £'000
Operating profit is stated after charging:		
Depreciation of property, plant and equipment		
– owned assets	2,412	1,735
– assets held under finance lease	92	58
Amortisation of intangible fixed assets	3,792	3,230
Auditor's remuneration		
– audit service in relation to the Company	33	33
– audit services in relation to the subsidiaries	143	129
– audit related assurance services	15	15
– tax compliance services	10	10
– all other taxation advisory services	4	18
– services related to corporate finance	–	129
– all non-audit services not covered above	15	17
Difference on foreign exchange	4	377
Operating lease costs		
– buildings	1,850	1,436
– motor vehicles	161	298

6. Administrative expenses

Administrative expenses in the period include £365k of acquisition related costs (2017: £336k). For details of acquisitions in the year see note 33.

7. Directors and employees

The aggregate payroll costs of the employees were as follows:

	2018 £'000	2017 £'000
Staff costs		
Wages and salaries	34,519	26,668
Social security costs	4,458	3,368
Pension costs	974	879
	39,951	30,915

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

	2018 Number	2017 Number
By activity:		
Administration	155	131
Sales and distribution	637	515
	792	646

	2018 £'000	2017 £'000
Remuneration of directors		
Remuneration	915	802
Employer contribution to defined contribution schemes	5	22
	920	824

	2018 £'000	2017 £'000
Emoluments of highest paid director		
Remuneration	420	411
Employer contribution to defined contribution scheme	–	13
	420	424

Retirement benefits were accruing to 1 director (2017: 2) under a money purchase pension scheme. 100,000 share options were granted to directors under the Long Term Incentive Plan.

Details of key management personnel and their remuneration is disclosed within note 34.

The directors' remuneration report on page 30 of this annual report forms part of these financial statements.

8. Finance costs

	2018 £'000	2017 £'000
Interest on overdraft and invoice discounting	1,042	666
Interest on finance leases	28	4
Interest on other loans	151	70
Interest, foreign exchange and other finance costs of deferred and contingent considerations	2,219	(81)
Interest, foreign exchange and other finance costs of put option liabilities	311	1,257
	3,751	1,916

9. Taxation on ordinary activities

Analysis of charge

	2018 £'000	2017 £'000
Current tax		
UK corporation tax for the current year	2,967	2,579
Adjustment in respect of prior years	(358)	–
Total UK current tax	2,609	2,579
Overseas tax for the current year	4,186	3,054
Adjustment in respect of prior years	518	–
Total overseas current tax	4,704	3,054
Total current tax	7,313	5,633
Deferred tax		
Deferred tax for the current year	(1,181)	(714)
Adjustment in respect of prior years	(340)	–
Total deferred tax	(1,521)	(714)
Tax on profit on ordinary activities	5,792	4,919

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:

	2018 £'000	2017 £'000
Profit on ordinary activities before taxation	21,077	18,898
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19% (2017: 19.25%)	4,005	3,638
Factors affecting tax expense for the year:		
Adjustment in respect of prior years	(180)	–
Expenses not deductible for tax purposes	697	328
Effects of different tax rates in foreign jurisdictions	1,194	1,067
Differences in tax rates	77	–
Effects of changes in tax rates	(1)	(114)
Total amount of tax	5,792	4,919

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% for 2018 (2017: 19.25%). 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.

9. Taxation on ordinary activities continued

Deferred tax

	Accelerated capital allowances £'000	Company share schemes £'000	Total £'000
At 1 January 2017	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
At 31 December 2017	4,287	(229)	4,058
Acquired in business combinations	**1,749**	**–**	**1,749**
Credited to income statement	**(1,389)**	**(132)**	**(1,521)**
Credited to equity	**–**	**34**	**34**
Other balance sheet movement	**(30)**	**–**	**(30)**
At 31 December 2018	**4,617**	**(327)**	**4,290**

Presentation of deferred tax in balance sheet:

	2018 £'000	2017 £'000
Deferred tax asset	**1,222**	387
Deferred tax liability	**(5,512)**	(4,445)
Net deferred liability	**(4,290)**	(4,058)

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.

	2018	2017
Profit attributable to equity holders of the Group (£'000)	**14,724**	13,557
Weighted average number of shares in issue	**79,448,200**	79,448,200
Potentially dilutive effect of the Group's share option schemes	**725,002**	305,464
Weighted average number of diluted Ordinary Shares	**80,173,202**	79,753,664
Basic earnings per share	**18.53p**	17.06p
Diluted earnings per share	**18.36p**	17.00p

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 2018	2017
Midwich Limited[1]	Distribution of audio-visual products to trade customers	England and Wales	100%	100%
Midwich Employees' Trustees Limited	Dormant	England and Wales	100%	100%
True Colours Distribution Limited	Dormant	England and Wales	100%	100%
Invision UK Ltd	Distribution of audio-visual products to trade customers	England and Wales	100%	100%
Square One Distribution Limited	Distribution of audio-visual products to trade customers	Republic of Ireland	100%	100%
Sidev SAS	Distribution of audio-visual products to trade customers	France	100%	100%
Midwich Australia Pty Limited	Distribution of audio-visual products to trade customers	Australia	100%	100%
Midwich Limited	Distribution of audio-visual products to trade customers	New Zealand	100%	100%
Kern & Stelly Medientechnik GmbH	Distribution of audio-visual products to trade customers	Germany	100%	100%
PSCo Limited[2]	Dormant	England and Wales	100%	100%
Holdan Limited[3]	Distribution of professional broadcast equipment to trade customers	England and Wales	89%	89%
Earpro S.A.[4]	Distribution of audio-visual and lighting products to trade customers	Spain	88%	88%
Gebroeders van Domburg B.V.[5]	Holding company	Netherlands	70%	70%
Van Domburg Partners B.V.[5]	Distribution of audio-visual products to trade customers	Netherlands	70%	70%
Transport en Opslagbedrijf Van Domburg B.V.[5]	Provision of logistics services to trade customers	Netherlands	70%	70%
Van Domburg Services B.V.[5]	Provision of administration and support to other companies within the segment	Netherlands	70%	70%
Dutch Light Pro B.V.[5]	Distribution of lighting products to trade customers	Netherlands	70%	70%
Sound Technology Limited[6]	Distribution of professional audio, musical and lighting products to trade customers	England and Wales	100%	100%
Bauer & Trummer GmbH[7]	Distribution of professional broadcast equipment to trade customers	Germany	100%	–
Sound Directions France SAS[8]	Distribution of professional audio products to trade customers	France	100%	–
Holdan Benelux B.V.[9]	Dormant	Netherlands	100%	–
Blonde Robot Pty Limited[10]	Distribution of audio-visual products to trade customers	Australia	65%	–
Blonde Robot Limited[10]	Distribution of audio-visual products to trade customers	Hong Kong	65%	–
Blonde Robot Pte Limited[10]	Dormant	Singapore	65%	–
Blonde Robot Sdn Bhd[10]	Dormant	Malaysia	65%	–

1 Investments held directly by Midwich Group plc.

2 Company dissolved 15 May 2018.

3 Acquired 7 September 2016. See "Holdan" acquisition in note 33.

4 Acquired 27 March 2017. See "Earpro" acquisition in note 33.

5 Acquired 6 September 2017. See "van Domburg" acquisition in note 33.

6 Acquired 30 November 2017. See "Sound Technology" acquisition in note 33.

7 Acquired 23 August 2018. See "New Media" acquisition in note 33.

8 Acquired 5 September 2018. See "Perfect Sound" acquisition in note 33.

9 Incorporated on 11 October 2018.

10 Acquired 4 December 2018. See "Blonde Robot" acquisition in note 33.

12. Goodwill

	£'000
Cost	
At 1 January 2017	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
At 31 December 2017	9,094
On acquisition of New Media	1,004
On acquisition of Perfect Sound	173
On acquisition of Blonde Robot	924
Foreign exchange gain/(loss)	(7)
At 31 December 2018	**11,188**

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

	2018 £'000	2017 £'000
United Kingdom & Ireland	**4,734**	4,730
Continental Europe[1]	**5,456**	4,244
APAC	**998**	120
Other[1]	**–**	–
	11,188	9,094

1 Restated to combine France, Germany and the Rest of Europe into one segment and show Group office functions within the Other segment due to internal restructuring undertaken on 1 January 2018.

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 two to five within the value in use calculation are between 0% – 2.5% (2017: 0% – 2.5%). The growth rates 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	2018	2017
United Kingdom & Ireland	**11.0–11.7%**	10.6–11.0%
Continental Europe[1]	**10.3–13.1%**	10.7–11.1%
APAC	**10.6–11.3%**	10.6%
Other[1]	**–%**	–%

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:

	2018 £'000	2017 £'000
United Kingdom & Ireland[1]	185,786	189,374
Continental Europe[1]	105,017	93,410
APAC	42,621	26,034
Other[1]	–	–
Total	333,424	308,818

1 Restated to combine France, Germany and the Rest of Europe into one segment and show Group office functions within the Other segment due to internal restructuring undertaken on 1 January 2018.

The directors believe that any reasonable 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

	Assets in the course of construction £'000	Patents and software £'000	Brands £'000	Customer relations £'000	Supplier contracts £'000	Total £'000
Cost						
At 1 January 2017	–	310	3,600	20,602	1,745	26,257
On acquisition	–	110	415	2,918	3,041	6,484
Additions	–	48	–	–	–	48
Disposals	–	(14)	–	–	–	(14)
Foreign exchange differences	–	6	38	207	37	288
At 31 December 2017	–	460	4,053	23,727	4,823	33,063
On acquisition	–	15	625	2,964	1,935	5,539
Additions	598	180	–	–	–	778
Disposals	–	(3)	–	–	–	(3)
Foreign exchange differences	–	2	(3)	(12)	(12)	(25)
At 31 December 2018	**598**	**654**	**4,675**	**26,679**	**6,746**	**39,352**
Amortisation						
At 1 January 2017	–	86	1,067	5,948	336	7,437
Charge for year	–	125	377	2,276	452	3,230
Disposals	–	(14)	–	–	–	(14)
Foreign exchange differences	–	4	13	83	–	100
At 31 December 2017	–	201	1,457	8,307	788	10,753
Charge for year	–	172	465	2,504	651	3,792
Disposals	–	–	–	–	–	–
Foreign exchange differences	–	2	5	30	4	41
At 31 December 2018	**–**	**375**	**1,927**	**10,841**	**1,443**	**14,586**
Net book value						
At 31 December 2017	–	259	2,596	15,420	4,035	22,310
At 31 December 2018	**598**	**279**	**2,748**	**15,838**	**5,303**	**24,766**

Included within intangible assets are £23,317k 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 renewal 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 £271k respectively in profit after tax for the year.

14. Property, plant and equipment

	Freehold land and buildings £'000	Leasehold improvements £'000	Rental assets £'000	Plant and equipment £'000	Total £'000
Cost					
At 1 January 2017	2,795	390	935	2,302	6,422
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
At 31 December 2017	2,825	387	2,276	4,224	9,712
Additions on acquisition	–	116	–	133	249
Additions	12	49	1,269	1,030	2,360
Disposals	–	(43)	(728)	(465)	(1,236)
Foreign exchange differences	–	(12)	–	32	20
At 31 December 2018	**2,837**	**497**	**2,817**	**4,954**	**11,105**
Depreciation					
At 1 January 2017	79	71	151	1,086	1,387
Charge for year	53	44	827	869	1,793
Disposals	–	(15)	(472)	(690)	(1,177)
Foreign exchange differences	–	–	–	17	17
At 31 December 2017	132	100	506	1,282	2,020
Charge for year	53	44	1,200	1,207	2,504
Disposals	–	(43)	(463)	(323)	(829)
Foreign exchange differences	–	(4)	–	23	19
At 31 December 2018	**185**	**97**	**1,243**	**2,189**	**3,714**
Net book value					
At 31 December 2017	2,693	287	1,770	2,942	7,692
At 31 December 2018	**2,652**	**400**	**1,574**	**2,765**	**7,391**

Included in freehold land and buildings is land at £255k (2017: £255k) that is not depreciated.

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

	2018 £'000	2017 £'000
Plant and equipment	**253**	324
	253	324

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

	2018 £'000	2017 £'000
Plant and equipment	**92**	58
	92	58

15. Inventories

	2018 £'000	2017 £'000
Finished goods for resale	74,379	62,984
	74,379	62,984

	2018 £'000	2017 £'000
Amounts of inventories recognised as an expense during the period as cost of sales (gross of vendor rebates) are:	491,303	407,596

	2018 £'000	2017 £'000
Amounts of inventories impaired during the period are:	115	167

16. Trade and other receivables

	2018 £'000	2017 £'000
Trade receivables	78,136	73,325
Other receivables	790	245
Prepayments and accrued income	4,213	2,791
	83,139	76,361

Trade receivables includes an amount of £32,829k (2017: £41,534k) 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.

	2018 £'000	2017 £'000
Impairment provision at 1 January	1,386	791
Impairments arising on acquisitions	32	2,610
New impairment provision in the year	171	436
Release of impairment provision against written off receivables	(47)	(2,470)
Foreign exchange variance	8	19
Impairment provision at 31 December	1,550	1,386

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

	2018 £'000	2017 £'000
Trade receivables past due but not impaired at 31 December	1,303	1,157

17. Cash and cash equivalents

	2018 £'000	2017 £'000
Cash at bank (GBP)	737	10,738
Cash at bank (EUR)	13,413	16,259
Cash at bank (USD)	1,679	763
Cash at bank (AUS $)	510	238
Cash at bank (NZ $)	346	205
	16,685	28,203

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

18. Trade and other payables

Amounts falling due within one year:

	2018 £'000	2017 £'000
Trade payables	75,361	66,117
Other taxation and social security	10,763	9,522
Other payables	582	486
Accruals and deferred income	11,023	8,492
	97,729	84,617

Amounts falling due after one year:

	2018 £'000	2017 £'000
Trade payables	253	–
Accruals and deferred income	483	181
	736	181

19. Provisions

	2018 £'000	2017 £'000
Dilapidations provision	56	–

	2018 £'000	2017 £'000
Dilapidations provision at 1 January	–	–
Dilapidations provision arising on acquisitions	58	–
Foreign exchange variance	(2)	–
Dilapidations provision at 31 December	56	–

20. Derivative financial instruments

	2018 £'000	2017 £'000
Derivative financial assets		
Foreign currency call options (see note 24)	25	–
Derivative financial liabilities		
Forward exchange contracts (see note 24)	–	(93)
Net derivative financial instruments	25	(93)

During the year the Group entered into foreign currency call options and forward exchange contracts in relation to foreign currencies. Details of the Group's management of foreign exchange risk are included in note 25.

21. Put option liabilities

	2018 £'000	2017 £'000
Current:		
Put option liabilities (see note 24)	1,746	–
Non-current:		
Put option liabilities (see note 24)	4,654	5,195
Total put option liabilities	6,400	5,195

During the year the Group entered into a symmetrical put and call option contract to acquire the non-controlling interests created by the Blonde Robot acquisition (see note 33). The non-controlling interests are due to be acquired when the put and call options are timed to be exercised in 2021.

During the prior 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 33). The non-controlling interests are due to be acquired when the put and call options are timed to be exercised in 2020.

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

22. Deferred consideration

	2018 £'000	2017 £'000
Current:		
– Deferred consideration at amortised cost	–	4,719
– Contingent consideration	4,005	122
Total current deferred consideration	4,005	4,841
Non-current:		
– Contingent consideration	757	1,197
Total non-current deferred consideration	757	1,197
Total deferred consideration at amortised cost	–	4,719
Total contingent consideration	4,762	1,319
Total deferred consideration	4,762	6,038

During the year the Group acquired Bauer & Trummer GmbH ("New Media"), Sound Directions France SAS ("Perfect Sound"), and the Blonde Robot Pty Limited group of companies ("Blonde Robot"). Deferred consideration in relation to the New Media acquisition is due to be settled in instalments in 2019 and 2020. Deferred consideration in relation to Perfect Sound is due to be settled in instalments in 2020, 2021 and 2022.

During the prior year, the Group acquired Earpro S.A. ("Earpro"), the Gebroders van Domburg B.V. group of companies ("van Domburg") and Sound Technology Limited ("Sound Technology") (see note 33). Deferred consideration in relation to the Earpro and Sound Technology acquisitions was settled in the year. Deferred contingent consideration in relation to the van Domburg acquisition was part settled by a payment in the year and a second instalment is due to be paid in 2019.

The total fair value of contingent consideration has been valued at £4,762k at 31 December 2018 (2017: £1,319k).

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 £1,124k and a decrease of £690k 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 £19k in the fair value of the deferred contingent consideration liability.

23. Borrowings

	2018 £'000	2017 £'000
Secured – at amortised cost		
– Bank overdrafts and invoice discounting	33,157	49,727
– Bank loans	8,689	236
– Finance leases (see note 27)	242	369
	42,088	50,332
Unsecured – at amortised cost		
– Unsecured loan notes	274	165
Total secured and unsecured borrowings	42,362	50,497
Current	35,151	50,176
Non-current	7,211	321
	42,362	50,497

23. Borrowings continued

Summary of borrowing arrangements:

The Group has overdraft facilities which comprised £328k at the end of 2018 (2017: £8,193k). The facilities are uncommitted and secured with fixed and floating charges over the assets of the Group. Included within overdraft facilities as at 31 December 2018 is £196K that was an overdraft facility acquired as part of the Blonde Robot acquisition.

The Group has invoice discounting facilities which comprised £32,829k at the end of 2018 (2017: £41,534k). The facilities comprise fully revolving receivables financing agreements which are secured on the underlying receivables and have no fixed repayment dates.

The Group has loans of £8,963k at the end of 2018 (2017: £401k). The loans are secured with fixed and floating charges over the assets of the Group with the exception of £274k (2017: £165k), which is unsecured. Included within loans as at 31 December 2018 is £1,445k that were loans acquired as part of the New Media, Perfect Sound, and Blonde Robot acquisitions. The Group is subject to covenants under its Revolving Credit Facility and if the Group defaults under these covenants, it may not be able to meet its payment obligations.

The Group has finance leases of £242k at the end of 2018 (2017: £369k). Included within finance leases as at 31 December 2018 is £20K that were finance leases acquired as part of the Blonde Robot acquisition.

For details of finance leases please refer to note 27.

Reconciliation of liabilities arising from financing activities

	Long term borrowings £'000	Short term borrowings £'000	Finance leases £'000	Total £'000
At 1 January 2018	165	49,963	369	50,497
Cash flows:				
(Repaid)/advanced	5,199	(15,206)	(149)	(10,156)
Non-cash:				
Acquisitions	1,781	218	22	2,021
	7,145	34,975	242	42,362

24. 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 (2017: none).

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

As at 31 December 2018 the Group had foreign currency call options, 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 considerations in relation to the acquisitions of Perfect Sound, New Media, and van Domburg (see note 22) have 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. Discount factors of 6.4%, 6.6%, and 7.7% respectively have 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 liabilities held by the Group to acquire the remaining non-controlling interests that arose in the Blonde Robot and van Domburg acquisitions (see note 33) were initially measured at present value. The valuations of the put option liabilities were based on unobservable inputs and hence were level 3 valuations. The discount factors of 5.9% and 7.7% respectively were applied to probability weighted cash flows that are not certainty-equivalent because they were not adjusted to exclude systematic risk. The put option liabilities are subsequently measured at amortised cost using the effective interest method. However, when contractual cash flows relating to the put option are modified the put option liability is remeasured at present value using the original effective interest rate. Due to modifications in the contractual cash flows the put option liabilities were subsequently remeasured to present value at the year end.

The put option liabilities held by the Group to acquire the remaining non-controlling interest that arose in the Earpro acquisition (see note 33) and the Holdan Limited acquisition in 2016 were initially measured at present value. The valuations of the put option liabilities were based on unobservable inputs and hence were level 3 valuations. 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 liabilities are subsequently measured at amortised cost using the effective interest method. However, when contractual cash flows relating to the put option are modified the put option liability is remeasured at present value using the original effective interest rate. Due to modifications in the contractual cash flows the put option liabilities were subsequently remeasured to present value at the year end.

In 2017 the Group exercised part of the put option in relation to Holdan Limited and acquired half of the non-controlling interest (see note 32).

The expected cash flows in relation to the put option liabilities are provided in note 25.

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

	2018 £'000	2017 £'000
Brought forward	5,195	2,139
Interest costs[1]	302	202
Other finance being movement in fair value and foreign exchange[1]	(41)	44
Extinguished on partial acquisition of non-controlling interest[2]	–	(750)
	5,456	1,635
Recognition of new put option on acquisitions	894	2,549
Interest costs on new put option[1]	4	132
Other finance being movement in fair value on new put option[1]	46	879
At 31 December	6,400	5,195
Current	1,746	–
Non-current	4,654	5,195
	6,400	5,195

1 A total of £311k has been recognised within finance costs in the Income Statement for these transactions (2017: £1,257k).

2 See note 32 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

Financial assets at amortised cost

	2018 £'000	2017 £'000
Trade and other receivables (note 16)	78,926	73,570
Cash and cash equivalents (note 17)	16,685	28,203
	95,611	101,773

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

Financial assets at fair value through profit or loss

	2018 £'000	2017 £'000
Derivative financial instruments (note 20)	25	–

24. Financial instruments continued

Financial liabilities at amortised cost

	2018 £'000	2017 £'000
Trade and other payables (note 18)	76,196	66,603
Accruals (note 18)	11,506	8,673
Finance lease payables (note 27)	242	369
Put option liabilities (note 21)	6,400	5,195
Bank loans, overdrafts and invoice discounting (note 23)	41,846	49,963
Deferred consideration (note 22)	–	4,719
Unsecured loan notes (note 23)	274	165
	136,464	135,687

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

	2018 £'000	2017 £'000
Derivative financial instruments (note 20)	–	93

Contingent consideration

	2018 £'000	2017 £'000
Contingent consideration (note 22)	4,762	1,319

25. 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 24.

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 2018 total credit risk amounted to £94,821k (2017: £101,528k).

Interest rate risk

The interest on borrowings, being overdraft and invoice discounting facilities with HSBC Bank plc, a loan and invoice discounting facility with Barclays Bank PLC, and an invoice discount facility with Lloyds Bank Commercial Finance Ltd, is variable. During the year the Group moved an invoice discounting facility with Coöperatieve Rabobank U.A. to HSBC Bank plc.

Based on year end balances a 1% increase in interest rates would impact profit and equity by £421k (2017: £500k).

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 call options and forward contracts 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.

	Annual average		Year end	
	2018	**2017**	**2018**	**2017**
EUR/GBP	**1.129**	1.145	**1.115**	1.126
AUD/GBP	**1.780**	1.688	**1.809**	1.725
NZD/GBP	**1.923**	1.814	**1.902**	1.895
USD/GBP	**1.337**	1.289	**1.277**	1.349

Applying the current period foreign exchange rates to the reported results for 2017 had the following effect:

Currency	**EUR £000**	**AUD £000**	**NZD £000**
Increase/(decrease) in revenue due to movement in foreign exchange rate:	1,871	(1,516)	(154)
Increase/(decrease) in profit before tax due to movement in foreign exchange rate:	87	(113)	(14)
Increase/(decrease) in net debt due to movement in foreign exchange rate:	69	(8)	(1)

The following table illustrates the sensitivity of the reported profit before tax and equity for 2018 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 2018.

If the GBP had strengthened against the above currencies by 10%, the impact, in GBP terms, on the 2018 financial statements would have been:

2018	**EUR £'000**	**AUD £'000**	**NZD £'000**	**USD £'000**
Profit before tax	**(1,105)**	**(222)**	**(25)**	**(2)**
Equity	**(2,799)**	**(269)**	**(32)**	**(8)**

If the GBP had weakened against the above currencies by 10%, the impact, in GBP terms, on the 2018 financial statements would have been:

2018	**EUR £'000**	**AUD £'000**	**NZD £'000**	**USD £'000**
Profit before tax	**1,350**	**272**	**28**	**3**
Equity	**3,423**	**331**	**37**	**4**

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.

25. Financial instrument risk exposure and management continued

The tables below show the undiscounted cash flows on the Group's financial liabilities as at 31 December 2018 and 2017, on the basis of their earliest possible contractual maturity:

At 31 December 2018

	Total £'000	Within 2 months £'000	Within 2–6 months £'000	Between 6–12 months £'000	Between 1–2 years £'000	After than 2 years £'000
Trade payables	75,614	68,530	6,826	5	253	–
Other payables	582	582	–	–	–	–
Put option liabilities	7,082	–	–	1,875	4,102	1,105
Finance lease payables	266	33	65	97	71	–
Accruals	11,506	10,300	407	316	8	475
Bank overdrafts, loans and invoice discounting	42,120	32,865	804	1,306	6,725	420
Deferred consideration	4,905	–	3,373	673	9	850
	142,075	112,310	11,475	4,272	11,168	2,850

At 31 December 2017

	Total £'000	Within 2 months £'000	Within 2–6 months £'000	Between 6–12 months £'000	Between 1–2 years £'000	After 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	384	105	47	70	108	54
Accruals	8,673	7,502	695	295	67	114
Bank overdrafts, loans and invoice discounting	50,128	49,933	12	18	165	–
Deferred consideration	6,038	–	4,841	–	1,197	–
	137,380	112,629	16,857	728	3,221	3,945

26. 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:

	2018 £'000	2017 £'000
Equity	53,776	49,979
Borrowings	42,362	50,497
Cash and cash equivalents	(16,685)	(28,203)
	79,453	72,273

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.

27. 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

	2018 £'000	2017 £'000
Land and buildings		
Not later than 1 year	1,698	1,567
After 1 year and not later than 5 years	3,269	3,640
After 5 years	106	543
	5,073	5,750
Other		
Not later than 1 year	167	287
After 1 year and not later than 5 years	71	221
After 5 years	–	–
	238	508

Finance Leases

The Group leased certain items of property and equipment under finance leases. The average lease term is 1 year for 2018 (2017: 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:

	2018 £'000	2017 £'000
Not later than one year	195	221
Later than one year and not later than five years	71	163
	266	384
Less: future finance charges	(24)	(15)
Present value of minimum lease payments	242	369

Finance lease liabilities are included in liabilities:

	2018 £'000	2017 £'000
Current	176	213
Non-current	66	156
	242	369

28. 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 2018 were £32,064k (2017: £46,401k).

29. 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:

	2018 £'000	2017 £'000
Defined contribution pension schemes expense	**974**	879

Defined benefit retirement benefit pension schemes

Due to the van Domburg acquisition (see note 33) 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.

30. Share capital

The total allotted share capital of the Parent Company is:

Allotted, issued and fully paid

	2018		2017	
	Number	£'000	Number	£'000
Issued and fully paid Ordinary Shares of £0.01 each				
At 1 January	**79,448,200**	**794**	79,448,200	794
At 31 December	**79,448,200**	**794**	79,448,200	794

There were no share transactions effected during the current or prior year.

Employee benefit trust

The Group's employee benefit trust was allocated 480,700 Ordinary Shares in 2016. As at 31 December 2018 325,300 of these shares were distributed to the SIP trust, leaving 155,400 Ordinary Shares in the employee benefit trust as at 31 December 2018 (2017: 241,700).

31. Share based payments

The Group operates two share option plans, the Long Term Incentive Plan ("LTIP") and the Share Incentive Plan ("SIP"). There have been five grants for the LTIP and three grants for the SIP. There was one grant for each option in 2016 (the "2016 options"). The was one grant for each option in 2017 (the "2017 options"). There were three grants for the LTIP and one grant for the SIP in 2018 (the "2018 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 three 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 three 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 2018 options granted and the assumptions used in the calculation are as follows:

	LTIP	LTIP	LTIP	SIP
Date of grant	4 May 2018	9 Jul 2018	20 Dec 2018	8 Aug 2018
Number granted	75,000	509,400	100,000	91,500
Share price at date of grant (£)	£6.28	£6.45	£5.30	£6.23
Exercise price (£)	£0.01	£0.01	£0.01	–
Expected volatility	9.0%	8.9%	9.8%	8.9%
Expected life (years)	2	3–5	1–3	3
Risk free rate	0.63%	0.61%	0.75%	0.67%
Expected dividend yield	2.2%	2.1%	2.7%	0.00%
Fair value at date of grant	£416,956	£2,572,735	£469,804	£401,587
Earliest vesting date	31 May 2020	9 Jul 2021	26 Jul 2019	9 Jul 2021
Expiry date	4 May 2028	9 Jul 2028	20 Dec 2028	8 Aug 2028

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	31 May 2017	31 May 2017
Number granted	613,500	128,500
Share price at date of grant (£)	£3.19	£3.19
Exercise price (£)	£0.01	–
Expected volatility	9.0%	9.0%
Expected life (years)	3	3
Risk free rate	0.3%	0.3%
Expected dividend yield	3.33%	0.00%
Fair value at date of grant	£1,563,817	£289,333
Earliest vesting date	31 May 2020	31 May 2020
Expiry date	31 May 2027	31 May 2027

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 £1,120k (2017: £551k) related to equity-settled share based payment transactions for the above schemes during the year.

31. Share based payments continued

A reconciliation of LTIP option movements over the year to 31 December 2018 is shown below:

	As at 31 December 2018		As at 31 December 2017	
	Number of LTIP options	Weighted average exercise price £	Number of LTIP options	Weighted average exercise price £
Outstanding at start of year	788,000	0.01	188,500	0.01
Granted	634,400	0.01	613,500	0.01
Lapsed	(11,500)	0.01	(14,000)	0.01
Outstanding at end of year	1,410,900	0.01	788,000	0.01

A reconciliation of SIP movements over the year to 31 December 2018 is shown below:

	As at 31 December 2018		As at 31 December 2017	
	Number of SIP shares	Weighted average exercise price £	Number of SIP shares	Weighted average exercise price £
Outstanding at 1 January	227,000	–	119,000	–
Granted	91,500	–	128,500	–
Lapsed	(34,200)	–	(20,500)	–
Outstanding at 31 December	284,300	–	227,000	–

32. 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 retained earnings when this element of the put option was extinguished.

33. 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
New Media[1]	Distribution of professional broadcast equipment to trade customers	23 August 2018	100%	3,311
Perfect Sound[1]	Distribution of professional audio products to trade customers	5 September 2018	100%	682
Blonde Robot[1]	Distribution of audio-visual products to trade customers	4 December 2018	65%	1,687
Earpro[1]	Distribution of audio-visual and lighting products to trade customers.	27 March 2017	88.5%	8,311
van Domburg[1]	Distribution of audio-visual and lighting products to trade customers.	6 September 2017	70%	2,942
Sound Technology[1]	Distribution of professional audio, musical and lighting products to trade customers	30 November 2017	100%	3,858

1 See note 11 for details of companies acquired during the current and year prior.

2018 acquisitions

Fair value of consideration transferred:

2018	New Media £'000	Perfect Sound £'000	Blonde Robot £'000
Cash	1,354	628	1,687
Deferred contingent consideration	1,957	54	–
Total	3,311	682	1,687

Acquisition costs of £119k in relation to the acquisition of New Media, £47k in relation to the acquisition of Perfect Sound, £83k in relation to the acquisition of Blonde Robot, and £116k in relation to other acquisitions not completed before the end of the year were expensed to the income statement during the year ended 31 December 2018.

On acquisition of Blonde Robot the Group recognised £894k in relation to the initial present value of the put option liabilities to acquire the remaining non-controlling interest.

Fair value of acquisitions

2018	New Media £'000	Perfect Sound £'000	Blonde Robot £'000
Non-current assets			
Goodwill	1,004	173	924
Intangible assets – customer relationships	1,051	105	1,808
Intangible assets – supplier contracts	1,349	159	427
Intangible assets – brands	337	18	270
Intangible assets – other	15	–	–
Plant and equipment	140	23	86
	3,896	478	3,515
Current assets			
Inventories	702	61	1,164
Trade and other receivables	550	698	2,309
Cash and cash equivalents	327	211	–
	1,579	970	3,473
Current liabilities			
Trade and other payables	(1,045)	(628)	(1,746)
Current tax	–	–	(53)
Derivative financial instruments	–	–	(23)
Borrowings and financial liabilities	(216)	(44)	(1,761)
	(1,261)	(672)	(3,583)
Non-current liabilities			
Deferred tax	(903)	(94)	(752)
Other provisions	–	–	(58)
	(903)	(94)	(810)
Non-controlling interests	–	–	(908)
Fair value of net assets acquired attributable to equity shareholders of the Parent Company	3,311	682	1,687

Goodwill acquired in 2018 relates to the workforce, synergies and sales know how. Goodwill arising on the New Media and Perfect Sound acquisitions has been allocated to the Continental Europe segment. Goodwill arising on the Blonde Robot acquisition has been allocated to the APAC segment.

Gross contractual amounts of trade and other receivables acquired in 2018 were £3,589k, with bad debt provisions of £32k.

33. Business combinations continued

Net cash outflow on acquisition of subsidiaries

	New Media £'000	Perfect Sound £'000	Blonde Robot £'000
Consideration paid in cash	1,354	628	1,687
Less: cash and cash equivalent balances acquired	(327)	(211)	–
Plus: borrowings acquired	216	44	1,761
Net cash outflow	1,243	461	3,448

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:

2018

	New Media £'000	Perfect Sound £'000	Blonde Robot £'000
Date acquired	**23 Aug**	**5 Sep**	**4 Dec**
Post-acquisition contribution to Group revenue	**6,563**	**916**	**1,430**
Post-acquisition contribution to Group profit after tax	**90**	**90**	**103**

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 2018:

	New Media £'000	Perfect Sound £'000	Blonde Robot £'000
Full year revenue[1]	17,851	3,016	17,364
Full accounting period profit after tax[1]	26	190	337

If the acquisitions had occurred on 1 January 2018, revenue of the Group for the year would have been £603,004k and profit after tax for the year would have been £15,555k.

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 adjustments include 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 2018, together with the consequential tax effects.

2017 acquisitions

Fair value of consideration transferred:

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

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.

Fair value of acquisitions

2017	Earpro £'000	van Domburg £'000	Sound Technology £'000
Non-current assets			
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
Property, plant and equipment	66	1,765	28
	3,465	6,768	2,637
Current assets			
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
	9,228	6,404	6,897
Current liabilities			
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)	–
	(2,723)	(8,215)	(5,400)
Non-current liabilities			
Borrowings	–	(170)	–
Deferred tax	(579)	(584)	(276)
	(579)	(754)	(276)
Non-controlling interests	(1,080)	(1,261)	–
Fair value of net assets acquired attributable to equity shareholders of the Parent Company	8,311	2,942	3,858

Goodwill acquired in 2017 relates to the workforce, synergies and sales know how. Goodwill arising on the Earpro acquisition has been allocated to the Continental Europe operating segment, goodwill arising on the van Domburg acquisition has been allocated to the Continental 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 in 2017 were £14,271k, with bad debt provision of £2,610k.

Net cash outflow on acquisition 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)
Net cash outflow	1,998	1,722	2,535

33. Business combinations continued

Post-acquisition contribution

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

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[1]	20,530	26,600	21,497
Full accounting period profit after tax[1]	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 adjustments include 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.

34. 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:

	2018 £'000	2017 £'000
Remuneration of key management		
Remuneration	**924**	804
Social security costs	**121**	80
Company pension contributions to defined contributions scheme	**5**	20
	1,038	904

During the year Mr S Lamb was granted 100,000 share options under the LTIP scheme.

Dividends on Ordinary Shares were paid to key management and close members of their family as follows:

	2018 £'000	2017 £'000
Mr S B Fenby	**3,035**	2,513
Mr A M G Bailey[1]	**307**	359
Mr S Lamb	**–**	–
Mr A C Herbert	**5**	2
Mr M Ashley	**–**	–
Mrs H Wright	**–**	–
	3,347	2,874

1 Includes dividends up to the date of resignation of 30 June 2018.

There were no related party borrowing or share transactions during the current or prior year.

35. Dividends

The Company paid dividends in the year of £11,289k (2017: £8,912k), excluding the effects of waived dividends this equated to 14.25 (2017: 11.26) pence per share.

The Board has recommended a final dividend of 10.60 pence per share (2017: 9.65) which, if approved will be paid on 21 June 2019 to shareholders on the register on 17 May 2019. With the interim dividend declared in September 2018, this represents a total dividend for the year to 31 December 2018 of 15.20 pence per share (2017: 13.82).

36. Events after the balance sheet date

On 17 January 2019 the Group acquired 100% of MobilePro AG, a leading distributor of audio-visual products based in Zurich, Switzerland for an upfront consideration of €1.0m only.

On 31 January 2019 the Group acquired 80% of Prase Engineering S.p.A, an added value distributor of audio-visual products in Italy.

The initial consideration payable was €7.0m followed by four fixed payments of an aggregate €6.4m over the two subsequent years. The Group has options to acquire the remaining 20% stake over the next three years on a pre-determined methodology linked primarily to earnings growth.

37. Ultimate controlling party

As at 31 December 2018, Midwich Group plc had no ultimate controlling party.

Company statement of financial position
As at 31 December 2018

	Notes	2018 £'000	2017 £'000
Assets			
Non-current assets			
Investments	3	**31,845**	30,918
Deferred tax	4	**327**	307
		32,172	31,225
Current assets			
Receivables	5	**4,698**	7,320
		4,698	7,320
Current liabilities			
Payables	6	**(356)**	(87)
Net current assets		**4,342**	7,233
Total assets less current liabilities		**36,514**	38,458
Non-current liabilities		**–**	–
Net assets		**36,514**	38,458
Share capital	7	**794**	794
Share premium		**25,855**	25,855
Share based payment reserve		**1,837**	751
Investment in own shares		**(5)**	(5)
Retained earnings:			
Opening retained earnings		**10,863**	20,083
Profit/(loss) for the year		**8,259**	(308)
Dividends paid		**(11,289)**	(8,912)
Total retained earnings		**7,833**	10,863
Capital redemption reserve		**50**	50
Other reserve		**150**	150
Shareholders' funds		**36,514**	38,458

The financial statements are also comprised of the notes on pages 90 to 95. The financial statements were approved by the Board of Directors and authorised for issue on 11 March 2019 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 2018

	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 2018	**794**	**25,855**	**751**	**(5)**	**10,863**	**50**	**150**	**38,458**
Profit for the year	**–**	**–**	**–**	**–**	**8,259**	**–**	**–**	**8,259**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**8,259**	**–**	**–**	**8,259**
Share based payments	**–**	**–**	**1,120**	**–**	**–**	**–**	**–**	**1,120**
Deferred tax on share based payments	**–**	**–**	**(34)**	**–**	**–**	**–**	**–**	**(34)**
Dividends paid	**–**	**–**	**–**	**–**	**(11,289)**	**–**	**–**	**(11,289)**
Balance at 31 December 2018	**794**	**25,855**	**1,837**	**(5)**	**7,833**	**50**	**150**	**36,514**

For the year ended 31 December 2017

	Share capital £'000	Share premium £'000	Share based payment reserve £'000	Investment in own share £'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	–	–	–	–	(308)	–	–	(308)
Total comprehensive income for the year	–	–	–	–	(308)	–	–	(308)
Share based payments	–	–	551	–	–	–	–	551
Deferred tax on share based payments	–	–	116	–	–	–	–	116
Dividends paid	–	–	–	–	(8,912)	–	–	(8,912)
Balance at 31 December 2017	794	25,855	751	(5)	10,863	50	150	38,458

The financial statements are also comprised of the notes on pages 90 to 95.

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.

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 instruments are comprised of financial assets and financial liabilities, which are recognised when the Group becomes party to the contractual provisions of the instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or substantially all the risks and rewards of ownership of the financial asset are transferred. Financial liabilities are derecognised when extinguished.

Financial assets

Financial assets include trade and other receivables, cash and cash equivalents, and derivative financial instruments with a positive market value.

The Group classifies financial assets into three categories;

- financial assets measured at amortised cost;
- financial assets measured at fair value through other comprehensive income; and
- financial assets measured at fair value through profit or loss.

The classification of a financial asset depends on the Group's business model for managing the asset and the contractual cash flow characteristics associated with the asset.

Financial assets with embedded derivatives are recognised as hybrid contracts. Hybrid contracts are classified in their entirety and not in separate components.

Investments in equity instruments that are not held for trading are classified as financial assets measured at fair value through profit and loss unless the Group makes an irrevocable election on initial recognition to classify the asset as measured at fair value through other comprehensive income.

Trade receivables that do not contain a significant financing component are initially measured at transaction price. All other financial assets classified as either financial assets measured at amortised cost, or financial assets measured at fair value through other comprehensive income are initially measured at fair value plus transaction costs directly attributable to the acquisition of the financial asset.

Financial assets measured at fair value through profit and loss are initially measured at fair value and any transaction costs directly attributable to the acquisition of the financial asset are recognised in the profit and loss.

Financial assets measured at amortised cost are subsequently measured using the effective interest method. The effects of discounting within the effective interest method are omitted if immaterial. Where the contractual cash flows of the financial asset are renegotiated or otherwise modified the financial asset is recalculated at the present value of the modified contractual cash flows discounted at the financial asset's original effective interest rate.

Financial assets measured at fair value through other comprehensive income and financial assets measured at fair value through profit and loss are subsequently measured at fair value.

Expected credit loss impairments are recognised in respect of financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income immediately on initial recognition of the respective financial asset being impaired.

Expected credit losses are measured using an expected credit loss model. The expected credit loss model reflects a probability weighted amount derived from a range of possible outcomes that are discounted for the time value of money and based on reasonable and supportable information.

Where trade receivables contain a significant financing component the Group applies the simplified approach to measure the loss allowance at an amount equal to lifetime expected credit losses.

Financial liabilities

Financial liabilities include trade and other payables; put option liabilities; deferred consideration; bank loans, overdrafts and invoice discounting facilities; and derivative financial instruments with a negative market value.

The Group classifies financial liabilities into six categories;

- financial liabilities measured at amortised cost;
- financial liabilities measured at fair value through profit or loss;
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;
- financial guarantee contracts;
- commitments to provide loans at below market interest rates;
- contingent consideration recognised in a business combination.

Financial liabilities measured at fair value through profit or loss are initially measured at fair value and any transaction costs directly attributable to the issue of the financial liability are recognised in the profit and loss.

Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies are initially measured at the amount of the consideration received in respect of the financial asset.

All other financial liabilities are initially measured at fair value minus transaction costs directly attributable to the issue of the financial liability.

Financial liabilities measured at amortised cost are subsequently measured using the effective interest method. The effects of discounting within the effective interest method are omitted if immaterial. Where the contractual cash flows of the financial liability are renegotiated or otherwise modified the financial liability is recalculated at the present value of the modified contractual cash flows discounted at the financial liability's original effective interest rate.

Financial liabilities measured at fair value through profit and loss are subsequently measured at fair value.

The subsequent measurement of financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies depends upon whether the transferred asset is measured at amortised cost or fair value. If the transferred asset is measured at amortised cost then associated liability is measured in such a way that the net carrying amount of the transferred asset and the associated liability is the amortised cost of the rights and obligations retained by the entity. However, if the transferred asset is measured at fair value the associated liability is measured in such a way that the net carrying amount of the transferred asset and the associated liability is equal to the fair value of the rights and obligations retained by the entity when measured on a stand-alone basis.

1. Accounting policies continued

Financial guarantee contracts are subsequently measured at the higher of the amount of the loss allowance calculated in accordance with the expected credit loss model and the amount of the initially recognised.

Commitments to provide loans at below market interest rates are subsequently measured at the higher of the amount of the loss allowance calculated in accordance with the expected credit loss model and the amount initially recognised.

Contingent consideration recognised in a business combination is subsequently measured at fair value.

Trade and other receivables

Trade and other receivables are financial assets recognised when the Group becomes party to the contractual provisions of the instrument.

Trade receivables that do not contain a significant financing component are initially measured at transaction price, which is equivalent to fair value. All other trade and other receivables are initially measured at fair value plus transaction costs directly attributable to the acquisition of the financial asset. Trade and other receivables are subsequently measured at amortised cost using the effective interest method, less loss allowances.

Trade and other payables

Trade and other payables are financial liabilities recognised when the Group becomes party to the contractual provisions of the instrument.

Trade and other payables are initially measured at fair value minus transaction costs directly attributable to the issue of the financial liability. Trade and other payables are subsequently measured at amortised cost using the effective interest method.

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

The directors' remuneration is as stated in the directors' remuneration disclosure in the Directors' Report and in note 7 to the consolidated financial statements.

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

	2018 Number	2017 Number
By activity:		
Administration	15	3

3. Investments

	2018 £'000	2017 £'000
At 1 January	30,918	30,465
Additions	927	453
At 31 December	31,845	30,918

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 31 of the consolidated financial statements for details of share options.

4. Deferred tax

	2018 £'000	2017 £'000
Deferred tax asset on temporary differences	327	307

5. Receivables

	2018 £'000	2017 £'000
Prepayments	15	–
Amounts due from Group undertakings	4,683	7,320
	4,698	7,320

6. Payables

	2018 £'000	2017 £'000
Accruals	356	87

7. Share capital

The total allotted share capital of the Company is:

Allotted, issued and fully paid

	2018		2017	
	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 during the current or prior year.

8. Dividends

The Company paid dividends in the year of £11,289k (2017: £8,912k), excluding the effects of waived dividends this equated to 14.25 (2017: 11.26) pence per share.

The Board has recommended a final dividend of 10.60 pence per share (2017: 9.65) which, if approved will be paid on 21 June 2019 to shareholders on the register on 17 May 2019. With the interim dividend declared in September 2018, this represents a total dividend for the year to 31 December 2018 of 15.20 pence per share (2017: 13.82).

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 remunerated by subsidiary entities and 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:

	2018 £'000	2017 £'000
Outstanding at 1 January	7,320	16,616
Amounts advanced	11,289	–
Management charges	204	204
Amounts repaid	(14,130)	(9,500)
Outstanding at 31 December	4,683	7,320

Audit fees for the entity are borne by subsidiary entities and recharged to the Company.

10. Ultimate controlling party

As at 31 December 2018, 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 in the London and Tower Rooms, at the offices of Mills & Reeve LLP, 24 Monument Street, London, EC3R 8AJ on Monday 13 May 2019 at 10.00 a.m. You will be asked to consider and vote on the resolutions below. Resolutions 1 to 10 will be proposed as ordinary resolutions and resolutions 11 and 12 will be proposed as special resolutions.

Ordinary business

Report and accounts

1 THAT the Company's annual accounts for the financial year ended 31 December 2018, together with the Directors' Report and Auditor's Report on those accounts, be received and adopted.

Re-election of directors

2 THAT Stephen Fenby be re-elected as a director of the Company.

3 THAT Andrew Herbert be re-elected as a director of the Company.

4 THAT Mike Ashley be re-elected as a director of the Company.

5 THAT Stephen Lamb be re-elected as a director of the Company.

6 THAT Hilary Wright 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 2018 of 10.60p per ordinary share of £0.01 each in the capital of the Company ("ordinary share") be declared.

Directors' remuneration report

9 THAT the Directors' Remuneration Report (excluding the directors' remuneration policy, set out on pages 30 to 35 of the Directors' Remuneration Report), as set out in the Company's annual report and accounts for the financial year ended 31 December 2018 be approved.

Special business

Issue of ordinary shares

10 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.

Notes to the Annual General Meeting

11 THAT, subject to the passing of resolution 10, the directors of the Company be authorised to allot equity securities (as defined in section 560 of the CA 2006) for cash under the authority conferred by that resolution and/or to sell ordinary shares held by the Company as treasury shares as if section 561 of the CA 2006 did not apply to any such allotment or sale, provided that such authority shall be limited to:

(i) the allotment of equity securities in connection with an offer of equity securities (but, in the case of the authority granted under paragraph (ii) of resolution 10, by way of a rights issue only):

(a) to the holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings; and

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

but subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in or under the laws of any territory or the requirements of any regulatory body or stock exchange; and

(ii) the allotment of equity securities or sale of treasury shares (otherwise than pursuant to paragraph (i) of this resolution) to any person up to an aggregate nominal amount of £39,724.

The authority granted by this resolution will expire at the conclusion of the Company's next Annual General Meeting after the passing of this resolution or, if earlier, at the close of business on the date 15 months after the passing of this resolution, save that the Company may, before such expiry make offers or agreements which would or might require equity securities to be allotted (or treasury shares to be sold) after the authority expires and the directors of the Company may allot equity securities (or sell treasury shares) in pursuance of any such offer or agreement as if the authority had not expired.

12 THAT, subject to the passing of resolution 10, the directors of the Company be authorised in addition to any authority granted under resolution 11 to allot equity securities (as defined in section 560 of the CA 2006) for cash under the authority conferred by resolution 10 and/or to sell ordinary shares held by the Company as treasury shares as if section 561 of the CA 2006 did not apply to any such allotment or sale, provided that such authority shall be:

(i) limited to the allotment of equity securities or sale of treasury shares up to an aggregate nominal amount of £39,724; and

(ii) used only for the purpose of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the directors of the Company determine to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this notice.

The authority granted by this resolution will expire at the conclusion of the Company's next Annual General Meeting after this resolution is passed or, if earlier, at the close of business on the date 15 months after the passing of this resolution, save that the Company may, before such expiry make offers or agreements which would or might require equity securities to be allotted (or treasury shares to be sold) after the authority expires and the directors of the Company may allot equity securities (or sell treasury shares) in pursuance of any such offer or agreement as if the authority had not expired.

Dated 18 April 2019

By order of the Board

Stephen Lamb
Company Secretary

Registered Office
Vinces Road
Diss
Norfolk
IP22 4YT

Notice of Meeting Notes:

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 close of trading on 9 May 2019. 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 at 10.00am (UK time) on 13 May 2019 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 and following the instructions;
   - you may request 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 Englandand Wales.
   - in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below.

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 10.00am on 9 May 2019.

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). 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) by 10.00am on 9 May 2019. 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.

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 16 April 2019 (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 16 April 2019 are 79,448,200.

14. Under Section 527 of the Companies Act 2006, shareholders meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's financial statements (including the Auditor's Report and the conduct of the audit) that are to be laid before the Meeting; or (ii) any circumstances connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual financial statements and reports were laid in accordance with Section 437 of the Companies Act 2006 (in each case) that the shareholders propose to raise at the relevant meeting. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with Sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under Section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Meeting for the relevant financial year includes any statement that the Company has been required under Section 527 of the Companies Act 2006 to publish on a website.

15. 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.

16. The following documents are available for inspection during normal business hours at the registered office of the Company on any business day from the date of this Notice until the time of the Meeting and may also be inspected at the Meeting venue, as specified in this Notice, from 10.00am on the day of the Meeting until the conclusion of the Meeting:

- copies of the Directors' letters of appointment or service contracts.

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

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

18. 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 www.midwichgroupplc.com

Directors, Officers and Advisers

Directors
Mr S B Fenby
Mr S Lamb
Mr M Ashley
Mr A C Herbert
Mrs H Wright

Company Secretary
Mr S Lamb

Independent auditor
Grant Thornton UK LLP
Chartered Accountants
Statutory Auditor
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CB4 0FY

Registered office
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