15 May 2018

Gear4music (Holdings) plc
Preliminary unaudited results for the year ended 28 February 2018

A transformational year of growth and investment

Gear4music (Holdings) plc, ("Gear4music" or "the Group") (LSE: G4M), the largest UK based online retailer of musical instruments and music equipment, today announces its unaudited financial results for the 12 months ended 28 February 2018.

Highlights:

£'000	12 months ended 28 February 2018	12 months ended 28 February 2017	Change
Revenue	80,100	56,128	+43%
Gross profit	20,319	15,145	+34%
EBITDA	3,458	3,617	-4%
Operating profit	1,961	2,616	-25%
Pre-tax profit	1,500	2,636	-43%

- Continuing strong revenue growth across the business
- Gross margin of 25.4% is down 160bps due to planned investment in customer proposition
- European distribution centre costs up £1.1m (220%) in first full year of operations
- H2 EBITDA up 20% on H2 FY17, to £2.7m
- Net assets increased by £7.2m to £18.9m
- Active customers up 39% to 475,000
- Conversion increased from 2.75% to 3.25%
- Confident of delivering revenue and profit growth in FY19

Commenting on the results, Andrew Wass, Chief Executive Officer said:

"This has been a transformational year of investment for Gear4music. During the year we raised an additional £4.2m of growth capital, our European distribution centres became fully operational, and we moved into our new Head Office. We accelerated investment in our employees, systems, marketing and customer proposition, to firmly establish ourselves as one of Europe's leading online retailers of musical instruments and music equipment.

In my report last year, I explained that FY18 would be a period of targeted investment, and that would have short-term profitability implications. FY19 will be focused on achieving returns resulting from these investments, with the objective of delivering strong and sustainable revenue and profitability growth.

As a result of the significant efforts of our team, and the investments we have made during FY18, we move into the new financial year with a market leading e-commerce platform, infrastructure and customer proposition. Whilst still early in the financial year, I am pleased to say that trading to date is in line with expectations and we are confident of achieving our objectives and hitting expectations for FY19."

ENDS

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About Gear4music.com

Operating from a Head Office in York, and Distribution Centres and showrooms in York, Sweden and Germany, the Group sells own-brand musical instruments and music equipment alongside premium third-party brands including Fender, Yamaha and Roland, to customers ranging from beginners to musical enthusiasts and professionals, in the UK, Europe and, more recently, into the Rest of the World.

Having developed its own e-commerce platform, with multilingual, multicurrency and fully responsive design websites delivering to over 190 countries, the Group has rapidly expanded its database and continues to build its overseas presence.

Chairman's statement

I'm pleased to report another year of success and progress.

Revenue growth continues to be strong, with 43% growth reflecting the efforts of our dedicated and talented team. It is the passion and knowledge of our people that define who we are and how our customers interact with us.

We continue to progress our mission of becoming a leading global retailer of musical instruments and equipment. The Group is establishing a track record for delivering excellent revenue growth and being profitable through the phases of the investment cycle. EBITDA of £3.5m is after an additional £1.1m of local overheads associated with the European distribution centres compared with FY17, which was required to deliver the capacity for Gear4music to become a £100m+ revenue business.

We are well-established in our UK domestic market and the business delivered 27% revenue growth whilst still only accounting for an estimated 6% of the total market. The much-publicised channel shift toward e-commerce retail and associated increased levels of online penetration, provide confidence in our approach and business model.

International growth represents a major opportunity for the Group – revenue of £35.8m represented growth of 69%, which followed 124% growth in the prior year, demonstrating good momentum. We only have an estimated 1% share of the European market and will continue to invest significant effort and resources in order to improve and increase our global reach.

The Head Office move in September 2017 went smoothly and added much needed office space, enabling recruitment into key teams to support strong, sustained growth.

Given the investments scheduled for FY19 to support continued growth, the Board has decided not to declare a dividend for FY18 and will again review its policy in the next financial year.

Future success will come from a strong and continuously improving customer proposition. This will be achieved by investing in our technology, our infrastructure and our people. As Andrew highlights in his CEO's report, a lot has changed in the business during the period and we have much more planned. We are looking into FY19 and beyond with confidence.

Ken Ford
Chairman

Chief Executive's Statement

Business Review

We continue to make good progress on both our Financial and Commercial KPIs in our third year as a listed business:

Financial KPIs

	FY18	FY17	Change
Revenue *	**£80.1m**	£56.1m	+43%
UK Revenue *	**£44.3m**	£34.8m	+27%
International Revenue *	**£35.8m**	£21.3m	+69%
Gross margin	**25.4%**	27.0%	-160bps
Total Admin expenses *	**£18.4m**	£12.5m	+47%
European Admin expenses *	**£1.5m**	£0.5m	
EBITDA	**£3.5m**	£3.6m	-3%
Cash at year end	**£3.5m**	£3.0m	+18%

* See note 2

Commercial KPIs

	FY18	FY17	Change
Website visitors	**16.9m**	12.6m	+34%
Conversion rate	**3.25%**	2.75%	+50bps
Average order value	**£127**	£124	+3%
Active customers	**475,000**	340,000	+39%
Products listed	**44,700**	37,100	+20%

Distribution & Property

Two years ago, we started the process of expanding our distribution network into Europe and doubling our distribution capacity to over £100m.

In readiness for continuing rapid growth, we need to increase capacity to ensure we can accommodate demand over the next two years. Our Scandinavian business has consistently performed exceptionally well since we opened our Swedish distribution centre in November 2016, growing by over 100% during FY18. We have therefore taken the decision to expand our operations in Sweden, enabling us to increase capacity ahead of FY19's peak season.

We have agreed terms with our existing Swedish landlord to relocate from our current premises, without penalty, to a new 76,800 sq ft building in the same area that we estimate has approximately four times the capacity of our existing site. Due to our portable infrastructure, virtually all of our assets from the existing site can be easily transported to the new site.

We have also committed to a new 10-year lease at our existing distribution facility in York where we will be increasing capacity by installing new storage and handling equipment. This will extend the operational lifespan of our UK distribution facilities, avoiding the need for major capital expenditure and significant additional leasehold costs in the short to medium term.

Capital expenditure for these two projects is expected to total £1.4m, and we estimate this will add circa £45m to our annual revenue capacity, taking our total distribution capacity to approximately £150m whilst improving our operational efficiency.

During FY19 we are also planning to refurbish the new Head Office building we acquired in June last year for £5.35m. We have completed the move and are pleased to report the building was independently revalued at £7.35m in February.

Strategy

We are constantly reviewing and refining our business model, which is built around four pillars of growth:

- E-commerce excellence
- Bespoke platform development
- International expansion; and
- Supply chain evolution.

E-commerce excellence

With nearly 17 million website visitors, conversion rates improving by 50 bps, active customer numbers increasing to more than 474,000, and 30% growth in repeat customers, our e-commerce strategy continues to be highly effective.

Our excellent 9.5 Trust Pilot rating from over 37,000 reviews is a reflection of our 'customer first' approach, the incredible efforts of our team, and the attention to detail that is required to build customer trust and loyalty. We are constantly refining the platform and we will continue to learn from our customers and use our significant technical resource to design the new solutions required to satisfy an evolving market.

Bespoke platform development

Our bespoke e-commerce platform is the cornerstone of our success and a major competitor differentiator and our development team have worked tirelessly to design and deploy 242 website updates and 286 system upgrades during the period.

Highlights included the launch of consumer finance in five European countries, enhancing our mobile checkout, launching a US Dollar website, cloudification of our entire platform and a host of back-end functionality upgrades including GDPR compliance. We have a pipeline of exciting features and upgrades we intend to deploy during the next 12 months.

International expansion

With international sales growing by 69% to £35.8m during FY18 in what is a $15bn market, expanding internationally continues to be a key area of opportunity and focus for the Group. Localising our websites and customer experience is at the core of our growth strategy, and over the past year we have expanded our multilingual customer service team, invested further into translation and marketing and improved our local delivery and payment options.

In March 2018 we opened our German showroom which, in addition to physically showcasing our products and building our brand in the locality, is creating additional buying opportunities in Euros from German distributors.

Supply chain evolution

At the year-end we listed 44,700 products, which has grown 21% in 12 months, and we believe there are further opportunities to increase this significantly.

Own-brand product sales have continued to grow impressively, with 45% growth during FY18 to a total of £21m, building on the 58% growth achieved during FY17.

Logo Update

After 15 years of excellent service, we have decided it's time to update the Gear4music logo, as featured in this preliminary results statement. Our websites will be updated with the new logo later in the year, along with a refreshed and modernised look and feel.

Outlook

Whilst FY18 profitability reflects the investments made in our European operations and customer proposition to drive market share, we remain confident in our outlook for the new financial year. As we continue to implement our long-term growth strategy for FY19, we expect to see ongoing strong revenue growth, alongside increasing profits and cash generation.

Andrew Wass
Chief Executive Officer

Chief Financial Officer's statement

Overview

The Group has delivered strong results, during an investment period in European distribution to enable and drive future growth. European distribution centre administrative expenses of £1.5m compared with £0.5m in FY17 led to Operating profit of £2.0m (FY17: £2.6m).

Revenue

	FY18 £000	FY17 £000	Change %
UK Revenue	**44,258**	34,865	27%
International Revenue	**35,842**	21,263	69%
Revenue	**80,100**	**56,128**	**43%**

Revenue increased by £24m in FY18 (FY17 £20.6m) equating to growth of 43% building on growth of 58% and 46% in the last two years. Two-year revenue growth from FY16 to FY18 was 126% compared to 132% between FY15 and FY17.

UK revenue increased by £9.4m (27%) to £44.3m, giving the Group an estimated 5.9% market share in the UK. European growth continues to represent a significant opportunity and international revenue growth of 69% was further to 124% growth in FY17 and 73% in FY16.

The Group ships product outside Europe and in October 2017 the Group launched a US Dollar website representing an important initial step in our plans for growth outside Europe. Revenues from sales outside Europe accounted for 1% of total revenue.

Revenue growth was evenly spread across the year, with 44% in H1 and 42% in H2.

	FY18 £000	FY17 £000	Change %
Other-brand product revenue	**56,075**	39,351	42%
Own-brand product revenue	**20,947**	14,449	45%
Other revenue	**3,078**	2,328	32%
Revenue	**80,100**	**56,128**	**43%**

Last year we reported on good progress made in our own-brand business and own-brand revenue growth achieving the Group's ambition of keeping pace with the growth in other-brands. In FY18 we are pleased to report further progress with own-brand growth of 45% outpacing 42% growth reported in other-brands, with £20.9m revenue coming from 2,629 SKUs (28 February 2017: 2,411). The proportion of revenue that came from own-brand products in FY18 increased to 26.2% (FY17: 25.7%).

Other revenue comprises carriage income, warranty revenue, and commissions earned on facilitating point-of-sales credit for retail customers. Warranty income is becoming an increasingly minor component of revenue, with related revenue falling from £315,000 in FY17 (0.6% of revenue), to £302,000 in FY18 (0.4% of revenue).

Gross profit

	FY18 £000	FY17 £000	Change %
Gross profit (£'000)	**20,319**	15,145	**+34%**
Gross margin	**25.4%**	27.0%	**-1.6ppts**

Strong revenue growth led to a £5.2m increase in gross profit on last year with gross margin reducing from 27.0% to 25.4%, a result more in line with FY16 (25.9%).

The Group faced US Dollar related cost push inflation towards the end of FY17 and into FY18, directly on own-brand products that are purchased in US Dollars and indirectly on other-branded products that the Group has to date predominantly purchased in Sterling but the products are ultimately manufactured in US Dollars. Whilst this was mitigated to a degree through negotiation with suppliers and leveraging of economies of scale and passing on through price increases to customers where it made commercial sense, the net overall impact has been a reduction in gross margin in the financial year.

Against this backdrop of increasing intake costs, the Group continues to invest in its customer proposition in terms of competitive pricing, delivery options and costs.

Short and medium-term intake cost prospects are improving with the strengthening of Sterling, the Group's ability to source other-branded products in Swedish Krona and Euros, and further benefits of scale.

Local distribution centres have started to reduce delivery costs to customers into their domestic and adjacent markets, although to date this has been reinvested in our customer proposition and passed on to the customer.

Administrative expenses and Operating profit

	FY18 £000	FY17 £000	Change %
UK Administrative expenses	**(16,823)**	(12,050)	(40%)
European Administrative expenses	**(1,535)**	(479)	(220%)
Total Administrative expenses	**(18,358)**	(12,529)	(47%)
Operating profit	**1,961**	**2,616**	**(25%)**

Total administrative expenses increased 47% compared to a 43% increase in revenue as the full-year affect and phased scaling-up of the Group's European distribution centres led to an additional £1.1m of European administrative expenses in FY18 over FY17. Administrative expenses incurred in the UK, which included Head Office and Buying functions, increased by £4.8m (40%).

In FY18 marketing costs of £6.7m (FY17: £4.7m) and labour costs of £6.3m (FY17: £4.3m) accounted for 71% of total administrative expenses.

Marketing costs in FY18 increased in line with the increase in revenue at 43% and as a percentage of revenue was in line with FY17 at 8.3%. This level of return is as expected given marketing decisions are heavily data and return driven and includes an element of investment into key target European markets where the Group is looking to build the brand and gain market share.

In FY18 labour costs increased 48% to £6.3m (FY17: £4.3m) as a result of a 49% increase in average headcount to support current and future growth. As explained in last year's CFO's report, total labour costs as a percentage of revenue in FY18 increased to 7.9% from 7.6% in FY17, which is in line with FY16's 7.8%.

As expected given where the Group is at in its investment cycle, FY18 EBITDA of £3.5m is £0.2m lower than last year and equates to 4.3% of revenue compared to 6.4% in FY17 and 4.7% in FY16.

Financial expenses of £461,000 (FY17: £47,000) includes a £265,000 net foreign exchange loss (FY17: £67,000 gain), and £178,000 interest (FY17: £47,000) principally relating to property linked bank loans.

Profit before tax was £1.5m (FY17: £2.6m), which translates into an EPS of 6.7p (diluted EPS of 6.7p).

Cash-flow and net debt

The cash flow statement for the financial year reflects the Group continuing to deploy growth capital to generate returns, by investing in stock and the e-commerce platform to improve the customer proposition and drive revenue.

	FY18 **£000**	FY17 £000
Opening cash	**3,001**	3,548
Profit for the year	**1,386**	2,314
Movement in working capital	**(3,123)**	(3,518)
Depreciation and amortisation	**1,497**	1,001
Financial expense	**196**	47
Other operating adjustments	**201**	267
Net cash from operating activities:	**157**	**111**
Net cash from investing activities:	**(9,517)**	(2,295)
Net cash from financing activities:	**9,899**	1,637
Increase/(decrease) in cash in the year	**539**	(547)
Closing cash	**3,540**	3,001

The business generated trading cash in the year and has invested funds raised in capital expenditure, and in working capital which can be unwound.

Stock increased by £5.4m (46%) broadly in-line with revenue growth, whilst stocking the European distribution centres. This was partly funded by a £0.8m increase in stock-loans and a £2.4m increase in trade payables.

Net cash from investing activities of £9.5m includes the £5.6m investment in the new freehold head-office in June 2017, £1.8m other tangible fixed additions in York and the European distribution centres, and £1.7m of software development. No finance leases were drawn against any of this expenditure.

Cash from financing activities of £9.9m includes a £6.0m increase in debt relating principally to bank loans linked to the freehold property purchase, and £4.2m net proceeds from the fund raise and exercise of a warrant in June 2017.

Balance sheet and net assets

The Group had a strong year-end balance sheet, with net assets of £18.9m (FY17: £11.7m), and £3.5m cash (FY17: £3.0m).

	FY18 **£000**	FY17 £000
Software platform	**4,304**	3,407
Other intangible assets	**2,074**	2,130
Property, plant and equipment	**10,054**	1,565
Total non-current assets	**16,432**	7,102
Stock	**17,055**	11,686
Cash	**3,540**	3,001
Other current assets	**2,704**	1,348
Total current assets	**23,299**	16,035
Trade payables	**(7,325)**	(4,970)
Loans and Borrowings	**(3,914)**	(2,621)
Other current liabilities	**(3,591)**	(2,409)
Total current liabilities	**(14,830)**	(10,000)
Loans and Borrowings	**(4,616)**	(24)

Other non-current liabilities	**(1,400)**	(1,391)
Total non-current liabilities	**(6,016)**	(1,415)
Net assets	**18,885**	**11,722**

Investment in the software platform in the year was £1.7m (FY17: £1.5m) to develop enhanced functionality and resilience, taking total investment to date to £5.9m and net book value to £4.3m (28 February 2017: £3.4m).

A freehold head office was acquired in June 2017 for £5.3m in an off-market transaction, with a further £0.3m of directly related costs being capitalised. Further to the Group's understanding of local rental values, an independent valuation was commissioned resulting in a £1.7m upwards revaluation.

The Group had net debt of £5.0m at the financial year end compared to net cash of £0.4m at last financial year end, including £5.2m of debt related to the freehold property purchase outlined above, of which £4.6m is payable after one year.

Dividends

The Board remains confident in the cash generative nature of the business, but in light of the returns available from future growth, the Board does not consider it appropriate to declare a dividend at this time but will continue to review this position on an annual basis.

Chris Scott
Chief Financial Officer

Consolidated Statement of Profit and Loss and Other Comprehensive Income

	Note	Year ended 28 February 2018 Unaudited £000	Year ended 28 February 2017 Audited £000
Revenue		**80,100**	56,128
Cost of sales		**(59,781)**	(40,983)
Gross profit		**20,319**	15,145
Administrative expenses	*2,3,4*	**(18,358)**	(12,529)
Operating profit	*3*	**1,961**	2,616
Financial income	*6*	**-**	67
Financial expense	*6*	**(461)**	(47)
Profit before tax		**1,500**	2,636
Taxation	*7*	**(114)**	(322)
Profit for the year		**1,386**	2,314
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Revaluation of property, plant and equipment	*8*	**1,716**	-
Deferred tax movements		**(203)**	
Items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences – foreign operations		**2**	10
Total comprehensive income for the year		**2,901**	2,324
Basic profit per share	*5*	**6.7p**	11.5p
Diluted profit per share	*5*	**6.7p**	11.4p

The accompanying notes form an integral part of the financial statements.

Consolidated Statement of Financial Position

	Note	Year ended 28 February 2018 Unaudited £000	Year ended 28 February 2017 Audited £000
Non-current assets			
Property Plant and Equipment	*8*	**10,054**	1,565
Intangible assets	*9*	**6,378**	5,537
		16,432	7,102
Current assets			
Inventories	*10*	**17,055**	11,686
Trade and other receivables	*11*	**2,704**	1,348
Cash and cash equivalents	*12*	**3,540**	3,001
		23,299	16,035
Total assets		**39,731**	23,137
Current liabilities			
Other interest-bearing loans and borrowings	*13*	**(3,914)**	(2,621)
Trade and other payables	*14*	**(10,916)**	(7,379)
		(14,830)	(10,000)
Non-current liabilities			
Other interest-bearing loans and borrowings	*13*	**(4,616)**	(24)
Other payables	*14*	**(751)**	(1,069)
Deferred tax liability		**(649)**	(322)
		(6,016)	(1,415)
Total liabilities		**(20,846)**	(11,415)
Net assets		**18,885**	11,722
Equity			
Share capital	*15*	**2,087**	2,016
Share premium	*15*	**13,055**	8,933
Foreign currency translation reserve	*15*	**12**	10
Revaluation reserve	*15*	**1,424**	-
Retained earnings	*15*	**2,307**	763
Total equity		**18,885**	11,722

The accompanying notes form an integral part of the consolidated financial report.

Company registered number: 07786708

Consolidated Statement of Changes in Equity

	Note	Year ended 28 February 2018 Unaudited £000	Year ended 28 February 2017 Audited £000
Share capital			
Opening		**2,016**	2,016
Issue of share capital		**71**	-
At 28 February 2018	*15*	**2,087**	2,016
Share premium			
Opening		**8,933**	8,933
Issue of shares		**4,278**	-
Share issue costs		**(156)**	-
At 28 February 2018	*15*	**13,055**	8,933
Foreign currency translation reserve			
Opening		**10**	-
Other comprehensive income		**2**	10
At 28 February 2018	*15*	**12**	10
Revaluation reserve			
Opening		**-**	-
Freehold property revaluation		**1,716**	-
Deferred tax movement		**(292)**	-
At 28 February 2018	*15*	**1,424**	-
Retained earnings			
Opening		**763**	(1,590)
Share based payment charge	*16*	**69**	39
Deferred tax prior year adjustment re: share based payments		**89**	-
Profit for the year		**1,386**	2,314
At 28 February 2018	*15*	**2,307**	763
Total equity	*15*	**18,885**	11,722

The accompanying notes form an integral part of the financial statements.

Consolidated Statement of Cash Flows

	Note	Year ended 28 February 2018 Unaudited £000	Year ended 28 February 2017 Audited £000
Cash flows from operating activities			
Profit for the year		**1,386**	2,314
Adjustments for:			
Depreciation and amortisation	*3,8,9*	**1,497**	1,001
Foreign exchange losses		**2**	10
Financial expense	*6*	**196**	47
Loss on sale of property, plant and equipment		**6**	-
Share based payment charge		**69**	39
Taxation	*7*	**114**	322
		3,270	3,733
Increase in trade and other receivables	*11*	**(1,356)**	(608)
Increase in inventories	*10*	**(5,369)**	(4,780)
Increase in trade and other payables	*14*	**3,602**	1,870
		147	215
Tax paid	*7*	**10**	(104)
Net cash from operating activities		**157**	111
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**19**	-
Acquisition of property, plant and equipment	*8*	**(7,443)**	(717)
Capitalised development expenditure	*9*	**(1,693)**	(1,478)
Acquisition of a business	*9*	**(400)**	(100)
Net cash from investing activities		**(9,517)**	(2,295)
Cash flows from financing activities			
Cash from share issue		**4,193**	-
Proceeds from new borrowings		**5,986**	1,878
Interest paid		**(178)**	(47)
Payment of finance lease liabilities		**(102)**	(194)
Net cash from financing activities		**9,899**	1,637
Net increase/(decrease) in cash and cash equivalents		**539**	(547)
Cash and cash equivalents at beginning of year		**3,001**	3,548
Cash and cash equivalents at end of year	*12*	**3,540**	3,001

The accompanying notes form an integral part of the consolidated financial report.

Notes

(forming part of the financial report)

1 General Information and basis of preparation

Gear4music (Holdings) plc is a public limited company, is incorporated and domiciled in the United Kingdom, and is listed on the Alternative Investment Market ('AIM') of the London Stock Exchange.

The group financial statements consolidate those of the Company and its subsidiaries (collectively referred to as the "Group"). The parent company financial statements present information about the Company as a separate entity and not about its group.

The principal activity of the Group is the retail of musical instruments and equipment.

The registered office of Gear4music (Holdings) plc (company number: 07786708), Gear4music Limited (company number: 03113256) and Cagney Limited (dormant subsidiary; company number: 04493300) is Kettlestring Lane, Clifton Moor, York, YO30 4XF.

The Group has two trading European subsidiaries: Gear4music Sweden AB and Gear4music GmbH, and one dormant European subsidiary, Gear4music Norway AS. All three are 100% subsidiaries of Gear4music Limited.

The unaudited financial information has been prepared in accordance with the AIM rules for Companies, and apply the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs') and make amendments where necessary in order to comply with Companies Act 2006.

The Group's accounting policies are set out below and have been applied consistently in the unaudited consolidated financial information.

The financial information set out above does not constitute the company's statutory accounts for the years ended 28 February 2018 or 2017. The financial information for 2017 is derived from the statutory accounts for 2017 which have been delivered to the registrar of companies. The auditor has reported on the 2017 accounts; their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. The statutory accounts for 2018 will be finalised on the basis of the financial information presented by the directors in this preliminary announcement and will be delivered to the registrar of companies in due course.
The financial information contained within this preliminary announcement was approved by the Board on 14 May 2018 and has been agreed with the Company's auditors for release.

Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements which is available on the Group's investor website.

The preliminary announcement will be published on the Company's website. The maintenance and integrity of the website is the responsibility of the directors. The work carried out by the auditors does not involve consideration of these matters. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Accounting period

The financial statements presented cover the years ended 28 February 2018 and 28 February 2017.

Measurement convention

The financial statements have been prepared on the historical cost basis except Land and Buildings that are stated at their fair value.

Going concern

The Group's business activities and position in the market are described in the Strategic Report. The Directors believe that given the Group has significant financial resources and has demonstrated continued strong revenue growth and there is a good level of underlying profitability from operating activities, the Group is well placed to manage its business risks.

The Group's policy is to ensure that it has sufficient facilities to cover its future funding requirements. Short term flexibility is available through trade finance and overdraft facilities. At 28 February 2018 the Group had £3.6m of cash and bank balances and on 10 May 2018 the Group's bankers, HSBC, confirmed that the Group's trade finance and overdraft facilities had been approved for renewal at £6m (FY17: £4m) for a further 12-months. HSBC has confirmed the Group met its banking covenants in FY18.

Having duly considered all of these factors and having reviewed the forecasts for the coming year including the investments outlined in the CEO's statement, the Directors have a reasonable expectation that the Group has adequate resources to continue trading for the foreseeable future, and as such continue to adopt the going concern basis of accounting in preparing the financial statements.

2 Segmental reporting

The Group's revenue and profit was derived from its principal activity which is the sale of musical instruments and equipment.

In accordance with IFRS 8 'Operating segments', the Group has made the following considerations to arrive at the disclosure made in these financial statements. IFRS 8 requires consideration of the 'Chief Operating Decision Maker ('CODM') within the Group. Operating segments have been identified based on the internal reporting information and management structures with the Group. Based on this information it has been noted that the CODM reviews the business as one segment and receives internal information on this basis. Therefore, it has been concluded that there is only one reportable segment.

Revenue by Geography

	Year ended 28 February 2018 Unaudited £000	**Year ended 28 February 2017 Audited £000**
UK	**44,258**	34,865
Europe and Rest of the World	**35,842**	21,263
	80,100	56,128

Administrative expenses by Geography

	Year ended 28 February 2018 Unaudited £000	**Year ended 28 February 2017 Audited £000**
UK	**16,823**	12,050
Europe	**1,535**	479
	18,358	12,529

Revenue by Product category

	Year ended 28 February 2018 Unaudited £000	Year ended 28 February 2017 Audited £000
Other-brand products	**56,075**	39,351
Own-brand products	**20,947**	14,449
Other	**3,078**	2,328
	80,100	56,128

3 Expenses

Included in profit/loss are the following:

	Year ended 28 February 2018 Unaudited £000	Year ended 28 February 2017 Audited £000
Depreciation of tangible fixed assets	**645**	391
Amortisation of intangible assets	**852**	610
Amortisation of government grants	**31**	31
Loss on disposal of property, plant and equipment	**6**	-
Rentals under operating leases – land & buildings	**973**	466
Rentals under operating leases – plant & machinery	**11**	11
Auditor remuneration – audit of financial statements	**50**	40
Auditor remuneration – other	**17**	60

4 Staff numbers and costs

The average number of persons employed (full time equivalents) by the Group (including directors) during the period, analysed by category, was as follows:

	Year ended 28 February 2018 Unaudited No.	Year ended 28 February 2017 Audited No.
Administration	**130**	87
Selling and Distribution	**183**	123
	313	210

The aggregate payroll costs of these persons were as follows:

	Year ended 28 February 2018 Unaudited £000	Year ended 28 February 2017 Audited £000
Wages and salaries	**5,367**	3,808
Equity-settled share-based payments (see note 19)	**69**	39
Cash-settled share-based payments (see note 19)	**8**	57
Social security costs	**701**	333
Contributions to defined contribution plans	**126**	33
Amounts paid to third parties in respect of director's service	-	19
	6,271	4,289

Directors' remuneration

	Year ended 28 February 2018 Unaudited £000	Year ended 28 February 2017 Audited £000
Directors remuneration	**535**	501
Company contributions to money purchase pension schemes	**17**	5
Amounts paid to third parties in respect of directors' service	-	19
	552	525

There are four directors *(2017: 4)* for whom retirement benefits are accruing under a money purchase pension scheme.

The aggregate remuneration of the highest paid director was £200,000 *(2017: £189,000),* including company pension contributions of £3,049 (*2017: £840)* were made to a money purchase scheme on their behalf.

5 Earnings per share

Diluted profit per share is calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on the conversion of all dilutive potential ordinary shares into ordinary shares.

	Year ended 28 February 2018 Unaudited	Year ended 28 February 2017 Audited
Profit attributable to equity shareholders of the parent (£'000)	**1,386**	2,314
Basic weighted average number of shares	**20,713,281**	20,156,339
Dilutive potential ordinary shares	**88,155**	79,288

Diluted weighted average number of shares	**20,801,436**	20,235,627
Basic profit per share	**6.7p**	11.5p
Diluted profit per share	**6.7p**	11.4p

6 Finance income and expense

	Year ended 28 February 2018 Unaudited £000	Year ended 28 February 2017 Audited £000
Finance income		
Net foreign exchange gain	**-**	67
Total finance income	**-**	67
Finance expense		
Bank interest	**169**	29
Finance leases	**9**	18
Net foreign exchange loss	**265**	-
Fair value movement on deferred consideration	**18**	-
Total finance expense	**461**	47

7 Taxation

Recognised in the income statement

	Year ended 28 February 2018 Unaudited £000	Year ended 28 February 2017 Audited £000
Current tax expense		
UK Corporation tax	**4**	104
Overseas Corporation tax	**10**	-
Adjustments for prior periods	**(24)**	-
Current tax expense	**(10)**	104
Deferred tax expense		
Origination and reversal of temporary differences	**79**	203
Deferred tax rate change impact	**-**	(7)
Adjustments for prior periods	**45**	22
Deferred tax expense	**124**	218

Total tax expenses	**114**	322

The corporation tax rate applicable to the Company was 19.08% in the year ended 28 February 2018 and 20% in the year ended 28 February 2017. Reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly. The deferred tax assets and liabilities at 28 February 2018 have been calculated based on these rates.

Reconciliation of effective tax rate

	Year ended 28 February 2018 Unaudited £000	**Year ended 28 February 2017 Audited £000**
Profit for the period	**1,386**	2,314
Total tax charge	**114**	322
Profit excluding taxation	**1,500**	2,636
Current tax at 19.08% (*2017: 20.00%)*		
Tax using the UK corporation tax rate for the relevant period:	**286**	527
Non-deductible expenses	**32**	(189)
Difference between current and deferred tax rates	**(8)**	(38)
Adjustments relating to prior year – deferred tax	**45**	22
Adjustments relating to prior year – current tax	**(24)**	-
R&D claim additional deduction	**(219)**	-
Impact of overseas tax rate	**2**	-
Total tax charge	**114**	322

8 Property, plant and equipment

	Plant and equipment £000	Fixtures and fittings £000	Motor Vehicles £000	Computer equipment £000	Land and Buildings £000	Total £000
Cost						
At 1 March 2016	463	1,464	-	329	-	2,256
Additions	90	443	64	120	-	717
Balance at 28 February 2017 (audited) & 1 March 2017	553	1,907	64	449	-	2,973
Additions	234	1,384	29	162	5,634	7,443
Disposals	-	-	(31)	-	-	(31)
Revaluation	-	-	-	-	1,716	1,716
Balance at 28 February 2018 (unaudited)	**787**	**3,291**	**62**	**611**	**7,350**	**12,101**
Depreciation and impairment						
At 1 March 2016	180	618	-	219	-	1,017
Depreciation charge for the year	113	218	6	54	-	391
Balance at 28 February 2017 (audited) & 1 March 2017	293	836	6	273	-	1,408
Depreciation charge for the period	151	394	15	85	-	645
Disposals	-	-	(6)	-	-	(6)
Balance at 28 February 2018 (unaudited)	**444**	**1,230**	**15**	**358**	**-**	**2,047**
Net book value as at 28 February 2018 (unaudited)	**343**	**2,061**	**47**	**253**	**7,350**	**10,054**
Net book value as at 28 February 2017	260	1,071	58	176	-	1,565

Freehold property revaluation

On 30 June 2017 the Group acquired a freehold office premises at Holgate Park, York for £5.30m. Total amounts capitalised on acquisition totalled £5.63m.

At 28 February 2018 the freehold property has been revalued at market value using information provided by an independent chartered surveyor. The valuation was carried out in accordance with the provisions of RICS Appraisal and Valuation Standards ('The Red Book').

Leased assets

At 28 February 2018, the net carrying amount of leased tangible fixed assets was £98,000 (*2017: £232,000*), and the accumulated depreciation against leased assets was £286,000 *(2017: £265,000)*.

Security

The Group's bank borrowings are secured by fixed and floating charges over the Group's assets.

9 Intangible assets

	Goodwill £000	**Software platform £000**	**Brand £000**	**Total £000**
Cost				
At 1 March 2016	417	3,367	564	4,348
Additions	1,431	1,478	-	2,909
Balance at 28 February 2017 (audited) & 1 March 2017	1,848	4,845	564	7,257
Additions	-	1,693	-	1,693
Balance at 28 February 2018 (unaudited)	**1,848**	**6,538**	**564**	**8,950**
Amortisation				
At 1 March 2016	-	884	226	1,110
Amortisation for the year	-	554	56	610
Balance at 28 February 2017 (audited) & 1 March 2017	-	1,438	282	1,720
Amortisation for the year	-	796	56	852
Balance at 28 February 2018 (unaudited)	**-**	**2,234**	**338**	**2,572**
Net book value as at 28 February 2018 (unaudited)	**1,848**	**4,304**	**226**	**6,378**

The amortisation charge is recognised in Administrative expenses profit and loss account.

	Goodwill £000	Software platform £000	Brand £000	Total £000
Net book value as at 28 February 2017	1,848	3,407	282	5,537

Goodwill

On 19 March 2012 goodwill arose on the acquisition of the entire share capital of Gear4music Limited (formerly known as Red Submarine Limited).

On 1 January 2017 goodwill arose on the acquisition of a software development team from Venditan Limited, the team responsible for the development of the group's proprietary software platform. This transaction is outlined in detail in last year's Annual Report.

Goodwill balances are denominated in Sterling:

	Year ended 28 February 2018 Unaudited £000	Year ended 28 February 2017 Audited £000
Gear4music Limited	**417**	417
Software development team	**1,431**	1,431
	1,848	1,848

Impairment testing

In accordance with IAS 36 Impairment of Assets, the Group reviews the carrying value of its intangible assets. A detailed review was undertaken at 28 February 2018 to assess whether the carrying value of assets was supported by the net present value in use calculations based on cash-flow projections from formally approved budgets and longer-term forecasts.

Intangible assets comprise Goodwill, the Gear4music brand name, and the proprietary software platform.

A Cash Generating Unit ("CGU") is defined as the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups thereof. The Group is deemed to have a single CGU to which the goodwill, the software platform and the brand are allocated. An impairment review has been performed on this CGU. The recoverable amount of this CGU has been determined based on value-in-use calculations. In assessing value in use, a five-year forecast to 28 February 2023 was used to provide cash-flow projections that have been discounted at a pre-tax discount rate of 10%. The cash flow projections are subject to key assumptions in respect of revenue growth, gross margin performance, overhead expenditure, and capital expenditure. Management has reviewed and approved the assumptions inherent in the model:

- Revenue forecasts based on growth by geographical market, at a range of growth levels based on market size and estimate of opportunity, trends, specific projects underway, and Management's experience and expectation.
- Product costs are assumed to be broadly flat and gross margins are forecast to improve from FY18 toward those achieved in FY17.
- Wage increases are a function of recruitment and a person-by-person review of current staff, with a range of % increases.

No impairment loss was identified in the current year (FY17: £nil). The valuation indicates significant headroom and therefore a terminal growth rate assumption has not been needed to be applied in order to support the valuation of this CGU. Any reasonably possible change in other key assumptions, including the discount rate, would not result in an impairment of the related goodwill or other intangible assets.

10 Inventories

	Year ended 28 February 2018 Unaudited £000	Year ended 28 February 2017 Audited £000
Finished goods	**17,055**	11,686

The cost of inventories recognised as an expense and included in cost of sales in the period amounted to £55.7m (£38.0m in the year ended 28 February 2017).

Management has included a provision of £79,879 *(28 February 2017: £69,500)*, representing a 100% against returns stock subsequently found to be faulty, that is retained to be used for spare parts on the basis there is no direct NRV value, and a provision based on the expected product loss on dealing with returns stock.

11 Trade and other receivables

	Year ended 28 February 2018 Unaudited £000	Year ended 28 February 2017 Audited £000
Trade receivables	**1,645**	1,123
Prepayments	**1,059**	225
	2,704	1,348

Trade receivables includes cash lodged with payment providers, Amazon and the Group's consumer finance partner, and UK and International education and trade accounts where standard credit terms are 30-days.

12 Cash and cash equivalents

	Year ended 28 February 2018 Unaudited £000	Year ended 28 February 2017 Audited £000
Cash and cash equivalents per balance sheet	**3,540**	3,001
Cash and cash equivalents per cash flow statements	**3,540**	3,001

13 Other interest-bearing loans and borrowings

This note contains information about the Group's interest-bearing loans and borrowing which are carried at amortised cost.

	Year ended 28 February 2018 Unaudited £000	Year ended 28 February 2017 Audited £000
Non-current liabilities		
Bank loans	**4,616**	-
Finance lease liabilities	**-**	24
	4,616	24
Current liabilities		
Bank loans	**3,890**	2,520
Finance lease liabilities	**23**	101
	3,913	2,621
Total liabilities		
Bank loans	**8,506**	2,520
Finance lease liabilities	**23**	125
	8,529	2,645

Bank loans comprise a Trade Finance facility, and term loans all provided by the Group's bankers, HSBC, and are secured against the by fixed and floating charges over the Group's assets.

The interest rate on 180-day import loans drawn under the Trade Finance agreement is 2.45% per annum over HSBC's Sterling Base Rate, and on an overdraft if and when drawn, is 3.25% over base. Interest on import loans is paid at the maturity of the relevant loan. Interest on an overdraft would be paid monthly in arrears. Trade finance and overdraft facilities were approved for renewal on 10 May 2018 for a 12-month period.

There are two term loans that were drawn around the time of the freehold property acquisition in June 2017:

- The first loan was for £3,727,500 equating to a 70% LTV against the property valuation and is a five-year loan with capital repayments scheduled over 20-years, and interest is 2.04% over LIBOR; and
- The second loan was for £1,797,500 and is a five-year loan with interest of 2.85% over LIBOR

All borrowings are denominated in Sterling.

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments At 28 February 2018 Unaudited £000	Interest At 28 February 2018 Unaudited £000	Principal At 28 February 2018 Unaudited £000

Less than one year	**24**	**1**	**23**
Between one and five years	**-**	**-**	**-**
	24	**1**	**23**

	Minimum lease payments At 28 February 2017 Audited £000	Interest At 28 February 2017 Audited £000	Principal At 28 February 2017 Audited £000
Less than one year	106	5	101
Between one and five years	24	-	24
	130	5	125

Finance leases relate to assets located at the Distribution Centre in York, with net book values of £98,000 *(28 February 2017: £232,000).*

14 Trade and other payables

	Year ended 28 February 2018 Unaudited £000	Year ended 28 February 2017 Audited £000
Current		
Trade payables	**7,325**	4,970
Accruals and deferred income	**1,456**	1,151
Deferred consideration	**393**	393
Government grants	**35**	28
Other taxation and social security	**1,707**	837
	10,916	7,379
Non-current		
Accruals and deferred income	**169**	100
Deferred consideration	**555**	938
Government grants	**27**	31
	751	1,069

Accruals at 28 February 2018 include:

- £446,000 *(2017: £630,000)* of rent accrued but not paid, being the difference in cash paid and the average rent charge as expensed, as per the commercial agreement reached with the landlord of the leasehold distribution centre at Clifton Moor, York. On 21 March 2018 the Group entered into a new 15-year lease with a 10-year clean break clause and as such this accrual will be released in full in FY19; and

- £161,000 accrual (*2017: £100,000*) relating to the estimated cash bonuses accrued relating to the Employee and Director EMI schemes, and Director Cash Plan (see note 16).

Deferred consideration is due in relation to the acquisition of the software development team in January 2017 and comprises ten quarterly instalments of £100,000 payable on 1st of January/April/July/October. These amounts are valued in the accounts at fair value and subsequently amortised.

Government grants are being spread over the useful economic life of the associated asset, relate to Regional Growth Fund and Leeds City Enterprise Partnership grants towards the acquisition of various capital items. Grant conditions exist linked to job creation, and these criteria have been satisfied.

Deferred consideration is valued at fair value. The Directors consider the carrying amount of other 'trade and other payables' to approximate their fair value.

15 Share capital and reserves

Share capital	Year ended 28 February 2018 Unaudited Number	Year ended 28 February 2017 Audited Number
Authorised, called up and fully paid:		
Ordinary shares of 10p each	**20,867,121**	20,156,339

The Company has one class of ordinary share and each share carries one vote and ranks equally with the other ordinary shares in all respects including as to dividends and other distributions.

On 18 May 2017, the Company completed the placing of 610,000 new Ordinary Shares at a price of 690 pence per share, raising £4,209,000 in gross proceeds (£4,064,730 net proceeds). The Company also issued 100,782 new Ordinary Shares pursuant to the full exercise of a warrant instrument and received a further £140,087 in gross proceeds (£125,887 net proceeds). A total 710,782 new Ordinary Shares were admitted on 24 May 2017 taking the number of Ordinary Shares in issue from 20,156,339 to 20,867,121, representing dilution of 3.5%.

Share premium

	Year ended 28 February 2018 Unaudited £'000	Year ended 28 February 2017 Audited £'000
Opening at 1 March	**8,933**	8,933
Issue of shares	**4,278**	-
Share issue costs	**(156)**	-
Closing at 28 February	**13,055**	8,933

Foreign currency translation reserve

	Year ended 28 February 2018 Unaudited £'000	Year ended 28 February 2017 Audited £'000

Opening at 1 March	**10**	-
Translation gain	**2**	10
Closing at 28 February	**12**	10

Revaluation reserve

	Year ended 28 February 2018 Unaudited £'000	Year ended 28 February 2017 Audited £'000
Opening	**-**	-
Freehold property revaluation	**1,716**	-
Deferred tax	**(292)**	-
Closing at 28 February	**1,424**	-

The revaluation reserve represents the unrealised gain generated on revaluation of the freehold office property on 28 February 2018. It represents the excess of the fair value over deemed cost.

Retained earnings

	Year ended 28 February 2018 Unaudited £'000	Year ended 28 February 2017 Audited £'000
Opening at 1 March	**763**	(1,590)
Share based payment charge	**69**	39
Deferred tax	**89**	-
Profit for the year	**1,386**	2,314
Closing at 28 February	**2,307**	763

Reserve	**Description and purpose**
Retained earnings	Cumulative net profits recognised in the consolidated income statement.

16 Share based payments

There are four incentive schemes in place (2017: three):

- an Employees EMI scheme;
- a Directors EMI scheme relevant to Chris Scott and Gareth Bevan;
- two Directors cash bonus plans relevant to Andrew Wass who, by virtue of his 34% shareholding, is cash rather than equity rewarded; and
- and a CSOP scheme set-up in the financial year as, by virtue of its size, the Group was no longer eligible for EMI.

The equity settled share option plans are for qualifying employees of the Group, and options are settled in equity in the Company and subject to vesting conditions.

All equity-settled share options have an exercise price equal to the nominal value of the shares (10p) that the Company will subsidise by way of a bonus provided there are sufficient distributable reserves, and subject to certain conditions will vest on the third anniversary of the date of grant for initial awards on IPO, and the second anniversary thereafter.

The fair value of the cash-settled liability is re-measured at each balance sheet date and settlement date.

Employee EMI Plan

The Board has responsibility for the operation of the Employee EMI Plan and may grant share options over shares to eligible employees. The Board has discretion to select participants in the Employee EMI Plan from eligible employees of the Group. Eligible employees will generally have been employed by the Group for more than three years at the time of award but could be a shorter period at the discretion of the Board.

Awards under the Employee EMI plan awards are only subject to service conditions.

Subject to continued employment, awards will normally be deemed to have been exercised at the end of the relevant vesting period.

Awards will be satisfied by the issue of new shares. The Company will grant a cash bonus to option holders in the month of exercise, the net value of which will be equivalent to the income tax, employee national insurance and the exercise price arising in relation to the awards.

Director EMI Plan

The Remuneration Committee has responsibility for the operation of the Director EMI Plan and may grant share options over shares to eligible employees and retains discretion as to the operation of the plan.

Executive Directors of the Company are eligible to participate in the Director EMI Plan. Participation is at the discretion of the Remuneration Committee.

Awards under the Director EMI may be exercisable at the end of the vesting period subject to meeting EPS-based targets between the date of grant and vest, and subject to service conditions.

Awards will be satisfied by the issue of new shares. The Company will grant a cash bonus to option holders in the month of exercise, the net value of which will be equivalent to the income tax, employee national insurance and the exercise price arising in relation to the awards.

Director Cash Plans

The Remuneration Committee has responsibility for the operation of the Director Cash Plan and may grant cash bonus awards over shares to eligible employees and retains discretion as to the operation of the plan.

Executive Directors of the Company are eligible to participate in the Director EMI Plan. An executive director who participates in the Director EMI Plan is not eligible to participate in the Director Cash Plan. Participation is at the discretion of the Remuneration Committee.

Awards under the Cash plan are subject to performance conditions. Awards will be exercisable at the end of the relevant vesting period subject to EPS-based performance conditions and continued employment.

Awards will be settled in cash.

CSOP

The Board has responsibility for matters relating to Employee members of the Plan and may grant share options over shares to eligible employees. Eligible employees will generally have been employed by the Group for more than three years at the time of award but could be a shorter period at the discretion of the Board. The Board has discretion to select participants from eligible employees of the Group.

The Remuneration Committee has responsibility for matters relating to Director members of the Plan and may grant share options over shares to eligible employees and retains discretion as to the operation of the plan. Executive Directors of the Company are eligible to participate in the Plan. Participation is at the discretion of the Remuneration Committee.

Employee awards under the CSOP plan awards are only subject to service conditions. Directors awards are subject to meeting EPS-based targets between the date of grant and vest, and subject to service conditions.

Subject to continued employment, awards will normally be deemed to have been exercised at the end of the relevant three-year vesting period.

Awards will be satisfied by the issue of new shares. The Company will grant a cash bonus to option holders in the month of exercise, the net value of which will be equivalent to the income tax, employee national insurance and the exercise price arising in relation to the awards.

The terms and conditions of specific grants are as follows:

Grant date / employees entitled	Method of settlement accounting	Number of Instruments	Vesting conditions	Contractual life of options
Employee EMI Award 1 - Equity settled award to eight key employees on IPO, granted by parent on 3 June 2015	Equity	23,383	Continued employment	3 June 2018
Employee EMI Award 2 - Equity settled award to one key employee, granted by parent on 17 February 2016	Equity	1,845	Continued employment	17 February 2018
Employee EMI Award 3 - Equity settled award to two key employees, granted by parent on 26 May 2016	Equity	9,433	Continued employment	26 May 2018
Employee EMI Award 4 - Equity settled award to 44 employees on IPO, granted by parent on 31 May 2016	Equity	Initially 27,406; 3,816 forfeit; now 23,590	Continued employment	31 May 2018
Director EMI Award 1a - Equity settled award to Chris Scott and Gareth Bevan, granted by parent on 31 May 2016	Equity	19,956	EPS-based performance criteria and Continued employment	31 May 2018
Director Award 1b – Cash settled award to Andrew Wass, granted by parent on 31 May 2016	Cash	Cash equivalent to monetary result for the other directors	EPS-based performance criteria and Continued employment	31 May 2018
Employee CSOP Award 5 - Equity settled award to 75 employees on IPO, granted by parent on 30 June 2017	Equity	Initially 7,248; 390 forfeit; now 6,858	Continued employment	30 June 2020
Senior Mgmt. CSOP Award 2a - Equity settled award to Chris Scott and Gareth Bevan and two others, granted by parent on 30 June 2017	Equity	7,212	EPS-based performance criteria and Continued employment	30 June 2020

Director Award 2b – Cash settled award to Andrew Wass, granted by parent on 30 June 2017	Cash	Cash equivalent to monetary result for the other directors	EPS-based performance criteria and Continued employment	30 June 2020

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price Unaudited 2018	**Number of options Unaudited 2018**	**Weighted average exercise price Unaudited** 2017	**Number of options Unaudited** 2017
Outstanding at the beginning of the year	**Nil**	**79,226**	Nil	25,226
Forfeited during the year	**Nil**	**(1,409)**	Nil	(2,795)
Exercised during the year	**-**	**-**	-	-
Granted during the year	**Nil**	**14,460**	Nil	56,795
Lapsed during the year	**-**	**-**	-	-
Outstanding at the end of the year	**Nil**	**92,277**	Nil	79,226
Exercisable at the end of the year	**-**	**1,845**	-	-

No share options were exercised in the year. The first award was eligible for exercise is on 17 February 2018 and awards totalling 76,362 are eligible for exercise in May-June 2018. The options outstanding at the year-end have a nil exercise price and a weighted average contractual life of 0.57 years (28 February 2017: 1.25 years).

The fair values of employee share options were calculated using a Black-Scholes model along with the assumptions detailed below:

Date of grant	**Share price on date of grant (pence)**	**Exercise price (pence)**	**Volatility (%)**	**Vesting period (yrs)**	**Dividend yield (%)**	**Risk free rate of interest (%)**	**Fair value (pence)**
3 Jun 2015	143.0	0.0	1%	3	0%	0.70%	**143.0**
17 Feb 2016	135.0	0.0	1%	2	0%	0.70%	**135.0**
26 May 2016	132.5	0.0	11.8%	2	0%	0.45%	**132.5**
31 May 2016	132.5	0.0	11.8%	2	0%	0.43%	**132.5**
31 May 2016	132.5	0.0	11.8%	2	0%	0.43%	**132.5**
30 June 2017	720.0	0.0	52.6%	3	0%	0.43%	**720.0**
30 June 2017	720.0	0.0	52.6%	3	0%	0.43%	**720.0**

The expected volatility is wholly based on the historic volatility (calculated based on the weighted average remaining life of the share options). The total expenses recognised for the year and the total liabilities recognised at the end of the year arising from share-based payments are as follows:

	2018 Unaudited £000	**2017 Audited £000**
Equity settled share-based payment expense	**69**	39
Cash-settled share-based payment expense	**8**	57
	77	96
Opening at 1 March	**104**	8

Recognised in equity	**116**	47
Recognised as a liability	**65**	57
	181	104

17 Commitments

Operating lease commitment

Non-cancellable operating lease rentals are payable as follows:

	Year ended 28 February 2018 Unaudited £000	Year ended 28 February 2017 Audited £000
Less than one year	**1,112**	887
Between one and five years	**4,635**	3,103
More than five years	**-**	-
	5,747	3,990

Operating lease commitments relates to property leases of the Distribution Centre in York, the Software Development office in Manchester, and Distribution Centres in Sweden and Germany.

The lease on the York Distribution was scheduled to end on 22 June 2020. On 21 March 2018 the Group entered into a new 15-year lease with a 10-year clean break clause.

18 Related parties

In FY18 79 employees including Chris Scott and Gareth Bevan were granted a total of 14,460 equity-settled share options (2017: 56,795 options to 48 employees), and Andrew Wass was awarded a cash-settled option (see note 16).

Transactions with key management personnel

The compensation of key management personnel is as follows:

	Year ended 28 February 2018 Unaudited £000	Year ended 28 February 2017 Audited £000
Key management emoluments including social security costs	**503**	470
Company contributions to money purchase pension plans	**17**	5
	520	475

Key management personnel comprise the Chairman, CEO, CFO and CCO. All transactions with key management personnel have been made on an arms-length basis.

Four directors are accruing retirement benefits under a money purchase scheme *(2017: 4)*.