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Gear4music (Holdings) PLC
09 May 2017

9 May 2017

Gear4music (Holdings) plc
Preliminary unaudited results for the year ended 28 February 2017

A transformational year, with record growth in sales and profits

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 2017.

Highlights:

£'000	12 months ended 28 February 2017	12 months ended 29 February 2016	Change
Revenue	56,128	35,489	+58%
Gross profit	15,145	9,186	+65%
Underlying EBITDA	3,617	1,681	+115%
Underlying operating profit	2,616	895	+192%
Pre-tax profit	2,636	6	

- Strong revenue growth across the business, particularly in International markets (+124%)
- Record profits driven by improved margin performance
- Active customers up 50% to 340,000
- Opened Distribution Centres in Sweden and Germany to enhance European customer proposition
- Acquisition of software development team to accelerate e-commerce platform development

Post-period Strategic Developments:

- The Group has exchanged contracts to acquire a 50,000 sq. ft. freehold property at Holgate Park in York for £5.3 million
- Completion scheduled for 30 June 2017 and will become the Group's long-term head office, providing capacity for further expansion as required
- The Purchase will be entirely debt-funded

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

"This has been a transformational year for the business, with further expansion of the Gear4music brand driving record sales and profits.

"In particular we have seen significant expansion in our International business where sales have been very strong. We have therefore accelerated investment in our European infrastructure to improve our customer proposition and reach, most notably through the opening of two new distribution hubs in Sweden and Germany.

"Our growth has been underpinned by the quality of our bespoke e-commerce platform and we continue to drive innovation in this area to further improve our systems and websites, both in the UK and overseas.

"We begin our current financial year with good momentum and continued appetite from customers around the world for our market leading service and product offering. We are well positioned to deliver further growth and have plans in place to continue investing in our operational facilities and systems to support our growth plans. The next 12 months will be exciting as we move into our new head office in York, scale up our European operations, and enhance our worldwide proposition, and we remain confident in the long-term growth prospects for the Group."

ENDS

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About Gear4music.com
Operating from a Head Office in York, showrooms in York and Sweden, and Distribution Centres in York, Sweden and Germany, the Group sells Own-brand musical instruments and music equipment alongside premium third party brands including Fender, Yamaha and Gibson, 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 covering 19 countries, the Group has rapidly expanded its database and continues to build its overseas presence.

Chairman's statement

On behalf of the Board I am very pleased to report excellent progress in pursuit of our ambition to become a leading global retailer of musical instruments and equipment.

When writing this statement last year, our revenue growth expectation for the year ahead was 37%, and the 58% growth we actually achieved reflects the huge effort made by our staff right across the business, from the Board of Directors and senior management, through to our customer service and warehouse teams.

International growth of 124% has been particularly pleasing, and this is an area in which we will continue to invest significant effort and resource to improve and increase our global reach, building on the early success of our recently launched Swedish and German distribution operations.

Notwithstanding the investment necessary for our next phase of expansion, the Board remains focused on delivering profitable growth, and as such is pleased to announce an operating profit of £2.6m which is a £1.7m (+192%) improvement on FY16's underlying operating profit (adjusted to remove one-off IPO costs). This translates into net profit of £2.3m and earnings per share of 11.5p.

In many ways, this has been a transformational year for the business, and to effectively manage further growth and operational complexities the Group formed an Operational Board on 1 March 2017 to support and complement the plc Board, comprising a wide breadth and depth of operational and commercial experience.

To ensure we remain positioned for further growth, the Group requires additional head office capacity, and the Board is delighted to announce a property acquisition that provides an excellent long-term solution to our growth needs in our home city of York.

In 2012, private equity firm Key Capital Partners invested in the business, and in October 2016 sold its final shareholding. On behalf of the Board I would like to thank them and Peter Armitage, who represented Key Capital on our Board, for their efforts and support over the last four years. I'm also delighted to welcome new institutions and individuals onto our share register as we embark on the next chapter in the Gear4music growth story.

Given the investments scheduled for the current year to support continued growth, the Board has decided not to declare a dividend for FY17, but will review its dividend policy again in the next financial year.

Finally, I would like to express my sincere thanks and appreciation to the extended Gear4music team for their commitment and hard work. It is their passion and knowledge that provides such strong proposition for our customers and has helped to make our second year as a public company such a success.

Ken Ford
Chairman

Chief Executive's Statement

Introduction

When we joined AIM in June 2015, we were very confident that, with continued targeted investment of the funds raised from our IPO, we could build on the £24m revenues we had achieved in FY15, by improving our customer proposition through strategic investment into staff, systems, inventory and marketing, and expanding our presence in Europe. I am thrilled that we have surpassed those expectations, having more than doubled our revenues to £56m, whilst increasing profitability to an all-time high.

Business Review

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

Financial KPIs	FY17	FY16

Revenue (note 2)	**£56.1m**	**£35.5m (+58%)**
UK Revenue (note 2)	**£34.8m**	**£26.0m (+34%)**
International Revenue (note 2)	**£21.3m**	**£9.5m (+124%)**
EBITDA *	**£3.6m**	**£1.1m (+236%)**
Underlying EBITDA *	**£3.6m**	**£1.7m (+112%)**
Operating profit *	**£2.6m**	**£0.3m**
Underlying operating profit *	**£2.6m**	**£0.9m (+192%)**
Cash at year end	£3.0m	£3.5m (-14%)

Commercial KPIs	**FY17**	**FY16**
Website visitors	**12.6m**	**10.1m**
Conversion rate	**2.75%**	**2.28%**
Average order value	**£124**	**£116**
Active customers	**340,000**	**226,000**
Products listed	**37,100**	**31,500**

** Underlying profit measures for FY16 are shown before £0.6m of IPO related costs - see note 3 for reconciliation to IFRS profit measures*

These results have been delivered by the successful execution of the Group's strategy, and continued investment in our platform, people and operations, with much more to come.

Investing for the future

Our recent focus has been on improving our customer proposition alongside removing the next layer of barriers to growth, by ensuring our operational facilities and systems can support our medium and long-term ambitions.

Office space

Our staff are central to our success, and in order to build our teams and support the expansion of the business, we have an immediate requirement for additional UK office space. As such we are very pleased to announce the £5.3m freehold acquisition of a 50,000 sq ft property at Holgate Park in York, which will become our long-term UK headquarters. The new site will provide the flexibility and capacity we require for ongoing growth, whilst causing minimal upheaval for existing staff.

The acquisition will be 100% debt funded with new debt facilities, providing significant cost savings when compared with leasing an equivalent building (should one have been available), and allowing for further expansion as required. To ease the transitional impact as we grow into the property, we have agreed a short-term lease-back arrangement with the vendor CPPGroup Plc for half of the building and the Board expects this will cover our interest costs for the first 12 months following completion on 30 June 2017.

The estimated financial impact has been considered in more detail in the Chief Financial Officer's report.

Distribution Expansion

Vacating our current office will increase our space for UK warehousing related activities, enabling the business to continue to extract good value from the existing site until the lease expires in June 2020.

A core part of our growth strategy has been to invest in expanding our presence and further enhancing the customer service proposition in Europe. Having delivered 124% growth in European revenues during the year, now representing 38% of the Group's revenue, we remain committed to continued investment, thereby underlining our confidence in the region's long term strategic value to the Group in helping us to build scale and shareholder value.

Our Swedish distribution centre became operational in November 2016, and I am pleased to report is performing well. We have successfully reduced our delivery timescales across Scandinavia and reduced our courier costs across a wide range of products, improving the overall customer offer. Our German distribution centre began dispatching orders at the end of February 2017, and will be scaled up throughout the year to enhance our proposition across central Europe, whilst providing additional distribution capacity.

Showrooms

On 8 May 2017 we opened a showroom attached to our Swedish distribution centre, and in addition to serving the local Stockholm market, it is already helping us to secure new procurement opportunities. For example, we have recently been appointed as the Scandinavian distributer for Behringer, one of the world's largest music equipment brands. We expect to open our German showroom by Autumn 2017.

Systems development

The acquisition of our software development team completed on 1 January 2017, and is already allowing us to achieve more, react faster to developing trends, and further scale our systems to ensure our growth is underpinned by a robust, class leading e-commerce platform.

Examples of new features deployed during FY17 include the integration of multiple hubs across many countries to automatically select the most appropriate dispatch location, international 'click & collect', shopping basket and checkout enhancements, mobile website improvements, and website cloudification. Our objective is continual innovation, and we have a pipeline of new features and upgrades to deploy during the next 12 months.

International expansion

In addition to launching our European distribution network, we have enabled delivery to another 150 countries during the last year, and whilst at the early stages of development, it is clear our business model is relevant to customers all around the world. As the year progresses we will develop our world-wide proposition and increase our international presence wherever there is an opportunity.

Product range extension

Own-brand products continue to be a key component of our success and I am extremely pleased with the progress we have made, adding new products and building on existing ranges to increase our own-brand revenue by 58% during the year to £14.5m.

Across all our ranges we currently list more than 37,000 products, up 37% since IPO, but still see opportunities to grow this significantly and will achieve this by further expanding our team of specialist buyers.

Intelligent marketing

With in excess of 12 million website visitors, conversion rates improving by 47 bps, active customer numbers increasing to more than 339,000, and 39% growth in repeat customers than a year earlier, our marketing strategy has been highly effective.

However, there is much more to achieve and our focus for the year ahead will be on improving our social media activities, particularly on mobile, and delivering a more personalised experience for our existing customers and website visitors.

Current trading and outlook

We have a strong record of targeted investment driving growth and shareholder returns. Our momentum across the Group, but particularly in Europe, gives us the confidence to accelerate investment in infrastructure in order to scale-up further. The associated additional investment of c.£1 million will mean profitability will be more H2 weighted for the current financial year. The business continues to trade in line with our expectations and our current investment strategy reinforces the confidence we have in our prospects for this year and beyond.

Andrew Wass
Chief Executive Officer

Chief Financial Officer's statement

Overview

The Group has delivered another strong financial performance, with underlying operating profit of £2.62m being £1.72m ahead of FY16. Profit growth has been achieved while the Group has continued to invest in people and operations, including the part-year cost of the Swedish and German Distribution Centres that are expected to generate tangible returns from the second half of this year.

Revenue

	FY17	FY16	Change
	£000	£000	%
UK Revenue	**34,865**	26,016	34%
International Revenue	**21,263**	9,473	124%
Revenue	**56,128**	**35,489**	**58%**

Revenue increased by £20.6m (58%) on FY16, building on growth of 46% and 37% in the previous two years. Revenue growth was 73% in the first half of the year and 50% in the second half when growth began to be measured against H2 FY16 revenue growth, by which time the IPO-growth capital deployed in the business was having a positive impact. As such the Board also monitors two-year revenue growth and going forward will report on this metric. Revenue growth from FY15 to FY17 was 132% compared to 100% between FY14 and FY16.

Growth in the well-established UK market continues to be strong at 34% (FY16: 39%) but was out-stripped by international growth which increased 124% and accounted for 38% of Group revenues compared to 27% in FY16 and 23% in FY15. In FY17 the Group began shipping outside of Europe as part of our plans to identify potential areas of new opportunity, with these revenues accounting for less than 0.5% of total revenue.

The UK's EU Referendum vote and subsequent weakening of sterling created currency-related revenue and margin opportunities as our products became cheaper in Europe, although our European revenue had already grown at 138% over the first four months of FY17 that preceded the vote.

	FY17	FY16	Change
	£000	£000	%
Other-brand product revenue	**39,351**	24,842	58%
Own-brand product revenue	**14,449**	9,164	58%
Other revenue	**2,328**	1,483	57%
Revenue	**56,128**	**35,489**	**58%**

We are particularly pleased with the progress made in our own-brand business. Sourcing own-brand products takes time and the opportunity was highlighted as a medium-term aspiration upon IPO, so it is reassuring to see revenue growth catch up and match the growth in other-branded product revenue. Own-brand revenue growth has increased from 27% in FY15, to 33% in FY16, and 58% this year, and the proportion of revenue that came from own-brand products in FY17 was flat at 25.7% (FY16: 25.8%).

Other revenue comprises carriage income, warranty revenue, and commissions earned on facilitating point-of-sales credit for retail customers.

Gross profit

	FY17	FY16	Change
	£000	£000	%
Gross profit	**15,145**	9,186	**+65%**
Gross margin (%)	**27.0%**	25.9%	**+1.1ppts**

The strong revenue performance contributed to a £6.0m gross profit increase on last year, with the gross margin improving from 25.9% to 27.0%, buoyed by improved own-brand product revenue growth and exchange rate fluctuations creating pricing and margin opportunities.

Some product-intake prices increased during FY17 due to the weakening of sterling relative to the US$. However strong revenue growth enabled further negotiations with suppliers and the leveraging of economies of scale to reduce the impact. Other-branded products are predominantly purchased in sterling and are therefore less affected by fluctuations in exchange rates.

Local Distribution Centres will reduce delivery costs to customers in those home countries and adjacent territories, although reinvestment in our customer proposition will mean these savings will be largely passed on to the customer.

Administrative expenses and Operating profit

	FY17	FY16	Change
	£000	£000	%
Recurring Administrative expenses	**(12,529)**	(8,291)	(51%)
Exceptional Administrative expenses	**-**	(606)	
Reported Operating profit	**2,616**	289	805%
Underlying Operating profit	**2,616**	**895**	**192%**

Recurring administrative expenses increased 51% compared to the 58% increase in revenue as the Group invested in European Distribution Centres and its people. These investments are central to delivering the Group's strategy and critical to medium and long term prospects. As referred to in the Chief Executive's statement, there will be an initial 'overhead investment' phase involving upfront additional costs being incurred that take time to generate added value. These costs will be evident in H1 FY18.

Marketing costs in FY17 increased 51% on FY16 to £4.66m (FY16: £3.08m) compared with the 58% increase in revenue. This includes investment into European markets to build brand recognition where the return is lower than in the UK. Marketing expenses as a percentage of revenue reduced from 8.7% to 8.3%.

In FY17 labour costs increased 55% to £4.29m (FY16: £2.77m) as headcount increased to support current and future growth, with investment across the central functions, in Europe, and in senior management appointments. Total labour costs as a percentage of revenue reduced from 7.8% to 7.6% and this will increase in H1 FY18 based on current labour cost run rates.

The European Distribution Centres incurred £0.48m of costs expensed as they became operational part-way through the year and began to scale up. The full year cost effect of these investments and associated benefits will be evident in FY18.

FY17 underlying EBITDA of £3.62m equates to 6.4% of total revenue, compared to 4.7% last year. Exceptional administrative expenses of £606,000 in FY16 related to costs incurred in relation to the IPO, and as such did not repeat in FY17.

Financial expenses in FY16 included £233,000 of interest on private-equity loan notes that were settled in full on IPO in June 2015.

Reported PBT performance improved from break-even last year to a £2.64m profit this year, which translates into an EPS of 11.5p (diluted EPS of 11.4p).

Cash-flow and net debt

The cash flow statement for the financial year reflects the Group continuing to deploy the growth capital raised on IPO to generate returns by investing in stock and the ecommerce platform to improve the customer proposition and drive revenue.

	FY17	FY16
	£000	£000
Opening cash	**3,548**	916
Profit/(loss) post exceptional expenses	**2,314**	(43)
Movement in working capital	**(3,518)**	(1,416)
Depreciation and amortisation	**1,001**	786
Financial expense	**47**	280
Other operating adjustments	**267**	58
Net cash from operating activities:	**111**	(335)
Net cash from investing activities:	**(2,295)**	(1,509)
Net cash from financing activities:	**1,637**	4,476
(Decrease)/increase in cash in the year	**(547)**	2,632
Closing cash	**3,001**	3,548

The business generated a good level of trading cash in the year and actively invested in working capital. Stock increased by £4.8m (69%) to fuel revenue growth and leverage buying economies of scale, whilst continuing to take all available supplier early-payment discounts. This was partly funded by a £2.5m increase in stock-loans and a £933,000 increase in trade payables.

Net cash from investing activities includes a £1.48m investment in the Group's software platform and £711,000 of capital expenditure on warehouse assets and improvements, mainly in Europe. No finance leases were drawn against any of this expenditure, and £194,000 finance lease capital was repaid.

Cash from financing activities includes a £1.9m net increase in stock finance drawn against own-brand stock.

Balance sheet and net assets

The Group had a strong year-end balance sheet, with net assets of £11.7m (FY16: £9.4m), and £3.0m cash (FY16: £3.5m).

	FY17	FY16
	£000	£000
Software platform	**3,407**	2,483
Other intangible assets	**2,130**	755
Property, plant and equipment	**1,565**	1,239
Total non-current assets	**7,102**	4,477
Stock	**11,686**	6,906
Cash	**3,001**	3,548
Other current assets	**1,348**	740

Total current assets	**16,035**	11,194
Trade payables	**(4,651)**	(3,718)
Deferred consideration	**(1,331)**	-
Other current liabilities	**(4,018)**	(2,304)
Total current liabilities	**(10,000)**	(6,022)
Total non-current liabilities	**(1,415)**	(290)
Net assets	**11,722**	**9,359**

The investment in the software platform in the year was £1.48m (FY16: £0.93m) to further develop functionality and resilience. This takes total cumulative spend on the platform to the end of the year to £4.8m.

The Group had net cash (being cash less bank debt and finance lease liabilities) of £0.36m compared to £2.59m at last financial year end, as the business invested in stock and fixed assets.

Non-adjusting event after the reporting period

On 8 May 2017 the Group exchanged contracts to acquire the freehold of a 50,000 sq ft property at Holgate Park in York, with completion agreed for 30 June 2017. The purchase price is £5.3m with 70% of the price funded by a mortgage at 2.04% above LIBOR on an initial 5-year term. A second 5-year term loan will be drawn for £1.8m at 2.85% above LIBOR.

Dividends

The Board remains confident in the cash generative nature of the core business, but in light of the debt-financed acquisition of the freehold head office premises and other planned investments to support future growth, the Board does not consider it appropriate to declare a dividend at this time. However the Board will review the shareholder distribution policy during the financial year ending 28 February 2018.

Chris Scott
Chief Financial Officer

Consolidated Statement of Profit and Loss and Other Comprehensive Income

	Note	**Year ended 28 February 2017 Unaudited £000**	**Year ended 29 February 2016 Audited £000**
Revenue	*2*	**56,128**	35,489
Cost of sales		**(40,983)**	(26,303)
Gross profit		**15,145**	9,186
Administrative expenses before exceptional items	*3,4*	**(12,529)**	(8,291)
Administrative expenses - exceptional items	*3,4*	**-**	(606)
Administrative expenses	*3,4*	**(12,529)**	(8,897)
Operating profit	*3*	**2,616**	289
Financial income	*6*	**67**	-
Financial expense	*6*	**(47)**	(283)
Profit before tax		**2,636**	6
Taxation	*7*	**(322)**	(49)
Profit/(loss) for the year		**2,314**	(43)
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences - foreign operations		**10**	-
Total comprehensive income for the year		**2,324**	(43)
Basic profit/(loss) per share	*5*	**11.5p**	(0.2p)
Diluted profit/(loss) per share	*5*	**11.4p**	(0.2p)

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

Consolidated Statement of Financial Position

	Note	Year ended 28 February 2017 Unaudited £000	Year ended 29 February 2016 Audited £000
Non-current assets			
Property Plant and Equipment	*8*	**1,565**	1,239
Intangible assets	*9*	**5,537**	3,238
		7,102	4,477
Current assets			
Inventories	*10*	**11,686**	6,906
Trade and other receivables	*11*	**1,348**	740
Cash and cash equivalents	*12*	**3,001**	3,548
		16,035	11,194
Total assets		**23,137**	15,671
Current liabilities			
Other interest bearing loans and borrowings	*13*	**(2,621)**	(834)
Trade and other payables	*14*	**(7,379)**	(5,188)
		(10,000)	(6,022)
Non-current liabilities			
Other interest-bearing loans and borrowings	*13*	**(24)**	(127)
Other payables	*14*	**(1,069)**	(59)
Deferred tax liability		**(322)**	(104)
		(1,415)	(290)
Total liabilities		**(11,415)**	(6,312)
Net assets		**11,722**	9,359
Equity			
Share capital		**2,016**	2,016
Share premium		**8,933**	8,933
Foreign currency translation reserve		**10**	-
Retained earnings		**763**	(1,590)
Total equity		**11,722**	9,359

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 2017 Unaudited £000	Year ended 29 February 2016 Audited £000
Share capital			
Opening		**2,016**	1,266
Issue of share capital		**-**	750
At 28th February 2017		**2,016**	2,016
Share premium			
Opening		**8,933**	-
Issue of shares		**-**	9,255
Share issue costs		**-**	(322)

At 28th February 2017		**8,933**	8,933
Foreign currency translation reserve			
Opening		**-**	-
Other comprehensive income		**10**	-
At 28th February 2017		**10**	-
Retained earnings			
Previous periods		**(1,590)**	(1,555)
Share based payment charge	*15*	**39**	8
Profit/(loss) for the year		**2,314**	(43)
At 28th February 2017		**763**	(1,590)
Total equity		**11,722**	9,359

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

Consolidated Statement of Cash Flows

	Note	**Year ended 28 February 2017 Unaudited £000**	**Year ended 29 February 2016 Audited £000**
Cash flows from operating activities			
Profit/(loss) for the year		**2,314**	(43)
Adjustments for:			
Depreciation and amortisation	*3,8,9*	**1,001**	786
Foreign exchange losses		**10**	-
Financial expense	*6*	**47**	280
Loss on sales of property, plant and equipment		**-**	1
Share based payment charge		**39**	8
Taxation	*7*	**322**	49
		3,733	1,081
Increase in trade and other receivables	*11*	**(608)**	(524)
Increase in inventories	*10*	**(4,780)**	(1,581)
Increase in trade and other payables	*14*	**1,870**	689
	7	**215**	(335)
Tax paid		**(104)**	-
Net cash from operating activities		**111**	(335)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**-**	1
Acquisition of property, plant and equipment	*8*	**(717)**	(578)
Capitalised development expenditure	*9*	**(1,478)**	(932)
Acquisition of a business	*9*	**(100)**	-
Net cash from investing activities		**(2,295)**	(1,509)
Cash flows from financing activities			
Proceeds from pre-IPO issue of shares		**-**	32
Net proceeds from IPO		**-**	8,351
Proceeds from new borrowings	*13*	**1,878**	253
Interest paid		**(47)**	(130)
Repayment of redemption premium on loan notes		**-**	(602)
Repayment of loan notes		**-**	(2,848)
Repayment of other borrowings		**-**	(755)
Payment of finance lease liabilities		**(194)**	(189)
Net cash from financing activities		**1,637**	4,476
Net (decrease)/increase in cash and cash equivalents		**(547)**	2,632
Cash and cash equivalents at beginning of year		**3,548**	916

Cash and cash equivalents at end of year	*12*	**3,001**	3,548

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 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.

On 15th July 2016, the Group set-up a Swedish subsidiary, 'Gear4music Sweden AB', as a 100% subsidiary of Gear4music Limited.

On 7th October 2016, the Group set-up a German subsidiary, 'Gear4music GmbH', as a 100% subsidiary of Gear4music Limited.

On 10th October 2016, the Group set-up a Norwegian subsidiary, 'Gear4music Norway AS', as a 100% subsidiary of Gear4music Limited. At 28th February 2017 this company was dormant.

The Group prepares its annual consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations endorsed by the European Union EU) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial information contained within this preliminary announcement is unaudited and has been prepared under the historical cost convention. The financial information included in this preliminary announcement does not include all the disclosures required by IFRS or the Companies Act 2006 and accordingly it does not itself comply with IFRS or the Companies Act 2006.

The unaudited consolidated financial information in this report has been prepared in accordance with the accounting policies disclosed in the Group's 2016 Annual report and accounts.

The financial information set out in this announcement does not constitute the company's statutory accounts within the meaning of Section 434 of the companies Act 2006 for the years ended 29 February 2016 or 28 February 2017. The financial information for the year ended 29 February 2016 is derived from the statutory accounts for that year, which have been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain a statement under Section 498 of the Companies Act 2006. The statutory accounts for the year ended 28 February 2017 will be finalised on the basis of the financial information presented by the Directors in this unaudited preliminary announcement and will be delivered to the Registrar of Companies following the Annual General Meeting.

The financial information contained within this preliminary announcement was approved by the Board on 8 May 2017 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 2017 and 29 February 2016.

Measurement convention

The financial statements have been prepared on the historical cost basis.

Going concern

The Directors believe that given the Group has significant financial resources, and has demonstrated good growth in revenue and 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 2017 the Group had £3.0m of cash and bank balances and HSBC have indicated they are supportive of renewing the Group's facilities in July 2017.

The Group is committed to completing a £5.325m property and has approved debt-funding in place, and will continue to invest in European Distribution centres.

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 2017 Unaudited £000	Year ended 29 February 2016 Audited £000
UK	**34,865**	26,016
Europe and Rest of the World	**21,263**	9,473
	56,128	35,489

Revenue by Product category

	Year ended 28 February 2017 Unaudited £000	Year ended 29 February 2016 Audited £000
Other-brand products	**39,351**	24,842
Own-brand products	**14,449**	9,164
Other	**2,328**	1,483
	56,128	35,489

3 Expenses

Included in profit/loss are the following:

	Year ended 28 February 2017 Unaudited £000	Year ended 29 February 2016 Audited £000
Depreciation of tangible fixed assets	**391**	328
Amortisation of intangible assets	**610**	458
Amortisation of government grants	**31**	35
Loss/(profit) on disposal of property, plant and equipment	**-**	1
Rentals under operating leases - land & buildings	**466**	262
Rentals under operating leases - plant & machinery	**11**	16
Auditor remuneration - audit of financial statements	**40**	28
Auditor remuneration - other	**60**	140
Exceptional items:		
Exceptional deal costs	**-**	606

Exceptional costs in FY16 related to professional fees incurred in relation to the Group's admission to the Alternative Investment Market ('AIM') on 3rd June 2015, and a reconciliation is shown below and is useful in identifying the evolving profitability of the underlying business.

Reconciliation of operating profit to adjusted earnings before interest, taxation, depreciation and amortisation ('EBITDA') and adjusted profit before tax:

	Year ended 28 February 2017 Unaudited £000	Year ended 29 February 2016 Audited £000
Operating profit	**2,616**	289
Adjusted for:		
Exceptional costs within operating expenses	**-**	606
Underlying Operating profit	**2,616**	895
Adjusted for:		
Amortisation and depreciation	**1,001**	786
Underlying EBITDA	**3,617**	1,681
Adjusted for:		
Amortisation and depreciation	**(1,001)**	(786)
Net financial income/(expenses)	**20**	(283)

Underlying PBT	**2,636**	612

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 2017 Unaudited No.	**Year ended 29 February 2016 Audited No.**
Administration	**87**	59
Selling and Distribution	**123**	79
	210	138

The aggregate payroll costs of these persons were as follows:

	Year ended 28 February 2017 Unaudited £000	**Year ended 29 February 2016 Audited £000**
Wages and salaries	**3,808**	2,546
Equity-settled share based payments (see note 19)	**39**	8
Cash-settled share based payments (see note 19)	**57**	-
Social security costs	**333**	198
Contributions to defined contribution plans	**33**	13
Amounts paid to third parties in respect of director's service	**19**	32
	4,289	2,797

Directors' remuneration

	Year ended 28 February 2017 Unaudited £000	**Year ended 29 February 2016 Audited £000**
Directors remuneration	**501**	451
Company contributions to money purchase pension schemes	**5**	4
Amounts paid to third parties in respect of directors' service	**19**	32
	525	487

There are four directors *(2016: 4)* for whom retirement benefits are accruing under a money purchase pension scheme.

The aggregate remuneration of the highest paid director was £189,000 *(2016: £179,000),* including company pension contributions of £840 (*2016: £1,680)* were made to a money purchase scheme on their behalf.

5 Earnings per share

Diluted loss 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 2017 Unaudited	**Year ended 29 February 2016 Audited**
Profit/(loss) attributable to equity shareholders of the parent (£'000)	**2,314**	(43)
Basic weighted average number of shares	**20,156,339**	18,236,293
Dilutive potential ordinary shares	**79,288**	25,226
Diluted weighted average number of shares	**20,235,627**	18,261,519

Basic profit/(loss) per share	**11.5p**	(0.2p)
Diluted profit/(loss) per share	**11.4p**	(0.2p)

6 Finance income and expense

	Year ended 28 February 2017 Unaudited £000	Year ended 29 February 2016 Audited £000
Finance income		
Net foreign exchange gain	**67**	-
Total finance income	**67**	-
Finance expense		
Bank interest	**29**	26
Loan note interest measured at amortised cost	**-**	233
Finance leases	**18**	21
Net foreign exchange loss	**-**	3
Total finance expense	**47**	283

Loan note interest in 2016 comprised £233,000 due to Key Capital Partners, the Company's private equity investor. On 8^{th} June 2015, the Group paid £4,469,477 to Key Capital Partners, of which £3,169,477 was settled in cash and £1,300,000 in equity, in full and final settlement of the loan notes and accumulated interest due. The fair value of the equity was considered to be equal to the value of the loan and therefore no gain or loss arose on this transaction.

7 Taxation

Recognised in the income statement

	Year ended 28 February 2017 Unaudited £000	Year ended 29 February 2016 Audited £000
Current tax expense		
UK Corporation tax	**104**	-
Adjustments for prior periods	**-**	-
Current tax expense	**104**	-
Deferred tax expense		
Origination and reversal of temporary differences	**203**	188
Deferred tax rate change impact	**(7)**	(13)
Adjustments for prior periods	**22**	(126)
Deferred tax expense	**218**	49
Total tax expenses	**322**	49

The corporation tax rate applicable to the company was 20% in the years ending 28^{th} February 2017 and 29^{th} February 2016. Reductions to 19% (effective from 1^{st} April 2017) and to 18% (effective 1^{st} April 2020) were substantively enacted on 26^{th} October 2015, and an additional reduction to 17% (effective 1^{st} April 2020) was substantively enacted on 6^{th} September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 28^{th} February 2017 has been calculated based on these rates.

Reconciliation of effective tax rate

	Year ended 28 February 2017	Year ended 29 February 2016

	Unaudited £000	Audited £000
Profit/(loss) for the period	**2,314**	(43)
Total tax charge	**322**	49
Profit/(loss) excluding taxation	**2,636**	6
Current tax at 20.00% (*2016: 20.00%)*		
Tax using the UK corporation tax rate for the relevant period:	**527**	1
Non-deductible expenses	**(189)**	115
Rate change	**(38)**	59
Adjustments relating to prior year - deferred tax	**22**	(126)
Total tax charge	**322**	49

8 Property, plant and equipment

	Plant and equipment £000	Fixtures and fittings £000	Motor Vehicles £000	Computer equipment £000	Total £000
Cost					
At 1 March 2015	193	1,252	-	239	1,684
Additions	270	218	-	90	578
Disposals	-	(6)	-	-	(6)
Balance at 29 February 2016 & 1 March 2016	463	1,464	-	329	2,256
Additions	90	443	64	120	717
Disposals	-	-	-	-	-
Balance at 28 February 2017 (unaudited)	**553**	**1,907**	**64**	**449**	**2,973**
Depreciation and impairment					
At 1 March 2015	82	437	-	174	693
Depreciation charge for the year	98	185	-	45	328
Disposals	-	(4)	-	-	(4)
Balance at 29 February 2016 & 1 March 2016	180	618	-	219	1,017
Depreciation charge for the period	113	218	6	54	391
Disposals	-	-	-	-	-
Balance at 28 February 2017 (unaudited)	**293**	**836**	**6**	**273**	**1,408**
Net book value as at 28 February 2017 (unaudited)	**260**	**1,071**	**58**	**176**	**1,565**
Net book value as at 29 February 2016	283	846	-	110	1,239

Leased assets

At 28th February 2017, the net carrying amount of leased tangible fixed assets was £232,000 (*2016: £423,000*), and the accumulated depreciation against leased assets was £265,000 *(2016: £284,000).*

Security

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

9 Intangible assets

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

Goodwill £000	Software platform £000	Brand £000	Total £000

Cost				
At 1 March 2015	417	2,435	564	3,416
Additions	-	932	-	932
Balance at 29 February 2016 & 1 March 2016	417	3,367	564	4,348
Additions	1,431	1,478	-	2,909
Balance at 28 February 2017 (unaudited)	**1,848**	**4,845**	**564**	**7,257**
Amortisation				
At 1 March 2015	-	483	169	652
Amortisation for the year	-	401	57	458
Balance at 29 February 2016 & 1 March 2016	-	884	226	1,110
Amortisation for the year	-	554	56	610
Balance at 28 February 2017 (unaudited)	**-**	**1,438**	**282**	**1,720**
Net book value as at 28 February 2017 (unaudited)	**1,848**	**3,407**	**282**	**5,537**
Net book value as at 29 February 2016	417	2,483	338	3,238

Acquisitions in the current period

On 1st January 2017, the Group acquired a software development business for £1.45m, satisfied in cash on a deferred consideration basis. The acquisition brings the out-sourced software development team responsible for the Group's bespoke ecommerce platform, into the Group.

The amounts recognised in respect of the purchase consideration and goodwill are set out below and subject to fair value adjustment on the date of acquisition, as the consideration was £18,000 for identifiable PPE assets payable on completion, and £1.5m payable in 15 quarterly instalments beginning on 1st January 2017. The fair value has been determined using a discount rate equal to the prevailing market rate for a similar instrument.

Effect of acquisition

The acquisition had the following effect on the Group's assets and liabilities:

	Recognised values on acquisition Unaudited £000
Assets acquired:	
Property, plant and equipment	**18**
Identifiable assets	**18**
Goodwill	**1,431**
	1,449
Consideration paid:	
Initial cash price paid	**118**
Deferred consideration at fair value	**1,331**
Total consideration	**1,449**

Goodwill has arisen on the acquisition as the principal value-creating asset being acquired is the team. No other intangible assets arose on acquisition.

Contingent consideration

The £1.5m deferred consideration is contingent upon the team leader not performing services or being otherwise engaged by the vendor. The consideration is not automatically forfeited if the team leader leave the employment of the Group. The Directors believe 100% of the consideration will be payable.

Acquisition related costs

The Group incurred acquisition related costs of £25,000 relating to legal advice. These costs have been included in Administrative expenses in the Group's consolidated statement of comprehensive income.

Goodwill

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

On 1st 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.

Goodwill balances are denominated in Sterling:

	Year ended 28 February 2017 Unaudited £000	Year ended 29 February 2016 Audited £000
Gear4music Limited (formerly known as Red Submarine Limited)	**417**	417
Software development team	**1,431**	-
	1,848	417

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 2017 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 28th February 2022 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 be retained at current levels over the five-year management forecast period.
- 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 (2016: £nil). The valuations indicate 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 2017 Unaudited £000	Year ended 29 February 2016 Audited £000
Finished goods	**11,686**	6,906

The cost of inventories recognised as an expense and included in cost of sales in the period amounted to £38.0m (£24.7m in the year ended 29th February 2016).

Management has included a provision of £69,500 *(29th February 2016: £15,000)*, 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 2017 Unaudited £000	Year ended 29 February 2016 Audited £000
Trade receivables	**1,123**	581
Prepayments	**225**	159

	1,348	740

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 2017 Unaudited £000	Year ended 29 February 2016 Audited £000
Cash and cash equivalents per balance sheet	**3,001**	3,548
Cash and cash equivalents per cash flow statements	**3,001**	3,548

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 2017 Unaudited £000	Year ended 29 February 2016 Audited £000
Non-current liabilities		
Bank loans	**-**	-
Finance lease liabilities	**24**	127
	24	127
Current liabilities		
Bank loans	**2,520**	642
Finance lease liabilities	**101**	192
	2,621	834
Total liabilities		
Bank loans	**2,520**	642
Finance lease liabilities	**125**	319
	2,645	961

Bank loans comprise a Trade Finance facility 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. The Trade finance facilities are due for review and renewal on or before 18th July 2017.

The head office freehold acquisition scheduled to complete on 30th June 2017 is debt-funded with HSBC, and this is in addition to the trading facilities outlined above.

All borrowings are denominated in Sterling.

14 Trade and other payables

	Year ended 28 February 2017 Unaudited £000	Year ended 29 February 2016 Audited £000
Current		
Trade payables	**4,970**	3,718
Accruals and deferred income	**1,151**	956
Contingent consideration	**393**	-
Government grants	**28**	28
Other taxation and social security	**837**	486
	7,379	5,188

Non-current

Accruals and deferred income	**100**	-
Contingent consideration	**938**	-
Government grants	**31**	59
	1,069	59

Accruals at 28th February 2017 include:

- £630,000 *(2016: £672,000)* of rent accrued but not paid as per the commercial agreement reached with the landlord and the legal form of the property lease. This accrual started to unwind in 2017 with £42,000 unwinding in the year, and a further £147,000 due to unwind within one year as the cash paid exceeds the expense, and £441,000 will unwind in subsequent years to the end of the lease in June 2020; and
- £100,000 bonus accrual relating to the estimated cash bonuses accrued relating to the Employee and Director EMI schemes, and Director Cash Plan (see note 19).

Contingent consideration is due in relation to the acquisition of the software development team outlined in note 9.

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

The Directors consider the carrying amount of trade and other payables approximates their fair value.

15 Share based payments

There are three incentive schemes in place - an Employees EMI scheme, a Directors EMI scheme relevant to Chris Scott and Gareth Bevan, and a Directors cash bonus plan relevant to Andrew Wass who, by virtue of his 39% shareholding, is cash rather than equity rewarded.

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 discretionary cash bonus to option holders of up to 25% of their annual salary at the time of award, deferred for a period of two-years.

Director Cash Plan

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 not subject to any 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.

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 3rd June 2015	Equity	23,381	Continued employment	3rd June 2018

Employee EMI Award 2 - Equity settled award to one key employee, granted by parent on 17th February 2016	Equity 1,845	Continued employment	17th February 2018
Employee EMI Award 3 - Equity settled award to two key employees, granted by parent on 26th May 2016	Equity 9,433	Continued employment	26th May 2018
Employee EMI Award 4 - Equity settled award to 44 employees on IPO, granted by parent on 31st May 2016	Equity Initially 27,406; 2,795 forfeit; now 24,611	Continued employment	31st May 2018
Director EMI Award 1a - Equity settled award to Chris Scott and Gareth Bevan, granted by parent on 31st May 2016	Equity 19,956	EPS-based performance criteria and Continued employment	31st May 2018
Director Award 1b - Cash settled award to Andrew Wass, granted by parent on 31st May 2016	Cash Cash equivalent to result in the same monetary result as for the other two directors	EPS-based performance criteria and Continued employment	31st May 2018

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

	Weighted average exercise price Unaudited 2017	**Number of options Unaudited 2017**	**Weighted average exercise price Audited** 2016	**Number of options Audited** 2016
Outstanding at the beginning of the year	**Nil**	**25,226**	-	-
Forfeited during the year	**Nil**	**(2,795)**	-	-
Exercised during the year	**-**	**-**	-	-
Granted during the year	**Nil**	**56,795**	Nil	25,226
Lapsed during the year	**-**	**-**		-
Outstanding at the end of the year	**Nil**	**79,226**	Nil	25,226
Exercisable at the end of the year	**-**	**-**	-	-

No share options were exercised in the year. The first award to be eligible for exercise is on 17th February 2018.

The options outstanding at the year-end have a nil exercise price and a weighted average contractual life of 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)**
3rd Jun 2015	143.0	0.0	1%	3	0%	0.70%	**143.0**
17th Feb 2016	135.0	0.0	1%	2	0%	0.70%	**135.0**
26th May 2016	132.5	0.0	11.8%	2	0%	0.45%	**132.5**
31st May 2016	132.5	0.0	11.8%	2	0%	0.43%	**132.5**
31st May 2016	132.5	0.0	11.8%	2	0%	0.43%	**132.5**

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:

	2017 Unaudited £000	2016 **Audited** £000
Equity settled share based payment expense	**39**	8
Cash-settled share based payment expense	**57**	-
	96	8
Opening at 1 March	**8**	-
Recognised in equity	**47**	8
Recognised as a liability	**57**	-
	104	8

16 Commitments

Capital commitment

At 29th February 2016 there was a contractual minimum spend arrangement in place for £458,000 relating to a contract for software development services of the Group's ecommerce platform. On 1st January 2017 this arrangement was terminated on acquisition of the software development team.

Operating lease commitment

Non-cancellable operating lease rentals are payable as follows:

	Year ended 28 February 2017 Unaudited £000	Year ended 29 February 2016 Audited £000
Less than one year	**887**	283
Between one and five years	**3,103**	1,603
More than five years		-
	3,990	1,886

Operating lease commitments relates to property leases of the Head Office site in York, the software development office in Manchester, and Distribution Centres in Sweden and Germany.

Subsequent to the year-end notice was served on a lease of a building in Manchester, releasing the Group from their commitment to pay £40,000 under this lease agreement. The position reflected in the table above includes this commitment and reflects the commitment at the year-end date.

17 Related parties

In FY16 immediately prior to admission to AIM in June 2015, Chris Scott (CFO) and Gareth Bevan (CCO) were allotted an aggregate of 259,600 10p shares further to their exercise of pre-existing options, and Andrew Wass was allotted 64,920 10p shares in accordance with the investor agreement with Key Capital Partners. These shares had a market value of £451,083 on IPO.

In FY17 48 employees including Chris Scott and Gareth Bevan were granted a total of 56,795 equity-settled share options (2016: 25,226 options to 9 employees), and Andrew Wass was awarded a cash-settled option (see note 19).

Transactions with key management personnel

The compensation of key management personnel is as follows:

	Year ended 28 February 2017 Unaudited £000	Year ended 29 February 2016 Audited £000
Key management emoluments including social security costs	**470**	421
Company contributions to money purchase pension plans	**5**	4
	475	425

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 *(2016: 4)*.

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