RNS Number : 3528U
Gear4music (Holdings) PLC
23 October 2017

Gear4music (Holdings) plc, ("Gear4music" or "the Group") (LSE: G4M), the largest UK based online retailer of musical instruments and music equipment, has become aware that external parties have had sight of certain information from its unaudited financial results for the six months ended 31 August 2017, following a distribution error by a third-party research provider.

As a result, the Group is announcing the results for the six months ended 31 August 2017 below, ahead of the scheduled date of 24 October 2017.

23 October 2017

Gear4music (Holdings) plc
Interim results for the six months ended 31 August 2017

Strong revenue growth and strategic investment heading into the Christmas period

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 six months ended 31 August 2017 ("the Period").

Financial and Operational Highlights:

£'000	6-months ended 31 August 2017	6-months ended 31 August 2016	Change
Revenue	31,219	21,609	+44%
Gross profit	7,811	5,754	+36%
Gross margin	25.0%	26.6%	-160bps
EBITDA	717	1,338	-0.62m
Net profit	4	750	-0.75m

- Strong revenue growth driven by International sales growth, rising website traffic and improving conversion rates
- UK revenue of £17.9m (+30%) and International revenue of £13.3m (+70%)
- Active customers* increased by 44% with an email subscriber database of over 725,000
- Gross profit up £2.1m (36%) to £7.8m; gross margin of 25.0% reflects investment in customer proposition during a period of product cost price inflation
- Results reflect planned investment in marketing and people
- New European distribution centres in Germany and Sweden scaling well, incurring £0.70m local administrative expenses but contribution positive** by the end of the Period
- Trading in line to meet full year expectations

Post-period Strategic Developments:

- US$ website launched
- Head office relocation successfully completed with no disruption to the business

* Active customers are those that have purchased products within the last 12 months
** Contribution positive being August 2017 gross profit of orders fulfilled by the relevant distribution centre, exceeding August's local Administrative expenses

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

"I am very pleased with these results which combine tangible strategic and commercial progress with 44% revenue growth, which was ahead of our expectation for H1 as indicated at the start of the year, equating to two-year growth of 150%.

Revenue growth in our core UK market continues to be strong, alongside a very strong performance in our International markets, supported by our new distribution centres that have improved our scale and customer proposition across Europe.

We are pleased to announce today the launch of our US$ website, which represents an important stepping stone in our plans for growth outside Europe.

We remain focused on delivering long-term sustainable growth, and raising £4.2m growth capital in May 2017 has enabled us to accelerate planned investment in our operational infrastructure and allowed us to capitalise on the growth opportunities we have identified. As highlighted in previous announcements, we expected increased operational costs and investment in our customer proposition to restrict profitability during H1, but we are well prepared for a busy seasonal period and the Group continues to trade in line with the Board's expectations for the full year."

Gear4music will issue a trading statement in early January 2018.

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This announcement contains inside information for the purposes of Article 7 of Regulation (EU) No 596/2014.

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.

This announcement contains inside information for the purposes of Article 7 of Regulation (EU) No 596/2014.

Business Review

The business is pleased to report the Group's results for the six months to 31 August 2017, and update on the strategic and commercial progress made in the Period.

Customers and revenues

Customer KPIs	**H1 FY18**	**H1 FY17**	**Change**
Revenue	£31.22m	£21.61m	+44%
Total unique website visitors	7.10m	5.58m	+27%
Conversion rate	2.84%	2.38%	+46pbs
Average order value	£131.66	£125.64	+4.8
Active customers	390,790	272,340	+44%
Proportion of repeat customers *	25.8%	28.2%	-240bps
Email subscriber database	725,594	601,011	+21%
Trustpilot rating	9.6/10	9.5/10	

* Repeat customers are those that have made a purchase in the defined period and have historically made at least one purchase

The Group continues to deliver strong revenue growth founded on a compelling customer proposition - good product breadth and availability at competitive prices, with excellent delivery options and sales support.

Revenue increased 44% during the Period to £31.2m (FY17 H1: £21.6m), with 30% sales growth in our core UK market and 70% International growth. This improvement builds on very strong growth (73%) in H1 of last year and translates into two-year growth of 150%.

Website visitor numbers increased by 27% to 7.10m (FY17 H1: 5.58m), with visitors to the UK website increasing 17% and visitor numbers to the Group's 18 country-specific European websites growing by 38%. The revenue impact of the increase in website traffic was magnified by further improvements in conversion rates from 3.20% to 3.59% in the UK and from 1.49% to 2.14% in Europe.

The Group served 196,000 customers in the period, up 39% on last year. Numbers of new customers increased by 44% as the Group continues to increase its presence in Europe. The proportion of repeat customers was 25.8% (FY17 H1: 28.2%), reflecting the increased number of new customers, with the Group achieving immediate payback on new customer recruitment. Active customers increased by 44%, and the number of people on our email subscriber database rose 21% to over 725,000.

Organic and Direct website traffic accounted for 47% of total visitors (FY17 H1: 50%). Mobile momentum continued with the proportion of visitors accessing G4M sites from this device category increasing from 42% last year to 53% this year.

We continue to invest in our customer proposition and service teams resulting in a positive overall customer experience, reflected in Gear4music.com's Trustpilot score of 9.6 from over 28,000 reviews.

Products

Product KPIs	**H1 FY18**	**H1 FY17**	**Change**
Own-brand product sales	£7.14m	£4.45m	+61%
Other brand product sales	£22.90m	£16.29m	+41%
Products listed	40,021	34,393	+16%
Brands listed	758	685	+11%

The Group raised £4.2m net cash in May 2017 through a placing of new ordinary shares and amongst other things, remains committed to investing in stock, adding increasing breadth and depth to the range to support continuing revenue growth. The carrying value of stock was £13.0m at 31 August 2017 (31 August 2016: £9.3m), representing an increase of 39% which is lower than the rate of increase in revenue.

The number of SKUs available increased from 34,400 at 31 August 2016 to 37,100 at 28 February 2017 and 40,000 at 31 August 2017, representing a 16% increase over the year.

The Group remains committed to Own-brand product range expansion and continues to grow the team and progress product development opportunities, and it was pleasing to see these efforts translate into results with Own-brand revenue growth of 61% compared to 41% growth in Other-brand revenue in the Period.

We currently list over 2,500 Own-brand products, including new products that have been developed and launched during the Period:

- New range of SubZero wireless microphones
- Range of higher specification SubZero DSP speakers
- New Gear4music all mesh electronic drum kits

Strategy

We continue to work hard in our mission to be the best on-line retailer in our market. As set out in our Annual Report, investing in our people, our processes, our platform and our products is critical to improving our customers' experience and delivering sustainable long-term success, and we continue to make pleasing progress. In May 2017 we raised a further £4.2m to help accelerate our growth ambitions, and have made good progress with our strategic priorities over the Period, as described in further detail below:

International expansion

We set-up European distribution centres in Sweden and Germany in FY17 to improve our local customer proposition in terms of delivery timescales and costs, and have phased our investment in these operations over the Period to reach a good level of capacity heading into our peak trading period. The strategic rationale for this International expansion is already driving European growth and we are pleased to report that both operations ended the period contributing positively to the Group's profitability. Total Administrative expenses incurred locally in these operations was £0.70m (FY17 H1: nil).

The Group has shipped internationally since October 2016 as part of a process to identify opportunities to increase our presence beyond Europe.

In October 2017 the Group launched a US$ website (www.gear4music.com/us) to better serve American customers and establish a presence in a $7.7 billion annual market.

International sales continue to account for an increasing proportion of our revenue, rising from 23% in FY16 H1 to 36% in FY17 H1, to 43% in FY18 H1.

Development of our bespoke E-commerce platform

The Group invested £0.77m in its e-commerce platform in the period (FY17 H1: £0.60m), and made good progress on a number of key projects including:

- Improved mobile basket and checkout
- Warehouse operational efficiency improvements ahead of peak
- Full migration to the cloud to improve processing speed and robustness
- International courier integration
- Development of a US-localised website

Current trading and prospects

As ever, trading in the second half of the year is very significant to our results for the year as a whole. Given the strength of our first half performance and continuing momentum, coupled with the strategic and operational progress made through targeted investment, the Board considers the Group to be well-placed to deliver results for the full-year in-line with expectations.

The Group will issue a Christmas trading update in early January 2018.

Financial Review

On 18 May 2017, the Company completed the placing of 610,000 new Ordinary Shares and issued a further 100,782 new Ordinary shares pursuant to the full exercise of a warrant instrument, raising in aggregate £4.35m in gross proceeds (£4.18m net proceeds).

These new Ordinary Shares were admitted to trading on AIM on 24 May 2017.

Financial KPIs	H1 FY18	H1 FY17	Change
Revenue	£31.22m	£21.61m	+44%
Product margin	29.8%	31.6%	-180bps
Gross margin	25.0%	26.6%	-160bps
Operating profit	£28,000	£888,000	-£860,000
Marketing costs	£2.54m	£1.76m	+44%
Marketing costs as % of sales	8.1%	8.2%	-10bps
Total Labour costs	£2.86m	£1.73m	+65%
Total Labour costs as % of sales	9.2%	8.0%	+120bps

Revenue

Revenue in the Period increased by 44% relative to a very strong result in the same period last year, equating to two-year growth of 150%.

Revenue growth continues to be strong in the more-established UK market with 30% growth further to 44% growth in FY17 H1, taking our estimated share of the UK-market to 5.2%. Revenue into the higher-growth opportunity International markets benefited from currency tailwinds and increased by 70% to £13.3m, representing 43% of Group sales.

Sales momentum increased toward the end of the Period as our European distribution centres benefited from increasing stock availability and more, better and cheaper delivery options being added, and software developments were delivered.

Gross Profit

Gross profit increased by £2.06m (+36%) to £7.81m (FY17 H1: £5.75m) on the same period last year.

Gross margin reduced from 26.6% to 25.0% due to a fall in Own and Other-brand product margins as the business invests to ensure a competitive pricing offer during a period of cost inflation.

The Group imports its Own-brand products from the Far East in US dollars and all orders are negotiated taking into account increasing buying economies of scale and the prevailing exchange rate. In FY18 H1 the GB pound was c.8% weaker (averaged \$1.28=£1) than in FY17 H1 (averaged \$1.39=£1), and part of this has been absorbed and invested in the customer proposition to fuel sales growth.

The Group purchases the majority of its Other-branded products in GB pounds and has started sourcing some products in Swedish Krona and Euros. Other-brand margins were similarly down on FY17 H1, principally due to the absence of comparable opportunities to those that arose following the UK's Brexit vote in June 2016.

The proportion of product sales from higher margin Own-brand product sales increased from 21.4% in FY17 H1 to 23.8% in FY18 H1, partly mitigating the impact of product margin pressures.

Operating Profit and Administrative Expenses

Operating profit of £0.03m represents an £0.86m reduction on FY17 H1 principally due to the Group's investment in margin and administrative expenses to deliver current and future growth, and includes £0.70m European distribution centre administrative expenses that were not incurred in FY17 H1.

Marketing and people costs continue to be key business drivers and were earmarked for further investment during the recent fund-raising. Combined marketing and labour costs accounted for 69% of total administrative expenses in the Period (FY17 H1: 72%). Marketing costs increased by £0.78m to £2.54m representing a 44% increase that is in line with the revenue increase. Labour costs rose by £1.13m to £2.86m (65%) due to increased headcount in Europe distribution centres, Translation, Customer services and Buying, and first full year effect of FY17 hires.

Net Profit

Net profit for the Period was £4,000 (FY17 H1 £0.75m). We consider this a good result in what is the quieter half of the year and as the business invests for future growth.

Cash Flow and Balance Sheet

In common with many retailers, August represents a low point in the annual cash cycle. However, the Group raised £4.2m growth capital in May 2017 and this is just beginning to be invested. As such cash at 31 August 2017 was £4.10m which was a £2.32m improvement on 31 August 2016.

Product KPIs	**H1 FY18**	**H1 FY17**	**Change**
Inventories	£13.00m	£9.33m	+39%
Trade and other receivables	£2.28m	£0.94m	+143%
Trade and other payable	(£7.89m)	(£5.56m)	+42%
Net working capital	£7.39m	£4.71m	+2.68m

The Group continues to invest in stock without drawing all available Trade Finance loans to minimise finance costs, and settles all Other-brand debts so as to maximise all available settlement discounts. Trade and other receivables increased by £1.3m and includes increases in prepaid stock on water, cash-in-transit and funds lodged with payment providers, and property-related prepayments from the larger Group, and is expected to partially unwind as the year progresses.

This has led to a £7.39m cash investment in working capital being £2.68m higher at this period end compared to 31 August 2016.

Capital expenditure in the Period was £7.05m including the £5.63m total cost of the purchase of the new UK Head Office freehold in York, and this was effectively debt financed through the drawing of £5.53m of term loans with HSBC. Other property, plant and equipment capital expenditure totalled £0.64m (FY17 H1: £0.08m), and this was paid from cash reserves. No finance leases were added in the Period.

Capitalised software development costs totalled £0.77m (FY17 H1: £0.68m) in the Period, taking the total spend to date to £5.61m and contributing to a NBV of £3.81m.

As at 31 August 2017 the Group's net debt position was £3.70m compared to a net cash position of £0.91m at 31 August 2016, principally due to the addition of £5.53m of longer-term property related debt.

Dividend Policy

As indicated in last year's Annual Report, and further to these Interim results as presented, the Group repeats its intention to revisit its shareholder distribution policy at the end of this financial year.

Unaudited consolidated interim statement of profit and loss and other comprehensive income

	Note	**6 months ended 31 August 2017 (unaudited)**	6 months ended 31 August 2016 (unaudited)	Year ended 28 February 2017 (audited)
		£000	£000	£000
Revenue		**31,219**	21,609	56,128
Cost of sales		**(23,408)**	(15,855)	(40,983)
Gross profit		**7,811**	5,754	15,145

Administrative expenses	1,2	**(7,783)**	(4,866)	(12,529)
Operating profit	1,2	**28**	888	2,616
Financial expense	4	**(97)**	78	20
(Loss)/profit before tax		**(69)**	966	2,636
Taxation	5	**73**	(216)	(322)
Profit for the period		**4**	750	2,314
Other comprehensive income				
Items that are or may be reclassified subsequently to profit or loss:				
Foreign currency translation differences - foreign operations		**9**	-	10
Total comprehensive income for the year		**13**	750	2,324
Profit per share attributable to equity shareholders of the company				
Basic profit per share	3	**0.0p**	3.7p	11.5p
Diluted profit per share	3	**0.0p**	3.7p	11.4p

Unaudited consolidated interim statement of financial position

	Note	**31 August 2017 (unaudited) £000**	31 August 2016 (unaudited) £000	28 February 2017 (audited) £000
Non-current assets				
Property, Plant and Equipment	6	**7,550**	1,141	1,565
Intangible assets	7	**5,910**	3,561	5,537
		13,460	4,702	7,102
Current assets				
Inventories	8	**13,001**	9,329	11,686
Trade and other receivables	9	**2,279**	935	1,348
Cash and cash equivalents		**4,107**	1,788	3,001
		19,387	12,052	16,035
Total assets		**32,847**	16,754	23,137
Current liabilities				
Other interest-bearing loans and borrowings	10	**(2,909)**	(807)	(2,621)
Trade and other payables	11	**(7,893)**	(5,563)	(7,379)
		(10,802)	(6,370)	(10,000)
Non-current liabilities				
Other interest-bearing loans and borrowings	10	**(4,893)**	(72)	(24)
Other payables	11	**(944)**	(46)	(1,069)
Deferred tax liability	5	**(251)**	(129)	(322)
		(6,088)	(247)	(1,415)
Total liabilities		**(16,890)**	(6,617)	(11,415)
Net assets		**15,957**	10,137	11,722
Equity				
Share capital		**2,087**	2,016	2,016
Share premium		**13,055**	8,933	8,933
Foreign currency translation reserve		**19**	-	10
Retained earnings		**796**	(812)	763
Total equity		**15,957**	10,137	11,722

Unaudited consolidated interim statement of cash flows

	Note	**6 months ended 31 August 2017 (unaudited) £000**	6 months ended 31 August 2016 (unaudited) £000	Year ended 28 February 2017 (audited) £000
Cash flows from operating activities				
Profit for the period:		**4**	750	2,314
Adjustments for:				
Foreign exchange losses		**9**	-	10
Depreciation and amortisation	*2,6,7*	**688**	450	1,001
Financial expense	*4*	**64**	14	47
Share-based payment charge	*12*	**29**	28	39
Taxation	*5*	**(73)**	216	322
		721	1,458	3,733
(Increase)/decrease in trade and other receivables		**(931)**	(195)	(608)
Decrease)/(increase) in inventories		**(1,315)**	(2,423)	(4,780)
Increase/(decrease) in trade and other payables		**495**	170	1,870
		(1,030)	(990)	215
Tax paid		**94**	-	(104)
Net cash from operating activities		**(936)**	(990)	111
Cash flows from investing activities				
Acquisition of property, plant and equipment	*6* **6**	**(6,278)**	(75)	(717)
Development costs capitalised	*7*	**(768)**	(600)	(1,478)
Acquisition of a business		**(200)**	-	(100)
Net cash from investing activities		**(7,246)**	(675)	(2,295)
Cash flows from financing activities				
Proceeds from the issue of share capital		**4,193**	-	-
Proceeds from new borrowings	*10*	**5,211**	22	1,878
Net interest paid	*4*	**(62)**	(14)	(47)
Repayment of other borrowings		**-**	-	-
Payment of finance lease liabilities	*10*	**(54)**	(103)	(194)
Net cash from financing activities		**9,288**	(95)	1,637
Net increase/(decrease) in cash and cash equivalents		**1,106**	(1,760)	(547)
Cash and cash equivalents at beginning of period		**3,001**	3,548	3,548
Cash and cash equivalents at end of period		**4,107**	1,788	3,001

Unaudited consolidated interim statement of changes in equity

	6 months ended 31 August 2017 (unaudited)	6 months ended 31 August 2016 (unaudited)	Year ended 28 February 2017 (audited)
	£000	£000	£000
Share Capital			
Opening	**2,016**	2,016	2,016
Issue of shares	**71**	-	-
	2,087	2,016	2,016
Share Premium			
Opening	**8,933**	8,933	8,933
Issue of shares	**4,278**	-	-
Share issue costs	**(156)**	-	-
	13,055	8,933	8,933
Foreign currency translation reserve			
Opening	**10**	-	-
Other comprehensive income	**9**	-	10
	19	-	10
Retained earnings			
Previous periods	**763**	(1,590)	(1,590)
Share based payment charge	**29**	28	39
Profit for the period	**4**	750	2,314
	796	(812)	763
Total equity	**15,957**	10,137	11,722

Notes to the Interim Financial Information

General Information

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 information consolidates those of the Company and its subsidiaries (collectively referred to as the "Group"). The Group has 100% owned trading subsidiaries in Sweden ('Gear4music Sweden AB') and Germany ('Gear4music GmbH'). The Group has a 100% owned dormant Norwegian subsidiary, 'Gear4music Norway AS'.

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.

1 Accounting policies

1.1 Basis of preparation

The unaudited consolidated interim financial information for the period ended 31 August 2017 has been prepared in accordance with the AIM rules for Companies, comply with IAS 34 'Interim Financial Reporting' as adopted by the European Union. The condensed consolidated interim financial information does not constitute financial statements within the meaning of Section 434 of the Companies Act 2006 and does not include all of the information and disclosures required for full annual financial statements. It should therefore be read in conjunction with the Group' Annual Report which have been prepared in accordance with International Financial Reporting Standards and is available on the Group's investor website.

The comparative financial information contained in the condensed consolidated financial information in respect of the year ended 28 February 2017 has been extracted from the 2017 Financial Statements. Those financial statements have been reported on by KPMG LLP, and delivered to the Registrar of Companies. The report was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and did not contain a statement under Section 498 of the Companies Act 2006.

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 as at the year ended 28 February 2017.

The Group's accounting policies are set out below. The accounting policies have been applied consistently to all periods presented.

The financial information has been prepared on the historical cost basis.

1.2 Going concern

The Group has significant financial resources having raised £4.2m equity capital in May 2017, and has access to further debt funding should it be required. The business continues to trade well and Management considers it to be well positioned going into its critical trading period. The Group operates a rolling monthly reforecast providing trading and financial visibility to the financial year end.

Accordingly, and further to due consideration of all financial and commercial information available, the Directors have concluded that the Group has adequate resources to continue to trade for the foreseeable future and it is therefore appropriate to continue to adopt the going concern basis of accounting in the preparation of this consolidated interim financial information.

1.3 Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

1.4 Foreign currency

International transactions that are denominated in foreign currencies are recorded in the respective foreign currencies, and translated into the functional currency of the Group, Sterling, at the exchange rate ruling at the date of the transaction. Translational accounting gains and losses are recognised in the income statement in the period they arise.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Functional currency

The consolidated financial information is presented in Sterling which is the Company's functional currency.

1.5 Classification of financial instruments issued by the Group

Following the adoption of IAS 32, financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the Company (or Group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company (or Group); and

(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in this financial information for called up share capital and share premium account exclude amounts in relation to those shares.

1.6 Non-derivative financial instruments

Non-derivative financial instruments comprise investments in trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributed transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method.

1.7 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged to the income statement on either a straight-line basis or a reducing balance basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

- Freehold property 50 years straight line
- Plant and equipment 4-5 years' straight line
- Fixtures and fittings 20-25% on reducing balance
- Motor vehicles 25% on reducing balance
- Computer equipment 3-5 years' straight line

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Lease payments are accounted for as described below in 1.15.

1.8 Business combinations

All business combinations are accounted for by applying the acquisition method. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

Costs related to the acquisition are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

Goodwill impairment testing

Goodwill is not amortised but tested annually for impairment. For the purpose of impairment testing, the Goodwill is allocated to cash-generating units, or ("CGU"). Subject to an operating segment ceiling test, for the purposes of Goodwill impairment testing, CGUs to which Goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which Goodwill is monitored for internal reporting purposes.

1.9 Intangible assets

Software platform

Computer software development costs that generate economic benefits beyond one year and meet the development asset recognition criteria as laid out in IAS 38 'Intangible Assets', are capitalised as Intangible assets.

These costs include the payroll costs of employees directly associated with the development, and other direct external material and service costs. Costs are capitalised only where there is an identifiable development that will bring future economic benefit. All other website and maintenance costs are expenses in the statement of comprehensive income.

Capitalised software development costs are amortised over their estimated useful lives and charged to administrative expenses in the statement of comprehensive income.

Other intangible assets

Expenditure on internally generated Goodwill and brands is recognised in the income statement as an expense as incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and Goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- Brand 10 years; and
- Software Platform 3-8 years

1.10 Inventories

Inventories are stated at the lower of cost and net realisable value ("NRV"). Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and other costs in bringing them to their existing location and condition. Stock is neither fashionable nor perishable.

A provision is made in respect of inventories as follows:

- 100% against returns stock 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 previous 12-months retail experience for the expected product loss on dealing with returns stock.

1.11 Impairment excluding inventories and deferred tax assets

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows. The effect of discounting is not material. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For Goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The Goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units, or ("CGU"). Subject to an operating segment ceiling test, for the purposes of Goodwill impairment testing, CGUs to which Goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which Goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss would be recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. No impairments have been recognised in the periods presented.

1.12 Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

Share-based payments

The Group operates share option plans for qualifying employees of the Group. The fair value of the shares is determined using the Black Scholes option pricing model and is expensed in the statement of comprehensive income on a straight-line basis over the vesting period after allowing for an estimate of the number of shares that are expected to vest. The level of vesting is reviewed annually and the expense adjusted to reflect any changes in estimates.

1.13 Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

1.14 Revenue

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods. Revenue is measured at the fair value of the consideration received, including freight charges and duty where applicable, excluding discounts, rebates, VAT and other sales taxes or duty. Carriage income is recognised on recognition of the associated product sale. Returns are dealt with on receipt of the product into the warehouse, which triggers an automatic credit.

The Group offers retail point of sale credit through an agreement with an external credit provider. The Group does not retain any credit risk and commissions are recognised on recognition of the credit sale.

1.15 Expenses

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Exceptional items

Items which are significant by virtue of their size or nature and which are considered to be non-recurring are classified as exceptional operating items. Such items are included within the appropriate consolidated income statement category but are highlighted separately in the notes to the financial information. Exceptional operating items are excluded from the profit measures used by the Board to monitor and measure the underlying performance of the Group.

Government and other forms of grant

Government and other grants from third parties are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as a reduction in the costs incurred, on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed. Where the grant relates to an asset, it is recognised on a systematic basis over the UEL of the related asset.

Financing income and expenses

Financing expenses comprise interest payable and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy). Financing income comprises interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

1.16 Taxation

Tax on the profit or loss for the year comprises current and deferred tax.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A temporary difference on the initial recognition of goodwill is not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

1.17 Adopted IFRS not yet applied

The following Adopted IFRSs have been issued but have not been applied by the Group in this financial information. Their adoption is not expected to have a material effect on the financial information unless otherwise indicated:

- IFRS 9 Financial Instruments (effective for periods beginning on or after 1 January 2018); The Group has limited experience of stock obsolescence and as such the implementation of the 'Expected Credit Loss Model' ('ECM') is not expected to materially impact the financial statements. Given the nature of the Group's business and its debt structure, it is not expected to have a material effect on the financial information.
- IFRS 15 Revenue from Contracts with Customers (effective for periods beginning on or after 1 January 2018) is not expected to

have a significant impact on the Group's revenues as the majority of the Group's revenue is for product sales made direct to customers at standard prices and estimates are already made of anticipated returns;

- IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019). This fundamentally changes the accounting for leases by lessees. It eliminates the current IAS 17 dual accounting model, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases and, instead, introduces a single, on-balance sheet accounting model that is similar to current finance lease accounting. Operating leases disclosed in note 20 are expected to come on balance sheet once this standard is adopted;
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (effective date to be confirmed);
- Amendments to IAS 7: Disclosure Initiative (effective date to be confirmed);
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (effective date to be confirmed); and
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective date to be confirmed).

1.18 Segmental Reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. The Group's Chief Operating Decision Maker has been identified as the Board of Directors.

2 Expenses

Included in profit/loss are the following:

	6 months ended 31 August 2017	6 months ended 31 August 2016	Year ended 28 February 2017
	£000	£000	£000
Depreciation of tangible fixed assets	**293**	173	391
Amortisation of intangible assets	**395**	277	610
Amortisation of government grants	**20**	14	31
Share based payment charge	**29**	28	39

3 Earnings per share

Basic earnings 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.

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.

	6 months ended 31 August 2017	6 months ended 31 August 2016	Year ended 28 February 2017
Profit attributable to equity shareholders of the parent (£'000)	**4**	750	2,314
Basic weighted average number of shares	**20,542,973**	20,156,339	20,156,339
Dilutive potential ordinary shares	**93,213**	80,077	79,288
Diluted weighted average number of shares	**20,636,186**	20,236,416	20,235,627
Basic profit per share	**0.0p**	3.7p	11.5p
Diluted profit per share	**0.0p**	3.7p	11.4p

4 Finance income and expense

	6 months ended 31 August 2017	6 months ended 31 August 2016	Year ended 28 February 2017
	£000	£000	£000
Bank interest	**(60)**	(5)	(29)
Finance leases	**(2)**	(9)	(18)
Net foreign exchange (loss)/profit	**(33)**	92	67
Fair value on deferred consideration	**(2)**	-	-
Total finance (expense)/income	**(97)**	78	20

Bank interest comprises £31,400 of Trade finance loan interest and £28,300 of term loan interest.

5 Taxation

	6 months ended 31 August 2017	6 months ended 31 August 2016	Year ended 28 February 2017
	£000	£000	£000
Current tax (credit)/expense	**(2)**	191	104
Deferred tax (credit)/expense	**(71)**	25	218
Total tax (credit)/expense	**(73)**	216	322

The deferred tax liability has been decreased by £71,000 to £251,000 due to R&D tax credits.

The corporation tax rate applicable to the company was 20% in the period to 31 August 2017.

6 Property, plant and equipment

	Freehold property £000	Plant and equipment £000	Fixtures and fittings £000	Motor vehicles £000	Computer equipment £000	Total £000
Cost						
Balance at 1 September 2016	-	463	1,515	-	353	2,331
Additions	-	90	392	64	96	642
Balance at 28 February 2017	-	553	1,907	64	449	2,973
Additions	5,634	102	471	-	71	6,278
Balance at 31 August 2017	**5,634**	**655**	**2,378**	**64**	**520**	**9,251**
Depreciation						
Balance at 1 September 2016	-	233	714	-	243	1,190
Charge for the period	-	60	122	6	30	218
Balance at 28 February 2017	-	293	836	6	273	1,408
Charge for the period	28	72	149	7	37	293
Balance at 31 August 2017	**28**	**365**	**985**	**13**	**310**	**1,701**
Net book value as at 31 August 2017	**5,606**	**290**	**1,393**	**51**	**210**	**7,550**
Net book value as at 1 March 2017	-	260	1,071	58	176	1,565
Net book value as at 31 August 2016	-	230	801	-	110	1,141

7 Intangible assets

	Goodwill £000	Software platform £000	Brand £000	Total £000
Cost				
Balance at 1 September 2016	417	3,967	564	4,948
Additions	1,431	878	-	2,309
Balance at 28 February 2017	1,848	4,845	564	7,257
Additions	-	768	-	768
Balance at 31 August 2017	**1,848**	**5,613**	**564**	**8,025**
Amortisation				
Balance at 1 September 2016	-	1,133	254	1,387
Amortisation for the period	-	305	28	333

Balance at 28 February 2017	-	1,438	282	1,720
Amortisation for the period	-	367	28	395
Balance at 31 August 2017	**-**	**1,805**	**310**	**2,115**
Net book value as at 31 August 2017	**1,848**	**3,808**	**254**	**5,910**
Net book value as at 1 March 2017	1,848	3,407	282	5,537
Net book value as at 31 August 2016	417	2,834	310	3,561

8 Inventories

	31 August 2017 £000	31 August 2016 £000	28 February 2017 £000
Finished goods	**13,001**	9,329	11,686

The cost of inventories recognised as an expense and included in cost of sales in the period ended 31 August 2017 amounted to £22.0m, and in the period ended 31 August 2016 totalled £14.8m.

9 Trade and other receivables

	31 August 2017 £000	31 August 2016 £000	28 February 2017 £000
Trade receivables	**1,713**	735	1,123
Prepayments	**566**	200	225
	2,279	935	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.

10 Other interest-bearing loans and borrowings

	31 August 2017 £000	31 August 2016 £000	28 February 2017 £000
Non-current liabilities			
Bank loans	**4,889**	-	-
Finance lease liabilities	**4**	72	24
	4,893	72	24
Current liabilities			
Bank loans and overdraft	**2,842**	663	2,520
Finance lease liabilities	**67**	144	101
	2,909	807	2,621
Total liabilities			
Bank loans and overdraft	**7,731**	663	2,520
Finance lease liabilities	**71**	216	125
	7,802	879	2,645

Bank loans comprise:

- a Trade Finance facility provided by the Group's bankers, HSBC. The interest rate on 180-day import loans is 2.45% per annum over HSBC's Sterling Base Rate. Interest is paid at the maturity of the relevant loan. This facility includes an unutilised overdraft sub-limit that if and when drawn would attract interest of 3.25% over base paid monthly in arrears; and
- two Term loans provided by HSBC. The interest rates are 2.65% over LIBOR on Term Loan A and 2.85% over LIBOR on Term Loan B.

The Trade finance facilities are due for review and renewal on or before 30 June 2018.

All HSBC debt is secured by fixed and floating charges over the Group's assets.

11 Trade and other payables

	31 August 2017 £000	31 August 2016 £000	28 February 2017 £000
Current			
Trade payables	**4,934**	4,114	4,970
Accruals and deferred income	**1,248**	958	1,151
Contingent consideration	**393**	-	393
Government grants	**28**	28	28
Other creditors including tax and social security	**1,290**	463	837
	7,893	5,563	7,379
Non-current			
Accruals and deferred income	**187**	-	100
Contingent consideration	**740**	-	938
Government grants	**17**	46	31
	944	46	1,069

Accruals at 31 August 2017 include £0.57m (31 August 2016: £0.69m) of rent accrued but not payable as per the agreement reached with the landlord of Kettlestring Lane, York, and the legal form of the property lease. This accrual will unwind in future financial years.

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.

12 Share based payments

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

In June 2017 awards totalling 14,530 shares were made taking the number of shares under option to 93,213. These shares have an exercise price equal to the nominal value of the shares (10p) that the Company will subsidise by way of a bonus, and subject to certain conditions will be automatically exercised on the second or third anniversary of the date of grant as prescribed in the scheme rules.

13 Related party transactions

There were no significant related party transactions during the six months to 31 August 2017.

END

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