THG

IDEAS WITH MOMENTUM®

Annual Report & Accounts

For the year ended 31 December 2017 The Hut Group Limited.Company Number 06539496

Contents

Highlights

Revenue

+47%

In Strategic Investments

£228M

EBITDA

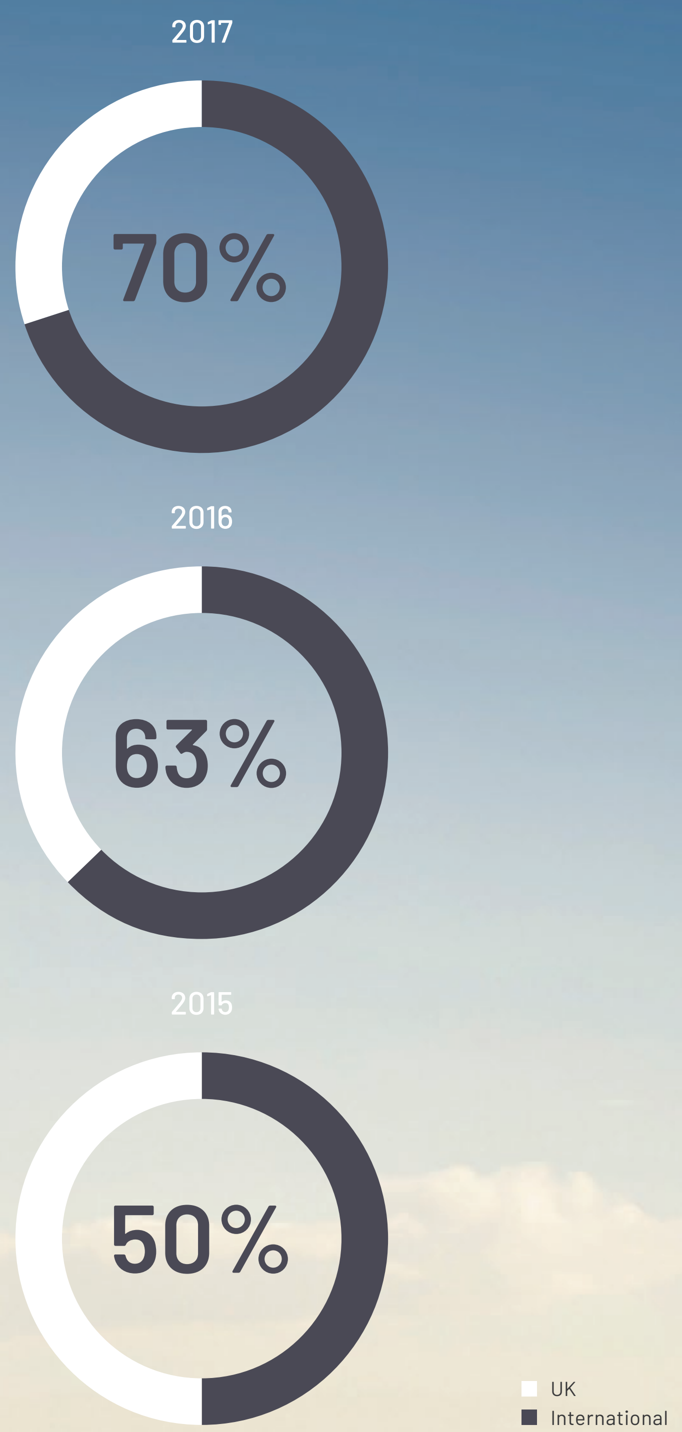
+38%

Bank Facility

£600M

From May 2018

Group International Sales



Strategic report
Shareholders

Fully diluted shareholding of any party with a 5% or greater shareholding in THG (as at 31 March 2018)

Name	%
Matthew Moulding & Controlled Management Equity[1]	26.7
Kohlberg Kravis Roberts & Co	15.0
Balderton Capital	14.3
Sofina Partners S.A.	9.0
Oliver Nobahar-Cookson (held via Offshore Trust)	7.7
BlackRock Funds	7.5
Old Mutual	7.4
Others	12.4
	100.0

[1]Matthew Moulding has the beneficial interest in 20% of the 26.7% shareholding, although he has full control of the whole 26.7%

Progress in 2017

2017 has been another year of explosive growth for THG, powered by our proprietary technology ecosystem, Ingenuity. Revenue has grown by 47% to £736m and EBITDA by 38% to £69m (9% of sales).

We continue to deliver on our strategy of driving rapid internationalisation with 70% of our sales coming from outside the UK, a year-on-year increase of 7% and we further developed the THG Brands business with 58% of sales from our own brands.

To accelerate the development of the THG model we carefully selected acquisitions in key vertical markets, investing £164m in strategic acquisitions this year.

We enhanced Ingenuity's end-to-end capability through acquiring Hangar Seven, a digital content studio, and UK2, a web hosting business, as well as continuing to build our portfolio of brands adding ESPA and Illamasqua. We further grew our international beauty retail footprint by acquiring RY.com.au and became Europe's largest beauty box provider when we added Glossybox to our growing beauty box and advent calendar proposition.

We also continued to invest organically, spending £25m on developing Ingenuity functionality and internationalisation capability and £39m of capital on infrastructure projects including manufacturing, distribution, supply chain, and office accommodation whilst employing a further 1,884 people this year to take our total headcount to over 4,000 at year end.

2017 has also been a standout year for us operationally, we commissioned our 1m sq ft warehouse, manufacturing and fulfillment centre in Cheshire, a production facility in Kentucky and we acquired a beauty manufacturing plant with ESPA. We continue to invest in our operational capability with a warehouse and manufacturing facility in Wroclaw, Poland opening in 2018.

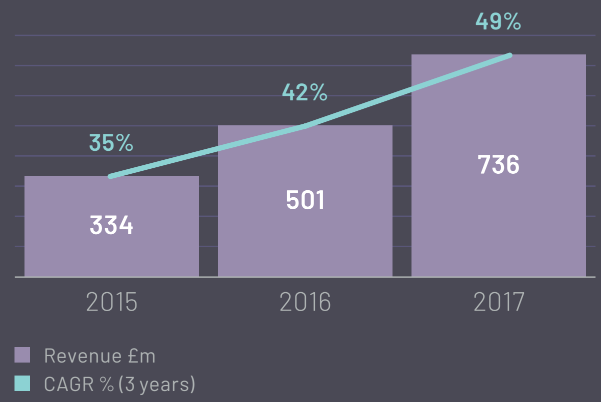
+47%
Revenue

+38%
EBITDA

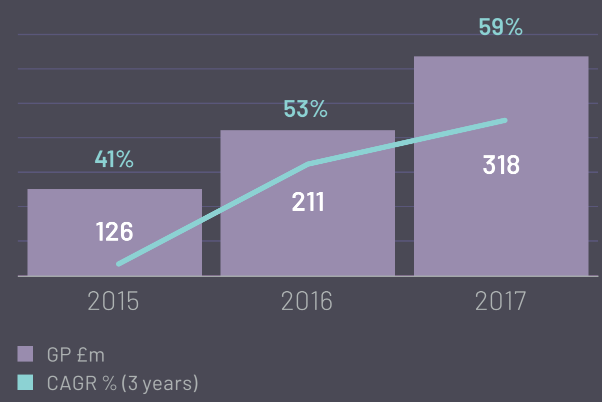
£228m
In Strategic Investments

£183m
Of Equity Raised

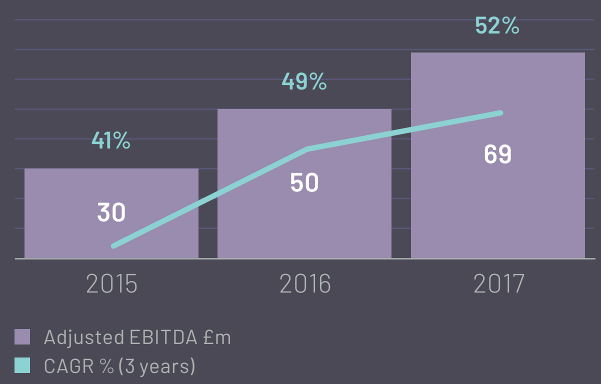
Revenue



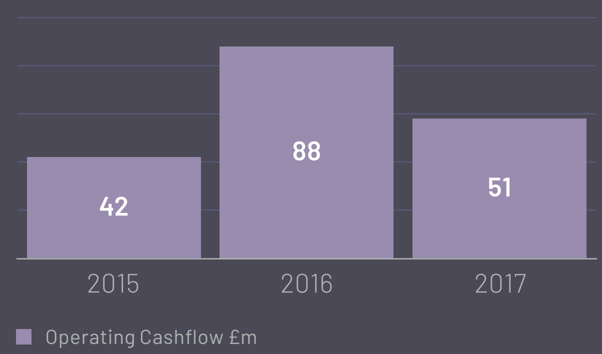
Gross Profit



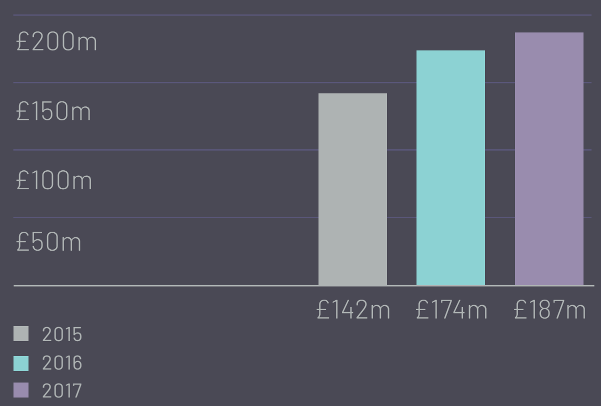
EBITDA



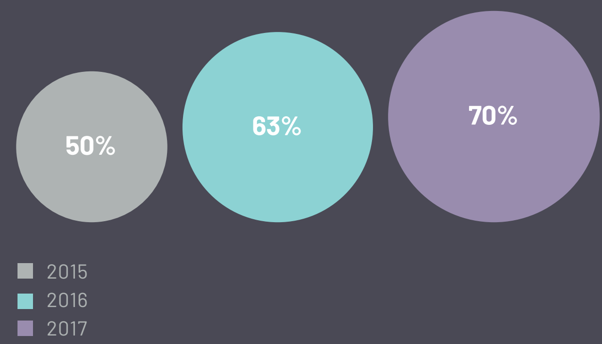
Operating Cashflow



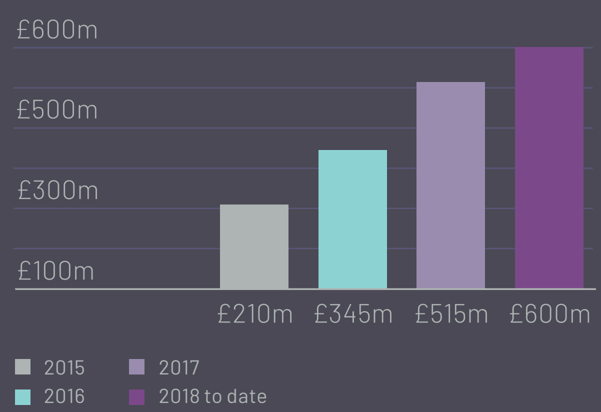
Cash in Hand



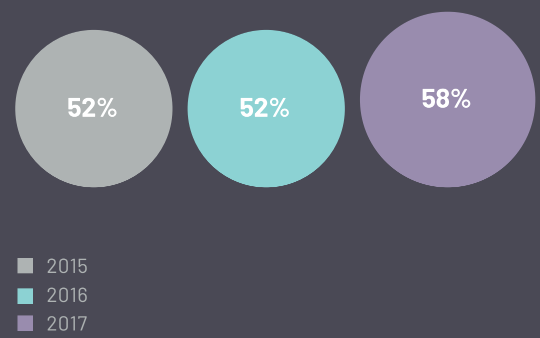
International Sales Mix



Banking Facility



Sales from Own Brands



THG ideas with momentum

Our Business Model

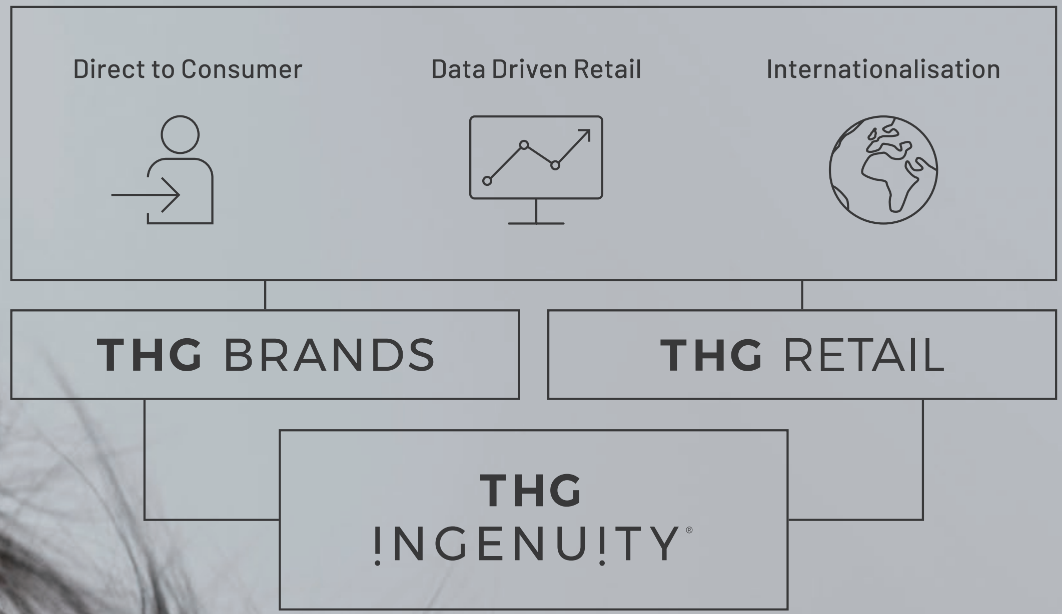
THG is an international technology company focussed on digital retail in the beauty and wellbeing sectors. Founded in 2004, by CEO Matthew Moulding, to develop an ecommerce technology platform, THG now operates 166 localised websites retailing to customers in 164 countries.

THG is powered by Ingenuity, our proprietary global technology ecosystem. We wholly own and operate a globally integrated end-to-end technology stack that spans hosting, warehousing and fulfilment, data science and ecommerce technologies through to integrated payment solutions with customer service.

This seamless integration makes Ingenuity a unique technology platform proven to power brand growth on a global scale; our own brands and retail sites, as well as providing platform services for some of the world's most innovative organisations.

By owning the whole customer journey from manufacturing our products, selling them direct to consumers via our own websites, and dispatching from our warehouses, we can deliver high quality products and experiences to customers whilst maintaining an industry leading cost base.

We will continue to invest in our business model to ensure we continue to be the leading global online beauty and wellbeing provider.



THG powered by Ingenuity

Built over the last decade, Ingenuity is our proprietary technology ecosystem that is engineered for vertically integrated ecommerce. It powers all of our own brands and retailers and is key to our ability to internationalise as it supports multiple currencies and payment methods, and provides the tools for us to put data at the heart of our retail experience.

Ingenuity drives personalised brand experiences and global transactions through our proprietary algorithms. Optimised search and responsive design help to drive transactions and post purchase engagement is driven through automated eCRM, product bundling, and reward and referral systems. Ingenuity simplifies the transaction journey through one-page checkout, integration to our fulfilment platform and fast page load across the globe.

All of this is underpinned by our global footprint of 29 data centres, on demand infrastructure, and high performance network. Ingenuity provides the ultimate hosting performance for our brands, our retailers and our brand partners.

Our ambition for Ingenuity is to be a global platform leader and alongside our own brands and retailers we already power some of the world's leading businesses including Nintendo, The Daily Mail Group, Honda and Hero Cycles.

Powered by THG INGENUITY

Warehousing & Fulfilment

Hosting

Ecomm Tech Platform

Content & Creative Services

Data Science

Translation & Language Services

Customer Services

Transaction & Finance Management

70% International Sales Mix (in 2017)

32 Local and Global Payment Methods

42 Currencies Traded Worldwide

193 Shipping Destinations

22m Worldwide Customer Database

166 Localised Websites

35 Languages Supported

500m Annual Visits to THG Operated Websites

93% Growth in Brand Partner Revenue

29 Footprint of Global Data Centres

>30 Courier Integrations

10 GbE Premium Network

10 Tbps Total Network Capacity

350k Route Optimisations Each month

450 Dedicated Engineers

Strategic platform investments

HANGAR SEVEN

Ingenuity facilitates digital first content and acquiring Hangar Seven in April 2017 has allowed us to scale and productise our content and creative services further across the Group. We now operate an end-to-end content production facility, from driving the strategy, to concepting and storyboarding, to video and photography production.

Hangar Seven delivers global digital impact with localised content powered by data and insight.

With an integrated in-house digital studio we are able to rapidly create content assets and videos, driving our online marketing activities across all sites and customer touch points.

166
Producers, Photographers, Stylists, Designers and Creative Directors

7
Studio Locations Across Europe and the US

140k
Sq ft of Photographic Studios

UK2 GROUP

In May 2017, we completed our first technology acquisition, UK2, a web hosting business, which has allowed us to significantly develop our technology ecosystem. We now have 29 global data centres situated in strategic locations, with access to multiple high quality transit and peering providers. 100TB provides exceptionally high bandwidth allowing us to respond to customer needs, for example video hosting.

UK2 is now a core part of our technology proposition, and its high performance infrastructure will facilitate our ability to increase capacity, speed and resilience for our global brands.

29
Footprint of Global Data Centres

10
GbE Premium Network

10
Tbps Total Network Capacity

Warehouse and fulfilment

2017 was a year of unprecedented operational reorganisation as we built out the foundations for our global fulfilment and manufacturing footprint.

Our wholly owned 1m sq ft Cheshire based production and distribution facility was fully commissioned in late summer 2017. The facility is powered by our proprietary Warehouse Management Software, Voyager. During the year, our onsite engineering team made over 650 service and cost enhancing software changes. We expect investment in the software to continue as the site moves towards maturity in 2018.

In 2017, the foundations were laid and building commenced on our Poland based European production and distribution facility, expected to open in Autumn 2018. The site will also be powered by Voyager. Ahead of the build of our European Centre, we opened a satellite facility in a nearby location in Poland to expedite the move into that region.

To support our production and distribution facility in Kentucky, USA, we opened a satellite fulfilment centre in Reno, Nevada, to service the West Coast and to underpin our Beauty Subscription Box acquisition, we commissioned two European satellite facilities in Sweden and Poland.

Post year end, we have finalised details of our new build Content Studio facility, located in the North West of England, with building to commence in 2018 of a 165k sq ft Content Studio. A number of our existing content studios will be consolidated into this state of the art facility.

In addition to the above new projects, we exited a further 16 fulfilment facilities in the year, four legacy UK Food production and fulfilment facilities, and we inherited a further 12 facilities globally with M&A in the year which were exited and absorbed within our core infrastructure in the UK, Europe and North America.

THG Brands overview

The global beauty and wellbeing markets are being transformed by digital channel shift and the explosion of high growth, small and medium sized independent brands. We are building a portfolio of these brands and are uniquely well-placed to become the global digital leader.

We have expertise in scaling brands direct to consumer, our global retail sites provide a platform to fuel growth, we manufacture products in-house at our facilities around the globe, and Ingenuity delivers operational efficiencies while internationalising rapidly, therefore, we are able to tackle these structural changes at speed, something traditional brands cannot easily respond to.

Retailing over 800 prestige brands in 164 countries provides us with unique data-driven insights into industry trends and international growth opportunities, helping to shape our long-term brand strategies.

We have supplemented our brand portfolio with the acquisition of beauty subscription business, Glossybox, which has increased our ability to drive brand education and adoption, test innovation, whilst introducing new customers to our brands.

We plan to make more acquisitions in this space and plug them into Ingenuity's technology ecosystem to:

- Improve efficiency and profitability;
- Drive direct to consumer sales through both own brand and reseller websites;
- Improve international sales mix;
- Drive education and adoption through targeted sampling and subscription services;
- Improve quality and deliver cost synergies through vertical integration and in-house manufacturing.

ILLAMASQUA ESPA HALE MYPROTEIN

mio fit skin for life GROW GORGEOUS HAIRCARE idealshape myvitamins

exante FIT idealfit r. idealraw

Strategic brand investments

In September 2017, we acquired one of the world's leading spa and skincare brands, ESPA. The products are sold in over 700 luxury spas across 50 countries and prestige retail outlets including Liberty London and Harvey Nichols.

The ESPA treatments delivered in spas all over the world has created strong brand awareness and affinity which makes it an attractive brand to grow direct to consumer, harnessing our retail websites and the power of Ingenuity.

This acquisition complements the THG business model, as ESPA is vertically integrated, adding beauty manufacturing to our significant expertise in the sports nutrition market.

We have already made significant progress by integrating ESPA with Ingenuity, delivering cost synergies and improving direct to consumer sales. In 2018, we plan to internationalise the ESPA offering further.

12%
Uplift in Profitability Post Acquisition

34%
Increase in Direct to Consumer Participation

ESPA

Strategic brand investments

In October 2017, we acquired colour cosmetics brand, Illamasqua, which is used by professional makeup artists around the world.

It is a cult brand renowned for award-winning, professional-grade products with rich cultural heritage. Bringing Illamasqua into our own brand portfolio has allowed us to increase NPD (New Product Development) frequency, helping to move the brand into the contemporary segment.

Through integration with Ingenuity we have delivered efficiencies and have begun to focus on strategic business-to-business partnerships, as well as driving online direct to consumer sales.

282%
Uplift in Profitability Post Acquisition

43%
Increase in Direct to Consumer Participation

<1
Week to Integrate to Ingenuity

ILLAMASQUA

Manufacturing

A key part of our brand portfolio strategy is vertical integration and the ability to manufacture in-house. At our state of the art 65k sq ft production facility which resides inside our 1m sq ft Omega site in Cheshire, we manufacture over 80% of our Myprotein products in-house. These are manufactured to British Retail Consortium standards where we have been certified AA Grade for the last four years. We also hold ISO 9001, Informed Sports and Soil Association certification to allow us to manufacture across these ranges.

We have numerous quality procedures in place throughout the whole of our production process, to ensure we continue to deliver the highest quality products in Europe. As part of this, we test every single raw material on entry into our factory and every finished product before it leaves our site using Near Infra-Red technology and UKAS accredited external testing partners ALS.

We continued to invest in our manufacturing capability with the acquisition of ESPA, which produces the majority of its products in-house in its manufacturing facility in Frome, Somerset which are certified to ISO 9001 2015 standards, and fully commissioning our sports nutrition production facility in Kentucky. In 2018, we will open another manufacturing facility in Wroclaw, Poland for the Central European market. Our ability to invest in global manufacturing plants is a key strategic pillar to achieving international growth for our brands.

UK
Cheshire
Somerset

USA
Kentucky

Poland
Wrocław (2018)

8M+
Units Produced in Our Beauty Manufacturing Facility in 2017

82%
Of Nutrition Products Manufactured In-House

18,367MT
Of Product Produced in 2017

MYPROTEIN

Since we acquired Myprotein in 2011, the THG model has facilitated rapid growth through direct to consumer sales and aggressive international expansion. It is now a global leader in the direct to consumer sports nutrition and apparel market having harnessed the power of our technology ecosystem. Myprotein is now available in 106 countries, across 35 languages and 74% of our sales in 2017 came from international markets.

In 2017, we continued to drive impressive international penetration with outstanding year-on-year growth in Asia of almost 500% as well as continuing to develop high growth categories such as vegan, ready to eat and clothing.

Our business model allows us to localise our offering for high growth international markets, for example manufacturing our products in-house allows us to cater to local tastes. In 2017, we launched milk tea and matcha tea flavoured proteins for the Japanese market, and our platform, content and language expertise allows us to create a location specific customer experience.

180
International Ambassadors

112
Shipping Destinations

34
Local Courier Networks

29
Payment Processors

THG Retail

Across our 45 retail sites we sell over 1,000 brands with 100% authorised supply. Our data driven approach and end-to-end technology ecosystem has allowed us to become one of the world's biggest online resellers of branded beauty products, with a portfolio of reseller brands across the globe.

In 2017, we invested in our subscription offering, acquiring Glossybox, which enhances our ability to test innovation and drive brand adoption.

lookfantastic
SkinCareRx
RECREATE YOURSELF
SkinStore
BEAUTY EXPERT
MANKIND
HQhair.com
GLOSSYBOX

lookfantastic

After acquiring Lookfantastic in 2010 and integrating the business onto our platform in 2011, we have driven rapid internationalisation.

We have been able to leverage the THG model, launching new markets and reaching customers across our 22 local language sites, selling over 660 prestige brands across 26,000 SKUs.

In 2017, Lookfantastic had a 71% international sales mix, up from 54% in 2015 and 65% in 2016.

71%
International Sales Mix

660
Prestige Brands Sold on Site

GLOSSYBOX

In 2017, our beauty boxes were a significant contribution to our retail business, with our Lookfantastic advent calendars having their best ever year. Our beauty boxes provide a great platform to grow our new customer base along with increasing revenue through conversion into full size products. To further scale our beauty box business globally we acquired Glossybox in August 2017, an international beauty box leader.

Glossybox, founded in 2011 in Berlin, is Europe's number one provider of beauty box subscription services. Operating in 10 core markets, with offices in the UK, Europe and the USA. Its business model is a subscription service for a box of beauty products.

With strong existing foundations and infrastructure in subscription models we were set up to accommodate the scope of Glossybox. Our proprietary ecommerce technology platform already underpins the successful and growing subscription models of Lookfantastic Beauty Box, MyGeekBox, ZBox and PopInABox.

Acquiring Glossybox's office in Berlin, one of Europe's best tech and startup hubs, opened up a strategic opportunity for us to build out another tech-hub for the Group. We continue to invest in talent in this market and as of December 2017 we had 118 people operating out of our Berlin HQ.

10

Number of Territories Now Served

45%

EBITDA Margin Increase Since Acquisition

118

People Employed at Our New European HQ in Berlin at the End of 2017

World class talent

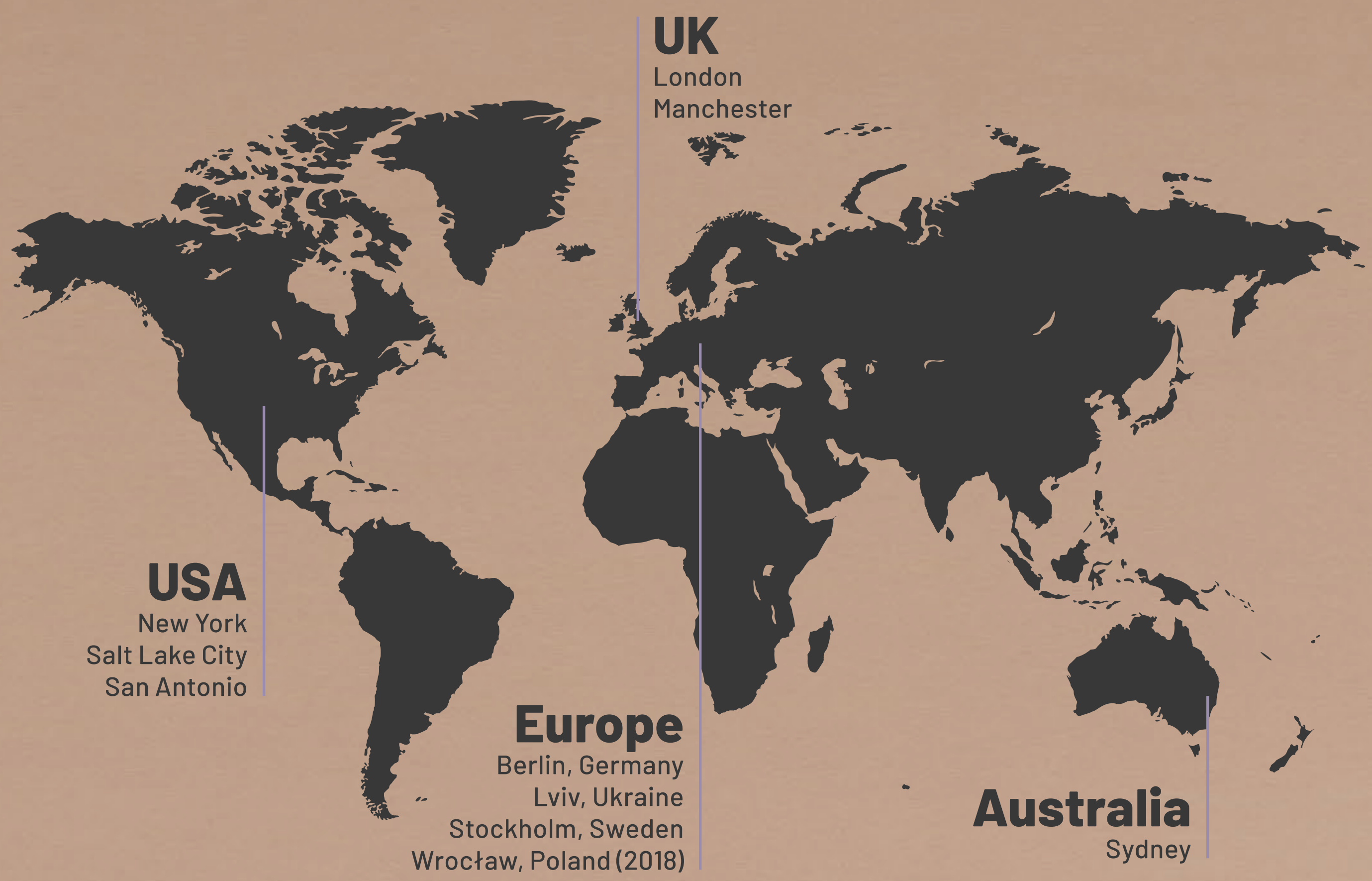
Our aspiration is to be the number one destination for ambitious talent. Our unique high performance and meritocratic culture encourages ambition, innovation and career growth at an exceptional rate.

The Group's talent continues to experience major sustained growth, with thousands of staff located across the globe. At the end of 2017, we had over 4,000 employees and we created 1,884 new jobs during the year.

We are building an incredibly diverse pool of talent:

- 66 nationalities
- 56% male to 44% female
- Average age of 29

Over the course of 2017, our global footprint has expanded significantly; we are building global teams and now have offices in 10 cities including:



In 2017, we invested heavily in our talent function, including internal communications, leadership academies and office infrastructure. In 2018, we plan to hire 2,000 more employees.

In 2017, we built up our THG Academy offering across the Group. We have built a bench of leaders for future acquisitions by running four senior leadership courses, providing bespoke training, mentoring and coaching to prepare our high potential talent for more senior opportunities, many of which have emerged through acquisitions. Our People team has been heavily involved in integrating the talent we have gained through our six acquisitions of 2017, and we have been able to provide a number of wider THG opportunities for high quality employees who have joined THG. Following an employee survey in mid-2017, we have also run compulsory manager training to improve the performance of managers.

We also presented our first Gender Pay Report for the Group as at 5 April 2017. Our median pay gap of 6% is well below the national average and we pay bonuses to a greater proportion of our female employees, than we do men. When our Technology Division is excluded then our gender pay gap falls to 2%, and in like-for-like roles, such as Customer Services Advisor or Warehouse Operative, the difference is negligible at +/- 1%.

Financial review

Financial review

Revenue

The Group generated total sales growth of 47% during the year, consistent with the three year sales CAGR of 49%, with sales increasing from £501m to £736m.

The Rest of the World (all geographies outside of the UK and Europe) delivered significant growth of 103%, increasing to 41% of the total revenue in the year (2016: 29%). In the process, this has become our largest sector, reflecting our platform driven penetration into international markets. We have consolidated and strengthened our positions in the US, Australia, China, Japan and South Korea. We will consolidate our position in Asia as we open our first fulfilment centre in that continent in the current year.

European growth remains strong at 26%, now comprising 29% of the total revenue (2016: 34%). We expect to further strengthen our position in this market as we commission our new European beauty and wellbeing production and fulfilment facility in Poland. This will allow us to further improve our service proposition on the continent as well as substantially increase our capacity to produce and distribute own brand products.

The above achievements have been reflected in a Queen's Award for Enterprise in the International Trade category in 2018. Revenue within the UK also continues to excel as we bring more own branded products and technology services to that market. This is reflected in sales growth of 21% during the year.

The Group's returns rate from customers remains low at 1% (2016: 1%), continuing to reflect the high repeat, highly personalised nature of the retail and product offering.

Gross Profitability

The gross profit margin increased by 120bps in the year to 43.3% (2016: 42.1%).

This level of improvement in the year was driven by a number of factors:

- Continued evolution in the business model leading to ongoing shift in sales mix towards more profitable, own brand beauty and wellbeing sales;
- Investment in wellbeing supply chain both in breadth and the volume of in-house production;
- Acquisition of two more beauty brands (ESPA and Illamasqua), one beauty subscription business (Glossybox) and a beauty reseller, (RY.com.au), in the year; and
- Acquisition of UK2 and Hangar Seven delivering economies of scale across the Group with regards to hosting and content creation respectively whilst also enhancing Group gross margin.

Operating Expenses

Distribution costs remain well controlled at 16.8% of sales, a marginal improvement on the prior year (17.0%). Given our strong international mix this illustrates the benefits in having an end-to-end fulfilment model that utilises an extensive integrated local courier network.

Costs associated with the ongoing transition in to Omega, our production and distribution facility, have been recognised within exceptional items alongside various acquisition related costs.

Underlying administrative costs (staff, marketing, other administrative but excluding exceptional items, share-based payments, depreciation and amortisation) increased during the year to £126m (17.1% on sales) from £76m in 2016 (15.2% on sales), partially reflective of investment to support 2018 growth plans.

Marketing costs increased by 10bps in the year to 8.5% on sales (2016: 8.4%) driven by increased digital marketing activities as we continued to invest in own brand penetration and customer acquisition in international territories. Over 4.7m new customers transacted with the Group in the year, which combined with increasing annual repeat behaviour, positions the Group well to further accelerate growth into international territories from this growing base.

Staff costs excluding distribution increased by 140bps to 7.1% of sales (2016: 5.7%), due to the significant investment in scalability, international growth and the success of the graduate talent programme.

Other administrative costs represent just 1.5% on sales (2016: 1.1%) which reflects the efficient nature of the operating model, even as the business grows.

Depreciation and Amortisation

Total depreciation and amortisation costs were £39m (2016: £20m), a reflection of our accelerated investment in growth projects and infrastructure:

- The Group invested £51m in tangible assets during the year (2016: £129m). This primarily relates to further investment in our Omega and Kentucky production and distribution facilities as well as post-acquistion investment in the UK2 network infrastructure. £13m of tangible assets were acquired through the six business combinations in the year. Over £125m has been invested in the UK fulfilment and production centre (Omega) which is freehold owned and with no operating leases in place.
- The Group continued to invest in its proprietary technology platform during the year to facilitate global scale and to address the ever-changing social trends of our customers across the globe. £25m was invested in the platform up from £19m in 2016. The net book value of the platform is £41m.
- The Group has acquired a range of brands and intellectual property as it continues to expand its international offering as part of the Group's long-term strategy. During the year these acquisitions resulted in additional intellectual property and brands of £3m and £24m respectively. Further information on the Group's acquisitions during the year can be found in note 10.

Exceptional Items

In order to understand the underlying performance of the Group, certain costs included within distribution and administrative costs, have been classified as exceptional items. These items principally relate to:

Distribution - £15m

- During the year the Group fully commissioned the 1m sq. ft. Cheshire based food production and distribution facility (Omega). We expect that the site will take a year to reach maturity as we continue to develop the proprietary software that controls the operation. Costs relating to the ongoing integration of this facility continue to be included within exceptional items.
- As acquisitions are integrated onto the THG platform, Ingenuity, any legacy warehouses are exited. During the year we ceased operations in 12 such facilities on three continents. Associated costs are non-recurring in nature.

Administration - £15m

- Legal, financial and taxation due diligence costs on the six businesses acquired in the year.
- Post-acquisition reorganisation and restructuring costs associated with the deals completed in the year, including dual site and technology decollation costs, redundancies, onerous lease costs and other costs of a one-off nature including store closures. Please refer to note 4 for further information.

Share-based Payments

Part of the strategy of attracting, retaining and motivating talent, is a share option scheme. In total, there are 117 participants in the Group's share schemes. The non-cash IFRS 2 share-based payments charge for the year relating to the share options in issue during the year was £1.8m (2016: £2.0m).

Share-based payments also contain a cash charge for the year amounting to £2.3m (2016: £1.1m). A number of employees, who met certain service criteria during the year, were given the opportunity to benefit from the share options they held ahead of the original vesting date. These staff members were paid the value of their share options early and as a result their share options were cancelled.

The Group issued no Employee Share Scheme (ESS) shares during 2017. As a result, there is no charge related to share issue (2016: £0.7m).

Number of options in issue 1 January 2017	**383,894**
Number of share options cancelled during the year	(38,931)
Number of share options in issue 31 December 2017	**344,963**
Number of employees holding share options 31 December 2017	117

Finance Costs

Finance costs of £7.2m (2016: £2.4m) primarily relate to interest on the Group's increased £515m bank facility and amortisation of arrangement fees. In early May 2018, the bank facility was increased further to £600m with maturity in May 2021.

Banks

The Group agreed a further significant increase in its available corporate debt facilities in 2017, as we added three new banks to our current facility. The total facility increased to a £515m facility representing an additional commitment of £213m provided by the lenders listed here.

In May 2018, we further increased the facility with the same lender group to £600m, including a £51m accordion facility.

The amended facility runs to May 2021 with an optional one-year further extension.

The facility will be used for any strategic initiatives we may undertake. The scale and flexibility of the facility provides us with substantial capacity to accelerate our international expansion plans and fund future acquisitions.

£600m

Facility From May 2018

2021

Maturity of the Facility

10

Bank Syndicate

HSBC
8 Canada Square
Canary Wharf
London
E14 5HQ

Lloyds Bank Plc
25 Gresham Street
London
EC2V 7HN

Barclays Bank Plc
1 Churchill Place
London
E14 5HP

JP Morgan Securities Plc
25 Bank Street
London
E14 5JP

Santander UK Plc
2 Triton Square
Regent's Place
London
NW1 3AN

The Governor and Company of the Bank of Ireland
Bow Bells House
1 Bread Street
London
EC4M 9BE

The Royal Bank of Scotland Plc
36 St Andrew Square
Edinburgh
EH2 2YB

Silicon Valley Bank
Alphabeta
14-18 Finsbury Square
London
EC2A 1BR

Citibank N.A London Branch
33 Canada Square
Canary Wharf
London
E14 5LB

PDL Europe Holdings LP
1100-10830 Jasper Avenue
Edmonton
Alberta
T5J 2B3
Canada

Risk Management

Principal risks and uncertainties
The execution of the Group's strategy and the management of its business are subject to a number of risks and uncertainties. The principal risks and uncertainties include competition, supply chain risk, technological change and employee hiring and retention.

Competitor activities are constantly monitored to ensure that the business can react in a timely manner to such activity and ensure that the Group maintains a competitive position in each market in which it operates.

Significant effort is placed on working with suppliers to manage the potential risk of interruptions and delays in supply or distribution that may adversely impact on trade. The Group has multiple delivery routes and options, and uses multiple delivery service providers, to reduce the level of dependency on any single provider. There is continuous monitoring of service levels and warehouse handling to ensure goods are delivered in a timely manner. All products are on relatively short lead times, with a steady flow of products into the warehouse, enabling the supply chain to be diverted to alternative locations if necessary within a manageable time frame.

The Group's technology platform provides a real time, single data view of the business enabling trading and operational decisions to be based on high quality management information. On-going investment is made in the IT systems to ensure that they are able to continue to respond to the needs of the business and do not become obsolete. Business recovery processes are in place to minimise the effects of damage or denial of access to the infrastructure of systems.

The Group is able to attract and retain high calibre employees through a combination of competitive basic salaries and performance based bonuses coupled with share option schemes, which are open to individuals at every level in the business.

Financial risk management objectives and policies
Senior management are aware of their responsibility for managing risks within their business units. The head of each business unit reports to the Board on the status of these risks through management reports. Risk is regularly reviewed at board level to ensure that risk management is being implemented and monitored effectively. The Board is supported by a Group Internal Audit function which assists the Board in fulfilling its oversight responsibilities.

The Board's policy is to ensure that the business units are empowered to operate effectively and appropriately, bearing in mind the requirements for timely decision making and commercial reality. Through management reports, risks are highlighted and monitored to identify potential business risk areas and to quantify and address the risk wherever possible.

Commercial and general risk
Standard form contracts are provided by the Group's in-house legal team for commercial use and to ensure the commercial functions negotiate within approved parameters. Insurance policies are regularly reviewed to ensure these are adequate, appropriate and in line with the nature, size and complexity of the business.

Financial risk management
The Group's operations involve exposure to credit risk, liquidity risk, currency risk and interest rate risk. The Board's policies for managing these financial risks are implemented by the Chief Financial Officer.

Credit risk
The majority of the Group's customers pay in advance for purchases. Where services are supplied without advance payment, a credit review of the customer is undertaken at the point the order is received and subsequently on a periodic basis. The maximum credit risk exposure is represented by the carrying value as at the balance sheet date (see note 15). The credit risk on bank balances is considered to be low as they are held with A rated counterparties.

Liquidity risk
The Group regularly forecasts cash flow and maintains an appropriate balance of cash and debt facilities to ensure that sufficient funds are available from trading to cover future expenses and capital expenditure.

Currency risk
The Group receives an increasing proportion of its revenue in foreign currency. In addition, certain key suppliers invoice in euros and US dollars. The Group aims to naturally hedge these transactions and where appropriate uses financial instruments in the form of foreign currency swaps to hedge future currency cash flows. The fair value of foreign currency swaps outstanding at the balance sheet date is detailed in note 14 to the financial statements.

Interest rate risk
The Group's interest rate risk arises from therevolving credit facilities in place. The Group reviews its exposure to variable interest rates on a regular basis and fixes rates.

By order of the Board

J P Pochin
Company Secretary
29 May 2018

Directors' report
Directors, advisors and Directors' interests

The Directors and advisors of the Group who were in office during the year from 1 January 2017 and up to the date of signing the financial statements are listed below with the Directors' interests detailed in note 26.

Dividends
No dividends will be distributed for the year ended 31 December 2017 (2016: £nil).

The Board returned £3.8m (2016: £17.0m) of equity to minority shareholders in a continued effort to provide ongoing shareholder liquidity.

Directors


M J Moulding


J A Gallemore


A Monro


I McDonald


W M Evans


P J Gedman


R J Pennycook


N J M Gheysens
(appointed 5 September 2017)


D P Murphy


B Liautaud
(appointed 5 September 2017)


E J Koopman


J P Pochin
Company secretary
(appointed as a director on 18 April 2018)

A Duckworth resigned 17 April 2018


Z Byng-Thorne
Professional advisor

Research and development
The Group's ecommerce and technology services divisions are powered by its proprietary technology platform. In addition to providing end-to-end ecommerce functionality, the platform provides the Group with a number of important competitive advantages. Specifically, the commercial teams review real time transactional and customer insight data which informs trading decisions, which are then executed within short time frames. In order to remain competitive and to promote innovation, investment into the technology platform in terms of people and capital expenditure is a priority for the Group. The Group has over 350 full time staff dedicated to the continual enhancement of the platform.

Employees
Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and the appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

The Group seeks to retain high calibre employees through a combination of competitive basic salaries and performance based bonuses coupled with a share options scheme, which is open to individuals at every level in the business.

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests. Communication with all employees continues through the Group intranet, briefing groups and distribution of the Annual Report.

Directors' qualifying third party and pension indemnity provisions
There were no qualifying third party and pension indemnity provisions during the year or in place at the date the Directors' Report was approved.

Donations
During the year, the Group made several charitable donations totalling £99,630 (2016: £34,000).

Statement of directors' responsibilities
The Directors are responsible for preparing the Strategic Report, the Directors' report and the consolidated and company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union, and the Parent Company financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable;
- for the consolidated accounts, state whether IFRSs as adopted by the European Union have been followed;
- for the Parent Company accounts, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Parent Company accounts; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Parent Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and Parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Going concern
The Directors have prepared the cash flow forecasts for a period of 12 months from the date of the approval of the financial statements. On the basis of the cash flow projections and projected headroom against the available facilities, the Directors are satisfied that it is appropriate to prepare the financial statements of the Company and Group on a going concern basis.

Statement of disclosure of information to auditors
For all persons who are Directors at the time of approval of the annual report:

- so far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Financial risk management
Information in respect of financial risk management for the Group has been disclosed within the Strategic report.

2018 Outlook and post balance sheet events
Trading
The key trading trends in evidence throughout 2017 have continued in 2018, re-affirming management's confidence for the 2018 outlook. Management anticipate a strong level of revenue growth in 2018, driven both by continued growth in the UK and overseas, coupled with selective acquisitions. The shifts in the revenue mix in evidence over recent years are also expected to continue in 2018 with both own brand and international revenues expected to continually increase as a percentage of the total Group revenues.

The gross margin progression reported over successive recent years is also expected to continue in 2018, through a combination of increased own brand sales plus increased in-house production, following continued investment in the manufacturing centre of excellence.

The Group's strong cash flow model and continued working capital improvements will provide further liquidity to continue to re-invest in the business's infrastructure, most notably the proprietary platform.

Equity
In the first quarter of 2018, two of the Group's largest shareholders increased their stake in THG by £40m each, providing additional firepower for imminent M&A, and valuing the Group at over £2.5bn. During the same period, the Group also took the opportunity to buy back c.£16m of shares, at discounted pricing, providing further value creation to shareholders.

Acquisitions
On 3 May 2018, the Group acquired the entire share capital of M Beauty Limited and Make Money Limited operating under the brand Eyeko, a specialist eye cosmetic comp. Renowned for its innovative, high quality mascaras, liquid liners and brow gels, Eyeko takes its British heritage and utilises Korean expertise to deliver an innovative range of products. Eyeko products are stocked in multiple countries including the UK, US, Australia and Europe through notable retailers such as Selfridges, Space NK, Ulta and Sephora. The brand is also available direct to consumers through eyeko.com and THG-owned lookfantastic.com.

Refinancing
In early May 2018, the Group increased its existing corporate debt facilities to £600m. The extended facility is with the same ten bank syndicate (see page 37) and runs to May 2021 with an optional one year further extension. The £600m facility is a mixture of term loan and revolving credit facility and includes a £51m accordion facility. The increased facility provides up to £400m of cash for any strategic initiatives the Group may undertake, including possible acquisitions in beauty & wellbeing categories, as well as infrastructure development and substantial capacity to accelerate our expansion plans.

Auditor
Ernst & Young LLP have expressed their willingness to continue in office in accordance with Section 487(2) of the Companies Act 2006. The auditor's registered office is as follows:

Ernst & Young LLP
2 St Peter's Square
Manchester M2 3EY

By order of the Board

James Poch

J P Pochin
Company secretary
29 May 2018

Independent auditor's report to the members of The Hut Group Limited

Opinion

We have audited the financial statements of The Hut Group Limited ('the Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2017 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows, the related notes 1 to 28, the Parent Company balance sheet, the Parent Company statement of changes in equity and the related notes to the Parent Company financial statements 1 to 9, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

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

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

Other information

The other information comprises the information included in the annual report on pages 2 to 43, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement on page 42, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Ernst & Young LLP

Alastair John Richard Nuttall
(Senior statutory auditor)

For and on behalf of Ernst & Young LLP,
Statutory Auditor
Manchester
30 May 2018

Notes:
1. The maintenance and integrity of the The Hut Group Limited web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated statement of comprehensive income for the year ended 31 December 2017

		2017			2016		
		Before exceptional Items	Exceptional Items (note 4)	Total	Before exceptional Items	Exceptional Items (note 4)	Total
	Note	£'000	£'000	£'000	£'000	£'000	£'000
Revenue	2	**735,652**	–	735,652	**501,376**	–	501,376
Cost of sales		**(417,190)**	–	(417,190)	**(290,142)**	–	(290,142)
Gross profit		**318,462**	–	**318,462**	**211,234**	–	**211,234**
Distribution costs		**(108,331)**	(15,315)	(123,646)	**(79,721)**	(5,272)	(84,993)
Administrative costs		**(183,914)**	(14,944)	(198,858)	**(104,970)**	(4,720)	(109,690)
Operating (loss)/profit	**3**	**26,217**	**(30,259)**	**(4,042)**	**26,543**	**(9,992)**	**16,551**
Adjusted EBITDA*		**69,116**	**(30,259)**	**38,857**	**50,157**	**(9,992)**	**40,165**
Depreciation	12	**(16,815)**	–	(16,815)	**(6,181)**	–	(6,181)
Amortisation	11	**(21,969)**	–	(21,969)	**(13,580)**	–	(13,580)
Share-based payments	7	**(4,115)**	–	(4,115)	**(3,853)**	–	(3,853)
Operating (loss)/profit		**26,217**	**(30,259)**	**(4,042)**	**26,543**	**(9,992)**	**16,551**
Finance income	8	**315**	–	315	**61**	–	61
Finance costs	8	**(7,152)**	–	(7,152)	**(2,418)**	–	(2,418)
(Loss)/profit before taxation		**19,380**	**(30,259)**	**(10,879)**	**24,186**	**(9,992)**	**14,194**
Income tax (charge)/credit	9	**(3,829)**	4,615	786	**(4,976)**	1,586	(3,390)
(Loss)/profit for the financial year		**15,551**	**(25,644)**	**(10,093)**	**19,210**	**(8,406)**	**10,804**
Other comprehensive income:							
Exchange differences on translating foreign operations, net of tax		**(1,209)**	–	(1,209)	**(245)**	–	(245)
Total comprehensive (expense)/income for the financial year	22	**14,342**	**(25,644)**	**(11,302)**	**18,965**	**(8,406)**	**10,559**

*Adjusted EBITDA is defined as operating profit before depreciation, amortisation, share-based payments and exceptional items.
The results for the year are derived from continuing activities.
The comprehensive (expense)/income is 100% attributable to the owners of the Parent Company.

Consolidated statemement of financial position as at 31 December 2017

	Note	2017 £'000	2016 £'000
Non-current assets			
Intangible assets	11	**434,691**	221,636
Property, plant and equipment	12	**186,207**	152,049
		620,898	**373,685**
Current assets			
Inventories	13	**84,798**	58,911
Trade and other receivables	15	**43,734**	17,857
Current tax asset		**2,789**	1,663
Cash and cash equivalents	16	**186,729**	174,286
		318,050	**252,717**
Total assets		**938,948**	**626,402**
Equity			
Ordinary shares	22	**3,746**	3,299
Share premium	22	**277,380**	94,260
Employee benefit scheme reserve	22	**175**	175
Merger reserve	22	**615**	615
Capital redemption reserve	22	**518**	518
Retained earnings	22	**36,792**	44,666
		319,226	**143,533**
Non-current liabilities			
Borrowings	18	**397,467**	299,999
Deferred tax	20	**6,768**	7,493
		404,235	**307,492**
Current liabilities			
Trade and other payables	17	**205,432**	166,456
Borrowings	18	**9,230**	8,156
Provisions	19	**825**	765
		215,487	**175,377**
Total liabilities		**619,722**	**482,869**
Total equity and liabilities		**938,948**	**626,402**

The financial statements on pages 46 to 77 were approved by the Board of Directors on 29 May 2018 and were signed on its behalf by:

J A Gallemore
Director
Registered number: 06539496

Consolidated statement of changes in equity for the year ended 31 December 2017

	Note	Ordinary shares £'000	Share premium £'000	Employee benefit scheme reserve £'000	Merger reserve £'000	Capital Redemption Reserve £'000	Retained earnings £'000	Total Equity £'000
Balance at 1 January 2016		**2,743**	**13,748**	**175**	**615**	**457**	**45,565**	**63,303**
Total comprehensive income for the year		–	–	–	–	–	10,559	**10,559**
Issue of ordinary share capital		483	81,882	–	–	–	–	**82,365**
Share buy-backs		(61)	(1,236)	–	–	61	(14,557)	**(15,793)**
Share-based payments	7	–	–	–	–	–	1,994	**1,994**
Bonus issue		134	(134)	–	–	–	–	–
Deferred tax effect of share-based payments		–	–	–	–	–	1,105	**1,105**
Balance at 31 December 2016		**3,299**	**94,260**	**175**	**615**	**518**	**44,666**	**143,533**
Balance at 1 January 2017		**3,299**	**94,260**	**175**	**615**	**518**	**44,666**	**143,533**
Total comprehensive expense for the year	22	–	–	–	–	–	(11,302)	**(11,302)**
Issue of ordinary share capital	22	447	183,120	–	–	–	–	**183,567**
Share buy-backs	22	–	–	–	–	–	(2,466)	**(2,466)**
Share-based payments	7	–	–	–	–	–	2,152	**2,152**
Deferred tax effect of share-based payments	20	–	–	–	–	–	3,742	**3,742**
Balance at 31 December 2017		**3,746**	**277,380**	**175**	**615**	**518**	**36,792**	**319,226**

Consolidated statement of cash flows for the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Cash flows from operating activities			
Cash generated from operations	24	**50,555**	87,607
Income tax received/(paid)		**16**	(2,591)
Net cash generated from operating activities before exceptional cash flows		**50,571**	**85,016**
Cash flows relating to exceptional items		**(34,141)**	(9,992)
Net cash generated from operating activities		**16,430**	**75,024**
Cash flows from investing activities			
Acquisition of subsidiaries net of cash acquired	10	**(164,336)**	(73,841)
Purchase of property, plant and equipment		**(38,685)**	(118,561)
Proceeds from sale of property, plant and equipment		**55**	–
Purchase of intangible assets		**(32,919)**	(32,551)
Interest received		**315**	100
Net cash used in investing activities		**(235,570)**	**(224,853)**
Cash flows from financing activities			
Proceeds from issuance of ordinary shares net of fees		**183,567**	81,677
Share buybacks and related costs		**(4,439)**	(17,040)
Interest paid		**(8,577)**	(2,418)
Repayment of bank borrowings		**(774,155)**	(255,302)
Proceeds from bank borrowings		**837,500**	376,577
Capital element of finance lease payments		**(2,313)**	(914)
Net cash generated from financing activities		**231,583**	**182,580**
Net increase in cash and cash equivalents		**12,443**	**32,751**
Cash and cash equivalents at the beginning of the year		**174,286**	141,535
Cash and cash equivalents at the end of the year	16	**186,729**	**174,286**

Notes to the financial statements

1. Accounting policies

Basis of preparation

The consolidated financial statements of The Hut Group Limited ("the Company") and its subsidiaries (together "the Group") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB) and as adopted by the European Union (EU). The financial statements have been prepared on the historical cost basis except for derivatives which are held at fair value.

The accounting policies adopted by the Group in the current year are consistent with those adopted during the year ended 31 December 2016. There have been various accounting standards and amendments issued during the year that have no impact on the current year financial statements. IFRS 16 Leases continues to be assessed by the Group however any impact would be restricted to the operating leases liability as disclosed in note 21 of these financial statements.

IFRS 15 'Revenue from Contracts with Customers' replaces IAS 18 'Revenue'. This standard is effective for accounting periods beginning on or after 1 January 2018. The Group expects that adoption will not have a material impact on the results or financial position of the Group. A detailed assessment of IFRS 15 will be completed during the year.

The Company is a private limited company and is incorporated and domiciled in the UK.

Going concern

The Group meets its day-to-day working capital requirements through its banking facilities. The Group forecasts cash projections taking account of reasonably possible changes in trading performance demonstrating that the Group is able to operate within the level of its current facilities. After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

Accounting policies

The Group's key accounting policies are set out below. These policies have been prepared on the basis of the recognition and measurement requirements of IFRS standards in effect that apply to accounting periods beginning on or after 1 January 2017, and have been applied to 2016 comparatives.

a. Basis of consolidation

The Group financial statements consolidate those of the Company and all of its subsidiary undertakings drawn up to 31 December 2017. Subsidiaries are all entities over which the Group has control.

The Group exercises control through a majority of voting rights or board control. In the case of The Hut Management Company Limited ("Manco") the Company holds a 0.01% shareholding, however the Company has a separate class of share in Manco which gives it the right to control the appointment of Board Directors. Consequently, Manco has been consolidated within the financial statements on the basis that through Board control, the Group has the power to control the financial and operational policies of Manco. All subsidiaries have a reporting date of 31 December.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a Group perspective.

Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group. Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

b. Business combinations

Business combinations are accounted for using the acquisition method under IFRS 3 'Business Combinations'. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The Group recognises identifiable assets acquired, and liabilities assumed, including contingent liabilities, in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are measured at their acquisition-date fair values. These fair values can be re-assessed for a period of 12 months from the date of acquisition based on information available at the date of acquisition.

Notes to the financial statements (continued)

Goodwill is stated after separate recognition of other identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognised amount of any non-controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognised in profit or loss immediately.

In determining whether a transaction is a business combination or an asset purchase, the Group takes into account the inputs, processes and outputs acquired in accordance with IFRS 3.

c. Segment reporting

The Group is required to determine and present its operating segments based on the way in which financial information is organised and reported to the chief operating decision-maker (CODM). The CODM has been identified as the Board as it is the Board who makes the key operating decisions of the Group, and is responsible for allocating resources and assessing performance of the operating segments.

d. Revenue

Revenue consists primarily of internet sales, which are sales recorded net of an appropriate deduction for actual and expected returns, fair value of loyalty points and sales taxes and are recognised upon dispatch from the warehouse at which point title and risk passes to third parties.

Revenue for services provided is recognised by reference to the stage of completion as at the balance sheet date. Fees recognised in respect of memberships are recorded on a straight line basis over the membership period.

Revenue for internet hosting contracts and domain renewal services (UK2) are recognised on a straight line basis over the relevant period. Income which is invoiced in advance is recorded as deferred income on the balance sheet and released to the profit and loss account over the periods in which the services are provided.

e. Share-based payments

The Group operates share-based compensation plans, under which the Group receives services from employees as consideration for equity instruments (options or growth shares) of the Company. The fair value of the employee services received in exchange for the grant of the equity instruments is recognised as an expense.

Non-market vesting conditions are included in assumptions about the number of equity instruments that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of equity instruments that are expected to vest based on the non-market vesting conditions, along with taking account of any equity instruments that may have been cancelled or modified in the period. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

Share subscriptions by employees in the Company that hold the growth shares, are included within the employee benefit scheme reserve.

When the equity instruments are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the equity instruments are exercised.

Where an equity-settled award is cancelled (including when a non-vesting condition within the control of the entity or employee is not met), it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement.

The Group has an employee benefit trust (EBT) which facilitates an internal market for participants in employee share schemes to sell their shares in the Company. Shares held are recognised at cost as a deduction from shareholding equity. Subsequent consideration received for the sale of such shares is also recognised in equity.

Notes to the financial statements (continued)

f. Intangible assets

Goodwill

Goodwill represents the excess of the cost of acquisitions over the Group's interest in the fair value of the identifiable assets and liabilities (including intangible assets) of the acquired entity at the date of acquisition. Goodwill is recognised as an asset and assessed for any indications of impairment at least annually. Any impairment is recognised immediately in the income statement. For the purposes of impairment testing, goodwill is allocated to those cash-generating units that have benefited from the acquisition. If the recoverable amount of the cash-generating unit is less than its carrying amount, then the impairment loss is allocated first to reduce the carrying amount of the goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit and loss on disposal.

Other intangible assets

Other intangible assets include internally developed software, separately acquired customer lists, domain and trade names, brands and other intellectual property, including customer lists, acquired as part of business combinations.

Separately acquired intangible assets are measured at cost on initial recognition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and impairment losses.

The costs of acquiring and developing the platform and websites is capitalised separately as an intangible asset. Capitalised website costs include external direct costs of material and services and overheads, and the payroll and payroll-related costs for employees who are directly associated with website development projects.

Other internally generated intangible assets are not capitalised and expenditure is reflected in the income statement in the year in which expenditure is incurred.

Intangible assets are amortised on a straight line basis over their estimated useful economic life. Amortisation is included within administrative expenses in the income statement in the period to which it relates. The estimates of useful economic lives are reviewed on an annual basis and any changes are reflected as changes in amortisation period and are treated as changes in accounting estimates.

Brands with indefinite lives are reviewed for impairment on an annual basis. The useful economic life is reviewed on an annual basis to confirm that the indefinite life continues to be supportable.

The following useful economic lives are applied:

Platform development costs	1-5 years
Brands	5 years-indefinite
Intellectual property (including customer lists, domain and trade names)	2-10 years

g. Property, plant and equipment

Property, plant and equipment are stated at historic purchase cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is provided at the following annual rates in order to write off each asset on a systematic basis over its estimated useful life.

Plant and machinery	3-20 years
Fixtures and fittings	3-10 years
Computer equipment and software	3-5 years
Freehold buildings	50 years
Motor vehicles	3-7 years

At each reporting date, property, plant and equipment is reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of expected future pre-tax cash flows of the relevant cash-generating unit or fair value, less costs to sell if higher. Any impairment in value is charged to the profit or loss in the period in which it occurs.

h. Borrowing costs

Borrowing costs incurred in relation to bringing into use both tangible and intangible assets are capitalised as the expenditure is incurred on such assets and subsequently depreciated in line with the useful economic life of the relevant asset.

i. Inventories

Inventories are valued at the lower of cost and net realisable value, on a weighted average cost basis. Cost of purchase comprises the purchase price including import duties and other taxes, transport and handling costs and any other directly attributable costs, less trade discounts.

A provision is made to write down any slow-moving or obsolete inventory to net realisable value.

j. Financial instruments

Financial assets

Financial assets within the scope of IAS 39 are classified as loans and receivables.

Derivative financial instruments

The Group uses derivative financial instruments, such as foreign currency swaps, to hedge its foreign currency risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Derivatives are not designated as hedges and accordingly, any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss.

Trade and other receivables

Trade and other receivables are non-interest bearing and are initially recognised at fair value. Subsequently they are measured at amortised cost using the effective interest rate method less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

Financial liabilities and equity instruments

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at amortised cost. The Group has no financial liabilities at fair value through profit and loss and has no derivatives designated as hedging instruments.Equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Trade and other payables

Trade and other payables are non-interest bearing and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Bank borrowings

Interest-bearing bank loans and overdrafts are initially recorded at fair value, which equals the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for using an effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

k. Leased assets

Finance leases

Where assets are financed by leasing agreements that give rights approximating to ownership, the amount representing the outright purchase price is capitalised and the corresponding leasing commitments are shown as obligations to the lessor. The relevant assets are depreciated in accordance with the Group's depreciation policy or over the lease term if shorter. Net finance charges, calculated on the reducing balance method, are included in finance costs

Operating leases

Payments made under operating leases, net of any incentives received from the lessor, are charged to the profit or loss on a straight line basis over the period of the lease.

l. Onerous contracts

A provision is made for onerous contracts, discounted at a risk free rate. This includes provision for future lease costs on disused warehouse space, based on management's best estimate of future rental costs and, if appropriate, rental income from sub-lease arrangements.

m. Exceptional items

The Directors apply judgement in assessing the particular items, which by virtue of their scale and nature should be classified as exceptional items.

Notes to the financial statements (continued)

Notes to the financial statements (continued)

The Directors consider that separate disclosure of these items is relevant to an understanding of the Group's financial performance.

Items deemed to be exceptional include certain items which are considered to be one-off and not representative of the underlying trading of the Group, including integration costs.

n. Taxation

The tax expense included in the statement of comprehensive income and statement of changes in equity comprises current and deferred tax.

Current tax is the expected tax payable based on the taxable profit for the period, and the tax laws that have been enacted or substantively enacted by the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Current and deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the current or deferred tax is also recognised directly in equity.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates (and laws) that are expected to apply in the period when the liability is settled or the asset is realised.

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

o. Foreign currency translation

Functional and presentational currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Sterling, which is the functional and presentational currency of the majority of entities in the Group

Transactions and balances

Transactions denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the rates of exchange at the reporting date. Exchange differences on monetary items are taken to the income statement.

Group companies

On consolidation, the assets and liabilities of foreign operations are translated into the functional currency of the Group at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognised in profit or loss.

p. Significant estimates and judgements

The preparation of financial statements in conformity with International Financial Reporting Standards as adopted by the EU requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates and any subsequent changes are accounted for with an effect on the financial statements at the time such updated information becomes available.

Notes to the financial statements (continued)

The most critical accounting policies in determining the financial position and results of the Group are those requiring the greatest degree of subjective or complex judgement and are detailed as follows:

Goodwill and intangible asset impairment reviews

The Group is required to review goodwill, brands and intellectual property with indefinite lives annually to determine if any impairment has occurred. Intangible assets with finite lives are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount of an asset or a cash-generating unit is determined based on value-in-use calculations prepared on the basis of management's assumptions and estimates. Refer to note 11 for further details of the value-in-use calculations.

Valuation of intangible assets arising from business combinations and assessment of brands with indefinite lives

Business combinations may result in intangible assets such as customer lists and brands being recognised. These are valued using discounted cash flow methods which require judgements and estimates to be made in respect of future cash flows and discount rates. Refer to note 10 for customer lists and brands that have been recognised during the year. Furthermore, judgement is applied in assessing whether acquired brands have an indefinite useful economic life. Note 11 contains details of intangible assets with indefinite lives.

Capitalisation and amortisation of platform development costs

Costs capitalised as platform development costs include direct external costs, such as consultancy costs and internal payroll costs. The capitalisation of internal costs is based on the amount of time spent by employees on capital projects. Judgement is applied in determining which costs meet the criteria for capitalisation as development costs. Refer to note 11 for details of capitalised platform development costs.

The useful economic life of the platform is considered to be between one and five years dependent on the type of development work capitalised. The estimate of useful economic life is reviewed on a regular basis to ensure that this continues to be appropriate.

Share-based payments

Critical estimates and assumptions are made in particular with regard to the calculation of the fair value of employee share options using appropriate valuation models. In addition, estimation is required in assessing the number of options expected to vest and the vesting periods of the awards.

Exceptional items

The Group separately identifies and discloses significant one-off or unusual items which can have a material impact on the absolute amount of profit from operations and the result for the year. These are termed 'exceptional items' and are disclosed separately in the statement of comprehensive income in order to provide an understanding of the Group's underlying financial performance. Exceptional items are judgemental in their nature and may not be comparable to similarly titled measures used by other companies. Further details of the exceptional items are provided on note 4.

Notes to the financial statements (continued)

2. Segment information

The Group's principal activity is that of online retailing. The Group has made the following considerations in arriving at the disclosure in these financial statements.

IFRS 8 requires consideration of the Chief Operating Decision Maker (CODM) within the Group. In line with the Group's internal reporting framework and management structure, the key operating decisions and resource allocations are made by the Board. The Directors therefore consider the Board to be the CODM. Key internal reports reviewed by the CODM, primarily the Board management accounts, focus on the performance of the product categories.

Operations of the majority of the business are driven by the retail sales environment and hence have fundamentally the same economic characteristics. All operational decisions are focused on the performance of websites and the ability to utilise the technology platform that has been developed to drive profitability. The results of non-retail activities are not considered to be significant to those of the Group as a whole and have not been separately reported. The CODM reviews the Group results to Adjusted EBITDA level and therefore no reconciliation is required between the operating information and the information presented within these financial statements.

Below is an analysis of revenue by destination of delivery to customers:

	2017	2016
	£'000	£'000
UK	**223,017**	184,539
Europe	**214,020**	169,828
Rest of the world	**298,615**	147,009
	735,652	**501,376**

All material non-current assets are based in the UK (95%) and the USA (5%) (2016: UK 100%).

Rendering of services represents 6% of total revenue (2016: 2%)

Notes to the financial statements (continued)

3. Operating (loss)/profit

	Note	2017 £'000	2016 £'000
Operating (loss) / profit has been arrived at after charging:			
Employee costs	6	**97,376**	49,704
Share-based payments	7	**4,115**	3,853
Depreciation	12	**16,815**	6,181
Loss/(profit) on disposal of property, plant and equipment		**10**	(7)
Amortisation	11	**21,969**	13,580
Operating lease rentals:			
Motor vehicles		–	20
Land and buildings		**3,302**	5,527

The non-cash IFRS two share-based payments charge for the year relating to the share options in issue during the year was £1.8m (2016: £2.0m).

Share-based payments also contain a cash charge for the year amounting to £2.3m (2016: £1.2m) as a result of payments that were made to employees in return for the cancellation of their share options. 38,931 share options were cancelled in total.

The Group issued no Employee Share Scheme (ESS) shares during 2017. As a result, there is no charge related to a share issue (2016: £0.7m).

Total depreciation and amortisation costs have increased by 96% year-on-year, in line with gross profit, which is a reflection of the continued investment in the future growth of the Group, through expanding the physical infrastructure throughout the Group's warehouses and through investing in the development of the Group's proprietary technology platform to create an ever improving user experience, which in turn will generate higher levels of consumer loyalty.

Notes to the financial statements (continued)

4. Exceptional items

	2017 £'000	2016 £'000
Production and distribution facility	**15,315**	5,272
Acquisition, legal and professional costs	**14,944**	4,720
	30,259	**9,992**
Tax effect	**(4,615)**	(1,586)
	25,644	**8,406**

Production and distribution facility

During the year the Group fully commissioned the 1m sq. ft. Cheshire based food production and distribution facility (Omega). It is expected that the site will take a year to reach maturity as the Group continues to develop the proprietary software that controls the operation. Costs relating to the ongoing integration of this facility continue to be included within exceptional items.

As acquisitions are integrated onto the THG Platform, Ingenuity, any legacy warehouses are exited. During the year operations ceased in 12 such facilities on three continents. Associated costs are non-recurring in nature.

Acquisition, legal and professional costs

Legal, financial and taxation due diligence costs on the six businesses acquired in the year are included within exceptional items.

Post-acquisition reorganisation and restructuring costs associated with the deals completed in the year, include dual site and technology decollation costs, redundancies, onerous lease costs and other costs of a one-off nature including store closures.

5. Auditors remuneration

	2017 £'000	2016 £'000
Audit of the Company and consolidated financial statements	**115**	115
Other services:		
Audit of the Company's subsidiaries	**105**	45
Corporate finance services	**672**	221
	892	**381**

Notes to the financial statements (continued)

6. Employee costs and directors' remuneration

	Note	2017 £'000	2016 £'000
Wages and salaries		**107,717**	59,549
Social security costs		**10,401**	5,506
Pension costs		**483**	324
Share-based payments	7	**1,758**	1,995
		120,359	**67,374**

The aggregate amount of employee costs included above that have been capitalised within platform development costs was £21.2m (2016: £15.7m).

The costs incurred in respect of the Directors, who are regarded as the only key management personnel, were as follows:

	2017 £'000	2016 £'000
Directors' emoluments	**1,364**	**1,440**
Highest paid director	**488**	**595**

Details of the Directors' share-based payments are included in note 26.

No retirement benefits are accruing to any of the Directors at 31 December 2017 (2016: nil).

The average number of employees (including executive directors) during the year was:

	2017 Number	2016 Number
Retail	**873**	689
Administration	**563**	376
Distribution	**1,261**	475
Information technology	**525**	293
	3,222	**1,833**

Notes to the financial statements (continued)

7. Share-based payments

During the prior year, the Group issued equity settled unapproved options to its employees. The options were valued using the Black-Scholes model with the following inputs:

	Unapproved February 2016
Exercise price £	1.00
Expected volatility %	31.8
Option life (years)	n/a
Risk-free interest rate %	0.5
Fair value per option £	199.05

The Group also continues to operate both of its equity settled EMI and Growth Share schemes. Both schemes were valued using the Black-Scholes model at the grant date which takes into account the terms and conditions upon which the options were granted

At each balance sheet date, the Group revises its estimate of the number of options expected to vest upon the satisfied completion of the specific vesting conditions and the vesting period, being the expected date of a listing or sale of the Group.

A reconciliation of option movements, and weighted average exercise price ("WAEP") over the year is shown below:

	Number 2017	WAEP 2017	Number 2016	WAEP 2016
		£		£
Outstanding at 1 January	383,894	5.19	386,904	5.41
Granted	–	–	19,123	1.00
Cancelled	(38,930)	4.25	(22,133)	4.52
Outstanding at 31 December	**344,964**	**5.29**	**383,894**	**5.19**

The IFRS 2 share-based payment charge for the current year is £1.8m (2016: £2.0m). Included within the share-based payment charge in the consolidated statement of comprehensive income is £2.3m (2016: £1.2m) in relation to options bought back by the Company from qualifying staff. There was no charge in relation to the issues of ESS shares to qualifying staff (2016: £0.7m).

The lowest exercise price of share options outstanding at the end of the period was £1.00 (2016: £1.00) and the highest exercise price was £8.25 (2016: £8.25).

8. Finance income and cost

	2017 £'000	2016 £'000
Finance income		
Bank interest receivable	**315**	61
Finance costs		
Bank interest payable and charges	**7,133**	2,370
Finance lease interest	**19**	48
	7,152	**2,418**

Notes to the financial statements (continued)

9. Income tax

	Note	2017 £'000	2016 £'000
Current tax			
Tax charge for the year		**730**	**2,622**
Adjustments in respect of prior year		**(651)**	**(393)**
		79	**2,229**
Deferred tax			
Origination and reversal of temporary differences		**(1,237)**	**1,194**
Adjustments in respect of prior year		**372**	**(11)**
Change in tax rates		–	**(22)**
	20	**(865)**	**1,161**
Total income tax (credit)/charge		**(786)**	**3,390**

The tax on the Group's (loss)/profit before tax differs from the theoretical amount that would arise using the weighted average tax rate as follows:

	2017 £'000	2016 £'000
(Loss)/profit before tax	**(10,879)**	14,194
(Loss)/profit before tax at 19.25% (2016: 20%)	**(2,094)**	2,839
Tax effects of:		
Adjustments in respect of prior year	**(284)**	(405)
Non-qualifying depreciation	**643**	-
Expenses not deductible / non-taxable income	**1,416**	1,631
R&D enhanced deductions	**-**	(712)
Effect of higher tax rates in other jurisdictions	**307**	111
Losses not recognised	**(1,026)**	(52)
Effect of change in tax rate	**252**	(22)
	(786)	3,390

The standard rate of Corporation Tax in the UK changed to 19% (previously 20%) with effect from 1 April 2017. Accordingly, the Group's (loss)/profits for this accounting period are taxed at an effective rate of 19.25%.

The reduction of the main rate of Corporation Tax from 19% to 17% from 1 April 2020 was included within the 2016 Finance Bill, as substantively enacted on 6 September 2016. Future profits will be taxed at the appropriate rate. Substantially all deferred tax balances as at 31 December 2017 have been calculated at 17% (2016: 17%), being the enacted rate at which the deferred tax is expected to reverse.

Regarding US tax reform, (being a substantial reduction in the US corporate tax rate, from the existing tax rate of 35% to 21%, with effect from 1 January 2018), this is substantively enacted for accounting purposes in 2017. As such, for US deferred tax balances the impact of the tax law change is reflected in the Group's financial statements as at 31 December 2017, with these balances calculated at 21%.

Notes to the financial statements (continued)

10. Business combinations

Continuing the Group's focus on international expansion, a number of companies based in both the UK and internationally were acquired during the year. Details of these acquisitions are as follows:

	Country of incorporation	Nature of activity	Date of acquisition	Consideration ('000)	Percentage ownership
Hangar Seven	UK	Producer of Visual Content	12 April 2017	9,191	100%
UK2 Limited	UK	Webhosting	24 May 2017	58,036	100%
RY.com.au	Australia	Online retailing	22 August 2017	6,842	100%
Glossybox	Germany	Online retailing	11 August 2017	17,467	100%
ESPA	UK	Online retailing	6 September 2017	68,191	100%
Illamasqua	UK	Online retailing	5 October 2017	16,926	100%

The carrying amount of assets and liabilities in the books of the acquirees at the dates of acquisition were as follows:

	Hangar Seven £'000	**UK2** £'000	**RY** £'000	**Glossybox** £'000	**ESPA** £'000	**Illamasqua** £'000	**Total** £'000
Intangible assets	189	1,201	119	–	40,466	194	**42,169**
Property, plant and equipment	364	8,205	215	279	2,922	503	**12,488**
Other long term assets	–	371	–	–	–	–	**371**
Inventories	90	–	826	2,803	4,246	1,323	**9,288**
Other receivables	2,564	13,778	73	2,998	5,490	1,779	**26,682**
Cash and cash equivalents	376	2,918	372	3,479	4,903	174	**12,222**
Trade and other payables	(2,783)	(14,362)	(920)	(9,977)	(30,412)	(3,550)	**(62,004)**
Non-current payables	–	(3,811)	–	–	–	(658)	**(4,469)**
Deferred tax	(19)	1,026	–	–	(30)	–	**977**
Total carrying amount	**781**	**9,326**	**685**	**(418)**	**27,585**	**(235)**	**37,724**

The following intangible assets were recognised at acquisition:

	Hangar Seven £'000	**UK2** £'000	**RY** £'000	**Glossybox** £'000	**ESPA** £'000	**Illamasqua** £'000	**Total** £'000
Intangible assets - brands	1,976	15,628	1,082	1,063	2,029	2,102	**23,880**
Intangible assets - customer lists	229	1,766	182	179	226	238	**2,820**
Deferred tax	(401)	(3,165)	(230)	(226)	(412)	(425)	**(4,859)**
Total carrying amount	**1,804**	**14,229**	**1,034**	**1,016**	**1,843**	**1,915**	**21,841**

Notes to the financial statements (continued)

The provisional fair values of the assets and liabilities and the associated goodwill arising from the acquisitions are as follows:

	Note	**Hangar Seven** £'000	**UK2** £'000	**RY** £'000	**Glossybox** £'000	**ESPA** £'000	**Illamasqua** £'000	**Total** £'000
Intangible assets	11	2,205	18,595	1,264	1,242	2,321	2,441	**28,068**
Property, plant and equipment		364	8,205	5	223	3,449	503	**12,749**
Inventories		–	–	663	1,122	4,246	1,251	**7,282**
Trade and other receivables		2,342	7,194	55	1,761	4,338	1,779	**17,469**
Cash and cash equivalents		376	2,872	21	3,475	4,903	174	**11,821**
Trade and other payables		(3,109)	(14,472)	(1,106)	(12,886)	(32,374)	(4,461)	**(68,408)**
Non-current payables		–	(3,811)	–	–	–	(658)	**(4,469)**
Deferred tax	20	(420)	(2,139)	(230)	(226)	(442)	(425)	**(3,882)**
Net assets acquired		**1,758**	**16,444**	**672**	**(5,289)**	**(13,559)**	**604**	**630**
Goodwill	11	7,433	41,592	6,170	22,756	81,750	16,322	**176,023**
Purchase consideration		**9,191**	**58,036**	**6,842**	**17,467**	**68,191**	**16,926**	**176,653**

The goodwill is attributable to the cost synergies and cross-selling opportunities that are expected to be achieved from incorporating the businesses into the Group's IT platform and supporting operations.

Cash flows arising from the acquisitions were as follows:

	Hangar Seven £'000	**UK2** £'000	**RY** £'000	**Glossybox** £'000	**ESPA** £'000	**Illamasqua** £'000	**Total** £'000
Purchase consideration	9,191	58,036	6,842	17,467	68,191	16,926	**176,653**
Deferred consideration	(496)	–	–	–	–	–	**(496)**
Cash and cash equivalents acquired	(376)	(2,872)	(21)	(3,475)	(4,903)	(174)	**(11,821)**
Total cash outflow	**8,319**	**55,164**	**6,821**	**13,992**	**63,288**	**16,752**	**164,336**

From the dates of acquisition to 31 December 2017 the newly acquired companies contributed the following to Group revenues and loss before tax:

	Hangar Seven £'000	**UK2** £'000	**RY** £'000	**Glossybox** £'000	**ESPA** £'000	**Illamasqua** £'000	**Total** £'000
Revenue	**11,082**	**24,574**	**2,797**	**16,994**	**6,892**	**1,457**	**63,796**
Adjusted EBITDA	**1,243**	**6,257**	**(69)**	**3,403**	**1,709**	**186**	**12,729**
Net profit/(loss) before tax	**348**	**670**	**(227)**	**422**	**801**	**(1,997)**	**17**

If the acquisitions had occurred on 1 January 2017, the Group's revenue and loss before tax for the year would have been £884m and £30m respectively.

Notes to the financial statements (continued)

11. Intangible assets

	Note	Goodwill £'000	Platform development costs £'000	Intellectual property £'000	Brands £'000	**Total £'000**
Cost or valuation						
At 1 January 2016		**95,679**	**35,648**	**10,797**	**12,154**	**154,278**
Additions		–	18,899	12,806	–	**31,705**
Disposals		(32)	–	–	–	**(32)**
Business combinations		51,478	–	5,662	16,967	**74,107**
At 31 December 2016		**147,125**	**54,547**	**29,265**	**29,121**	**260,058**
At 1 January 2017		**147,125**	**54,547**	**29,265**	**29,121**	**260,058**
Additions		–	24,528	7,507	–	32,035
Business combinations	10	176,023	1,201	2,987	23,880	204,091
Currency translation differences		(1,069)	(20)	74	254	(761)
Recognised on acquisition of businesses		(480)	–	–	–	(480)
At 31 December 2017		**321,599**	**80,256**	**39,833**	**53,255**	**494,943**
Accumulated amortisation						
At 1 January 2016		**270**	**16,275**	**6,492**	**1,805**	**24,842**
Amortisation	3	–	8,970	3,811	799	13,580
At 31 December 2016		**270**	**25,245**	**10,303**	**2,604**	**38,422**
At 1 January 2017		**270**	**25,245**	**10,303**	**2,604**	**38,422**
Amortisation	3	–	13,816	6,903	1,250	21,969
Currency translation differences		–	4	(18)	(125)	(139)
At 31 December 2017		**270**	**39,065**	**17,188**	**3,729**	**60,252**
Net book amount						
At 1 January 2016		**95,409**	**19,373**	**4,305**	**10,349**	**129,436**
At 31 December 2016		**146,855**	**29,302**	**18,962**	**26,517**	**221,636**
At 31 December 2017		**321,329**	**41,191**	**22,645**	**49,526**	**434,691**

Included within platform development costs additions there is a credit for £0.9m (2016: £0.9m) in respect of qualifying R&D expenditure.

Notes to the financial statements (continued)

Impairment tests for goodwill and other intangible assets

The Group's intangible assets include acquired brands and intellectual property, some of which are deemed to have indefinite lives as there are no foreseeable limits to the periods over which they are expected to generate cash inflows. The assessment of an indefinite life takes into account the market position and the Group's commitment to maintaining the brand.

Goodwill, brands and intellectual property that have indefinite useful lives are subject to annual impairment testing, or more frequent testing if there are indications of impairment. Intangible assets and goodwill are allocated to the appropriate cash-generating units ("CGUs") based on the smallest identifiable group of assets that generates cash inflows independently in relation to the specific intangible asset.

The recoverable amounts of the CGUs are determined from value-in-use calculations that use amounts from approved budgets, and projections over an initial period of 3-5 years (2016: 3-5 years) and pre-tax cash flows projected forward assuming a perpetual growth rate of 2% (2016: 2%). The discount rate applied to the cash flow projections was 8.3% on a pre-tax basis (2016: 7.5%). The average per-annum growth rate applied to the initial period ranged from 2% to 25% dependent on the maturity of the CGU (2016: 2% to 25%) and is based on recent actual and expected performance of the Group. The net book value of goodwill, brands and intellectual property with indefinite lives allocated to CGUs for the purposes of impairment testing is as follows:

		2017		2016	
	Note	Goodwill £'000	Brands £'000	Goodwill £'000	Brands £'000
MyProtein		50,464	5,527	50,464	5,527
LookFantastic		19,860	–	19,860	–
Mankind		2,456	–	2,456	–
HQHair		319	–	319	–
Iwantoneofthose		1,965	–	1,965	–
The Hut		2,568	–	2,568	–
ProBikeKit		8,475	–	8,475	–
Exante		1,406	–	1,406	–
Preloved		4,267	–	4,267	–
ANI		1,723	–	1,609	–
Mio		2,069	–	1,946	–
PIAB / MGB		42	–	42	–
Skinstore		6,216	–	5,738	–
Hale CC		16,424	–	16,412	–
Ideal Shape		26,126	–	27,342	–
Skincare RX		1,656	–	1,986	–
Hangar Seven	10	7,433	–	–	–
UK2	10	41,592	–	–	–
RY.com	10	5,866	–	–	–
Glossybox	10	22,330	–	–	–
ESPA	10	81,750	–	–	–
Illamasqua	10	16,322	–	–	–
		321,329	**5,527**	**146,855**	**5,527**

A sensitivity analysis has been performed around the base assumptions, being operating profit and sales growth, with the conclusion that no reasonable possible changes in key assumptions would cause the recoverable amount of the goodwill and brands with indefinite lives to be less than the carrying value. A 10% reduction in the discounted cash flows would not result in an impairment being required.

Notes to the financial statements (continued)

12. Property, plant and equipment

	Note	Motor vehicles £'000	Plant and machinery £'000	Fixtures and fittings £'000	Computer equipment and software £'000	Freehold buildings £'000	Total £'000
Cost							
At 1 January 2016		**337**	**25,748**	**3,710**	**5,092**	**3,506**	**38,393**
Additions		1,604	34,937	15,958	6,123	59,884	**118,506**
Business combinations		25	395	197	299	9,296	**10,212**
Currency translation differences		2	–	11	140	17	**170**
Disposals		(86)	–	–	–	–	**(86)**
At 31 December 2016		**1,882**	**61,080**	**19,876**	**11,654**	**72,703**	**167,195**
At 1 January 2017		**1,882**	**61,080**	**19,876**	**11,654**	**72,703**	**167,195**
Additions		124	10,262	19,894	7,170	1,228	**38,678**
Business combinations	10	31	163	836	6,746	4,973	**12,749**
Currency translation differences		(4)	(162)	(106)	(86)	(80)	**(438)**
Disposals		–	(64)	–	–	–	**(64)**
At 31 December 2017		**2,033**	**71,279**	**40,500**	**25,484**	**78,824**	**218,120**
Accumulated depreciation							
At 1 January 2016		**189**	**3,784**	**1,050**	**3,524**	**380**	**8,927**
Depreciation	3	172	3,130	1,167	1,389	323	**6,181**
Currency translation differences		1	–	4	108	4	**117**
Disposals		(79)	–	–	–	–	**(79)**
At 31 December 2016		**283**	**6,914**	**2,221**	**5,021**	**707**	**15,146**
At 1 January 2017		**283**	**6,914**	**2,221**	**5,021**	**707**	**15,146**
Depreciation	3	334	3,898	4,424	6,723	1,436	**16,815**
Currency translation differences		(1)	(12)	(10)	(14)	(2)	**(39)**
Disposals		–	(9)	–	–	–	**(9)**
At 31 December 2017		**616**	**10,791**	**6,635**	**11,730**	**2,141**	**31,913**
Net book amount							
At 1 January 2016		**148**	**21,964**	**2,660**	**1,568**	**3,126**	**29,466**
At 31 December 2016		**1,599**	**54,166**	**17,655**	**6,633**	**71,996**	**152,049**
At 31 December 2017		**1,417**	**60,488**	**33,865**	**13,754**	**76,683**	**186,207**

The Group had committed capital expenditure of £3.6m (2016: £25.8m) as at 31 December 2017.

Notes to the financial statements (continued)

Included within property, plant and equipment are assets held under finance lease as follows:

	Motor vehicles £'000	Plant and machinery £'000	**Total** £'000
As at 31 December 2016			
Cost	291	3,617	3,908
Accumulated depreciation	(199)	(2,055)	(2,254)
Net book value	**92**	**1,562**	**1,654**
As at 31 December 2017			
Cost	**291**	**10,412**	**10,703**
Accumulated depreciation	(246)	(7,340)	**(7,586)**
Net book value	**45**	**3,072**	**3,117**

13. Inventories

	2017 £'000	2016 £'000
Goods held for resale	**84,798**	**58,911**

The cost of inventories recognised as an expense and included in cost of sales amounted to £417.2m (2016: £290.1m).

14. Financial assets and liabilities

	Note	2017 £'000	2016 £'000
Assets as per balance sheet – loans and receivables			
Trade and other receivables excluding prepayments	15	**20,786**	5,685
Cash and cash equivalents	16	**186,729**	174,286
		207,515	179,971
Liabilities as per balance sheet - other financial liabilities at amortised cost			
Bank borrowings	18	**404,043**	306,881
Finance leases	21	**2,654**	1,274
Trade and other payables excluding non-financial liabilities	17	**205,432**	152,311
		612,129	460,466

Financial instruments included within current assets and liabilities, excluding borrowings, are generally short-term in nature and accordingly their fair values approximate to their book values. The contractual maturity of bank borrowings and finance lease liabilities is provided in note 18.

Trade and other payables excluding non-financial liabilities include a liability of £53k (2016: £35k liability) in relation to the fair value of foreign currency swaps as at the balance sheet date, that have been measured using observable inputs and are not designated as hedges.

The Group's financial risks are detailed on page 38 of the Strategic report.

Notes to the financial statements (continued)

15. Trade and other receivables

	2017 £'000	2016 £'000
Trade receivables	**14,370**	3,617
Less provision for impairment	**(1,131)**	(58)
	13,239	3,559
Prepayments and accrued income	**22,841**	12,172
Other tax and social security	**107**	–
Other receivables	**7,547**	2,126
	43,734	**17,857**

Trade and other receivables are principally denominated in sterling.

At 31 December 2017 the ageing of trade receivables was as follows:

	2017 £'000	2016 £'000
Not due	**7,141**	2,631
0 to 3 months overdue	**3,751**	800
3 to 6 months overdue	**2,254**	96
Over 6 months overdue	**1,224**	90
	14,370	**3,617**

The movement in the provision for impairment of trade receivables was as follows:

	£'000
At 1 January 2017	58
Released	(96)
Business combinations	1,080
Charge for the year	89
At 31 December 2017	**1,131**

16. Cash and cash equivalents

	2017 £'000	2016 £'000
Cash at bank and on hand	**186,729**	**174,286**

17. Trade and other payables

	2017 £'000	2016 £'000
Trade creditors	**103,645**	111,976
Accruals and deferred income	**96,278**	52,186
Other taxation and social security	**1,800**	1,752
Other creditors	**3,709**	542
	205,432	**166,456**

The Directors consider the carrying amount of trade and other payables approximates to their fair value when measured by discounting cash flows at market rates of interest as at the balance sheet date.

Notes to the financial statements (continued)

18. Borrowings

	Note	2017 £'000	2016 £'000
Current			
Bank borrowings		**7,140**	7,189
Finance leases	21	**2,090**	967
		9,230	8,156
Non-current			
Bank borrowings		**396,903**	299,692
Finance leases	21	**564**	307
		397,467	**299,999**

Bank borrowings relate predominantly to the amended facility provided by Barclays, HSBC, RBS, Lloyds Bank, Bank of Ireland, Santander, Citibank, JP Morgan, Silicon Valley Bank and PDL Europe referred to on pages 36 and 37. The contractual terms of the non-amortising facility were amended on 8th May 2018 and cover a 3-year period and allows the Group to draw down and repay throughout the duration of the arrangement. Finance leases relate to loans funding asset purchases payable over three years and are secured by charges over the assets to which they relate. Bank borrowings carried an interest rate of 2.35% (2016: 1.65%) plus LIBOR. All material companies registered in England and Wales have granted a debenture to Barclays Bank plc (as security agent). Share charges and, where relevant, a charge over bank accounts have been granted to Barclays Bank plc in respect of material Guernsey and Jersey registered companies.

If interest rates during the year had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been £2.4m (2016: £0.9m) lower/higher as a result of the higher/lower interest expense which would have been payable.

The contractual maturity of bank borrowings is as follows:

	2017 £'000	2016 £'000
Within one year	**7,140**	7,189
Between two and five years	**396,903**	299,692
	404,043	**306,881**

The fair value measured by reference to contractual future cash flows discounted at market rates of interest at the balance sheet date approximates to book value.

Notes to the financial statements (continued)

19. Provisions

	2017 £'000	2016 £'000
Current		
Onerous leases	**41**	41
Customer loyalty points	**784**	724
	825	765

The onerous lease provisions relate to vacant warehouses or properties acquired as part of acquisitions. The majority of the provisions have now been utilised or released as no longer required.

The loyalty points provision relates to unredeemed points which entitle customers to discounts on future purchases to the extent the Group believe that they will be redeemed.

	Onerous leases £'000	Customer loyalty points £'000	Total £'000
At 1 January 2017	41	724	**765**
Utilisation	–	(650)	**(650)**
Created	–	710	**710**
At 31 December 2017	**41**	**784**	**825**

20. Deferred tax

	2017 £'000	2016 £'000
Short term timing differences	(3,735)	(224)
Accelerated capital allowances	(93)	1,729
Business combinations	10,535	5,988
Tax losses	(309)	–
Other balance sheet amounts	370	–
	6,768	**7,493**

The movement on the deferred tax liability during the year is as follows:

	Note	£'000
At 1 January 2017		7,493
Business combinations	10	3,882
Consolidated statement of comprehensive income	9	(865)
Recognised in equity		(3,742)
At 31 December 2017		**6,768**

The Group has unrecognised deferred tax assets relating to losses of £6.1m (2016: £0.5m), which have not been recognised due to the unpredictability of when these assets will be realised.

Notes to the financial statements (continued)

21. Leases

Operating leases

At 31 December 2017, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings 2017 £'000	Land and buildings 2016 £'000
Within one year	**4,117**	3,036
Between two and five years	**8,291**	5,170
After five years	**980**	467
	13,388	8,673

Finance leases

The Group uses finance leases to acquire motor vehicles, plant and machinery, computer equipment and software. The minimum lease payments under finance leases fall due as follows:

		Minimum lease payments		Present value of future minimum lease payments	
	Note	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Expiring within one year		**2,152**	988	**2,090**	967
Expiring between two and five years		**577**	309	**564**	307
		2,729	**1,297**	**2,654**	**1,274**
Less interest payable		**(75)**	(23)	**-**	-
Finance lease liability	14	**2,654**	**1,274**	**2,654**	**1,274**

The fair value when measured by discounting cash flows at market rates of interest as at the balance sheet date approximates to book value.

Notes to the financial statements (continued)

22. Share capital and reserves

The Company has the following authorised, allotted, issued, fully paid and partly-paid ordinary share capital:

	2017 Number	2016 Number
Class		
A ordinary	**461,620**	520,645
B ordinary	**2,856,746**	519,013
C ordinary	**3,289**	–
D ordinary	**459,118**	483,704
A shares	**–**	80,654
A1 shares	**–**	213,419
A2 shares	**52,068**	605,660
A3 shares	**–**	254,037
A4 shares	**153,904**	153,904
A5 shares	**–**	113,596
A6 shares	**–**	594,884
Deferred shares	**33,515**	33,515
£1 nominal value ordinary shares*	**4,020,260**	**3,573,031**

*Included within this number is 364,455 partly-paid shares (2016: 390,535).

On 13 April 2017, 53,612 A5 shares were converted into and re-designated as B ordinary shares.

On 5 September 2017, the following shares were converted into and re-designated as B ordinary shares: (i) 80,654 A shares; (ii) 213,419 A1 shares; (iii) 553,592 A2 shares; (iv) 254,037 A3 shares; (v) 59,984 A5 shares; and (vi) 594,884 A6 shares.

A2 shares, A4 shares, A ordinary shares and B ordinary shares

The holders of A2 shares, A4 shares, A ordinary shares and B ordinary shares are entitled to receive dividends pro rata according to the number of shares held by them respectively as if they constituted one class of share. The A2 shares, A4 shares, A ordinary shares and B ordinary shares are non-redeemable. The holders of such shares have, on a show of hands one vote, and, on a poll have one vote for each such share held by them. On a return of capital, the holders of such shares have different rights to receive any surplus assets remaining after the payment of liabilities ("net proceeds").

C ordinary shares

The holders of C ordinary shares are not entitled to receive dividends. The shares do not carry any voting rights and are non-redeemable. On a return of capital, the holders of such shares are entitled to receive surplus assets remaining after the payment of liabilities ("net proceeds").

D ordinary shares

The holders of D ordinary shares are not entitled to receive dividends. The shares do not carry any voting rights and are non-redeemable. On a return of capital, the holders of such shares are not entitled to receive any surplus assets remaining after the payment of liabilities ("net proceeds") unless a hurdle is achieved.

Notes to the financial statements (continued)

Deferred shares

The holders of deferred shares have no right to receive a dividend and no voting rights. The deferred shares are non-redeemable. On a return of capital, the holders of deferred shares are entitled to receive the amount paid up or credited as paid up on such shares once the holders of all the other shares have received the sum of £100,000 per share.

Capital risk management

The Group's objectives when managing capital, which comprises equity, are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure.

	Note	Ordinary shares £'000	Share premium £'000	Employee benefit scheme reserve £'000	Merger reserve £'000	Capital redemption reserve £'000	Retained earnings £'000	**Total equity £'000**
Balance at 1 January 2017		**3,299**	**94,260**	**175**	**615**	**518**	**44,666**	**143,533**
Total comprehensive expense for the year		–	–	–	–	–	(11,302)	(11,302)
Issue of ordinary share capital		447	183,120	–	–	–	–	183,567
Share buy-backs		–	–	–	–	–	(2,466)	(2,466)
Share-based payments	7	–	–	–	–	–	2,152	2,152
Deferred tax effect of share-based payments		–	–	–	–	–	3,742	3,742
Balance at 31 December 2017		**3,746**	**277,380**	**175**	**615**	**518**	**36,792**	**319,226**

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

On 31 May 2017, 197,662 B ordinary shares were issued at a nominal value of £1 per share for cash consideration of £75m net of fees directly related to the share issue.

On 19 July 2017, 26,117 B ordinary shares were issued at a nominal value of £1 per share for cash consideration of £10m net of fees directly related to the share issue.

On 5 September 2017, 220,201 B ordinary shares were issued at a nominal value of £1 per share for cash consideration of £99m net of fees directly related to the share issue.

The Employee Benefit Trust (EBT) facilitates an internal market for participants in employee share schemes to sell their shares in the Company. As at 31 December 2017, the EBT had purchased a total of 9,104 shares for aggregate consideration of £1.8m which is deducted from retained earnings.

During the year the Group (including its EBT) bought back shares for an aggregate cash consideration of £1.5m and related costs of £1.0m.

The non-cash IFRS 2 share-based payments charge for the year relating to the share options in issue during the year was £1.8m (2016: £2.0m). Share-based payment costs of £0.3m were included in employee costs capitalised within platform development costs in respect of options issued to software engineers (note 11) (2016: £nil).

Share-based payments also contain a cash charge for the year amounting to £2.3m (2016: £1.2m) as a result of payments that were made to employees in return for the cancellation of their share options, 38,931 share options were cancelled in total.

The Group issued no Employee Share Scheme (ESS) shares during 2017. As a result, there is nil charge related to share issue (2016: £0.7m).

Notes to the financial statements (continued)

23. Pension commitments

During the year, the Group operated an auto-enrolment pension scheme. The scheme is managed by independent fund managers and the Group contributes in accordance with the statutory requirements. In addition to the auto enrolment scheme, a subsidiary company operates a defined contribution pension scheme which is also managed by independent fund managers and its assets/liabilities are held separately from that of the Group. The pension charge represents the amount paid by the Group and amounted to £482,954 (2016: £312,500). There were no outstanding contributions due to the fund at the year end.

24. Cash flow generated from operations

	Note	2017 £'000	2016 £'000
(Loss)/profit before taxation		**(10,879)**	**14,194**
Adjustments for :			
Depreciation	12	**16,815**	6,181
Amortisation	11	**21,969**	13,580
Share-based payments	7	**4,115**	3,853
Exceptional items	4	**30,259**	9,992
Net finance costs	8	**6,837**	2,357
Operating cashflow before exceptional items and before movements in working capital and provisions		**69,116**	**50,157**
Increase in inventories		**(18,606)**	(15,727)
Increase in trade and other receivables		**(6,801)**	(4,602)
Increase in trade and other payables		**6,974**	57,674
Increase in provisions		**60**	350
Foreign exchange loss		**(188)**	(245)
Cash generated from operations before exceptional cash flows		**50,555**	**87,607**

25. Ultimate parent company

The ultimate parent company and controlling party of the Group is The Hut Group Limited.

26. Related party transactions

The Directors of the Company who were in office during the year from 1 January 2017 and up to the date of signing the financial statements are:

M J Moulding	E J Koopman	A J Duckworth (resigned on 17 April 2018)
J A Gallemore	P J Gedman	J P Pochin (appointed on 18 April 2018)
A Monro	R J Pennycook	N J M Gheysens (appointed on 5 September 2017)
I McDonald	D P Murphy	B Liautaud (appointed on 5 September 2017)
W M Evans		

Notes to the financial statements (continued)

The Directors' interests in the share capital of the Company at the balance sheet date are detailed below:

	Ordinary shares 2017 Number	Ordinary shares 2016 Number
M J Moulding	**553,071**	678,768
J A Gallemore	**24,678**	24,678
A Monro	**11,577**	26,992
I McDonald	**17,300**	22,467
	606,626	**752,905**

The Directors had the following interests in shares under incentive arrangements (see note 7 for details of the scheme).

	Date of award	Subscription/exercise price £	2017 Number	2016 Number
M J Moulding	Oct-10	7.50	**29,090**	29,090
M J Moulding	Nov-13	5.00	**87,920**	87,920
J A Gallemore	Oct-10	7.50	**14,545**	14,545
J A Gallemore	Nov-13	5.00	**15,154**	17,584
A Monro	Nov-13	5.00	**35,168**	35,168
R Pennycook	Nov-13	5.00	**35,168**	35,168
P J Gedman	Jan-10	8.25	**1,339**	1,339
P J Gedman	Oct-10	7.50	**1,950**	1,950
P J Gedman	Nov-13	5.00	**9,858**	9,858
A J Duckworth	Nov-13	5.00	**7,024**	7,024
			237,216	**239,646**

The Group has provided interest free loans of £0.9m (2016: £0.7m) to the Directors in order for them to subscribe for shares as part of the employee benefit scheme. The loans are repayable in the event of a sale or listing of the Group.

The share-based payments expense associated with the Directors was £0.7m (2016: £1.0m).

At 31 March 2018, Matthew Moulding controlled 26.7% of THG shares. This comprised shares held outright and under incentive arrangements, a proportion of which were issued post year end. The controlled management equity represents less than 7% of THG fully diluted share capital.

27. Post balance sheet events

For further details on events after the balance sheet date see the Directors' report on page 43.

Notes to the financial statements (continued)

28. Subsidiary undertakings

At the balance sheet date the following subsidiaries were controlled by the Group, a company incorporated in England and Wales:

Subsidiary	Country of incorporation	Nature of business
The Hut.com Limited**	England and Wales	Online retailing
The Hut Platform Limited**	England and Wales	Provision of website development services
The Hut Holdings Limited**	England and Wales	Dormant
The Hut.com (Trading) Limited**	Jersey	Online retailing
Cend Limited**	England and Wales	Online retailing
Guco Internet Supplies Limited**	Guernsey	Holding company
Iwantoneofthose Limited**	Guernsey	Dormant
The Hut Entertainment SL**	Spain	Dormant
Zone Limited**	Guernsey	Holding company
Allenby Square Limited**	England and Wales	Property holding company
Ensco 818 Limited**	England and Wales	Holding company
Mankind Holdings Limited**	Guernsey	Holding company
Mankind Direct Limited**	England and Wales	Procurement company
Moo Limited**	England and Wales	Online advertising
Active Nutrition International OY**	Finland	Online retailing
Lookfantastic Group Limited**	England and Wales	Holding company
Lookfantastic.com Limited**	England and Wales	Online retailing
Lookfantastic Franchising Limited**	England and Wales	Franchising and consultancy services
Lookfantastic London Limited**	England and Wales	Dormant
Lookfantastic Salons Limited**	England and Wales	Hairdressing salon
The Hut IHC Limited*	England and Wales	Holding company
The Hut Management Company Limited***	England and Wales	Activities of Head Office
Exante Diet Limited**	England and Wales	Dormant
Bike Kit Limited**	England and Wales	Dormant
CNP Professional Holdings Limited**	Guernsey	Procurement company
MyVitamins Limited**	England and Wales	Dormant
HQ Hair Limited**	Guernsey	Holding company
Cend International Limited**	England and Wales	Online retailing
THGPP LLC**	USA	Dormant
THG International LLC**	USA	Warehouse and distribution
Mama Mio Limited**	England and Wales	Online retailing
Mama Mio Distribution Limited**	England and Wales	Dormant
Mama Mio US Inc.**	USA	Online retailing
LMP Omega I Limited**	Guernsey	Property holding company
Hale Country Club Limited**	England and Wales	Retail and leisure company
Aghoco 1442 Limited**	England and Wales	Property holding company
Gadbrook Limited**	England and Wales	Dormant
THG China Limited**	England and Wales	Dormant

* - 90% owned by The Hut Group Limited and 10% by The Hut Management Company Limited
** - 100% owned by The Hut IHC Limited either directly or indirectly.

*** - 0.01% owned by The Hut Group Limited, however The Hut Group Limited has a separate class of share in The Hut Management Company Limited which gives it the right to control the appointment of Board Directors.

Notes to the financial statements (continued)

Subsidiary	Country of incorporation	Nature of business
The Hut Group International (Shanghai) Co Limited**	China	License holding company
PC Beauty Inc.**	USA	Holding company
Ideal Shape LLC**	USA	Marketing company
Performance Supplements LLC**	USA	Marketing company
Inteladerm LLC**	USA	Online retailing
Salu Australia PTY Limited**	Australia	Holding company
Skincarestore Australia PTY Limited**	Australia	Online retailing
Salu Beauty Inc.**	USA	Online retailing
UK2 Limited**	England and Wales	Webhosting
Another.com Limited**	England and Wales	Webhosting
Virtual Internet Holdings Limited**	England and Wales	Holding company
Hosting Services Inc.**	USA	Webhosting
UK2 Ukraine LLC**	Ukraine	Webhosting
Virtual Internet (UK) Limited**	England and Wales	Webhosting
The Hut.com (Poland)**	Poland	Warehouse and distribution
RY.com.au Pty Limited**	Australia	Online retailing
Hangar Seven Limited**	England and Wales	Visual content producer
Media Ark Limited**	England and Wales	Visual content producer
H7P Portugal Unipessoal LDA**	Portugal	Visual content producer
Illamasqua (Holdings) Limited**	England and Wales	Holding company
Illamasqua Limited**	England and Wales	Online retailing
Beauty Box Beteiligungen GmbH**	Germany	Holding company
Beauty Trend Holding GmbH**	Germany	Online retailing
Beauty Trend GmbH**	Germany	Online retailing
Jade 1150. GmbH**	Germany	Holding company
Beauty Trend S.A.S France**	France	Online retailing
GlossyBox Sweden Holding UG**	Sweden	Holding company
GlossyBox Sweden AB**	Sweden	Online retailing
GlossyBox United Kingdom Holding GmbH**	England and Wales	Holding company
Beauty Trend UK Limited**	England and Wales	Online retailing
VRB GmbH & Co. B-149 KG**	Germany	Holding company
Beauty Trend USA Inc.**	USA	Online retailing
El Spa Holdings (UK) Limited**	England and Wales	Holding company
ESPA International (UK) Limited**	England and Wales	Online retailing
Primavera Aromatherapy Limited**	England and Wales	Manufacturing
ESPA International (US) Inc.**	USA	Online retailing
ESPA International FZE**	UAE	Online retailing

Majority of the Group's subsidiaries are registered at the following address:
5th Floor, Voyager House, Chicago Avenue, Manchester Airport, Manchester, England M90 3DQ

Company only financial statements

Company balance sheet as at 31 December 2017

	Note	2017 £'000	2016 £'000
Fixed assets			
Investments	4	**89,770**	88,606
		89,770	**88,606**
Current assets			
Debtors	5	**518,648**	204,688
Cash		**80,058**	126,156
		598,706	**330,844**
Creditors: amounts falling due within one year	6	**(9,224)**	**(8,024)**
Net current assets		**589,482**	**322,820**
Total assets less current liabilities		**679,252**	**411,426**
Creditors: amounts falling due after one year	7	**(396,903)**	**(299,692)**
Net assets		**282,349**	**111,734**
Capital and reserves			
Called up share capital	8	**3,746**	3,299
Share premium	8	**277,380**	94,260
Merger reserve	8	**615**	615
Capital redemption reserve	8	**518**	518
Retained earnings	8	**90**	13,042
Total shareholders' funds		**282,349**	**111,734**

The financial statements on pages 80 to 87 were approved by the Board of Directors on 29 May 2018 and were signed on its behalf by:

J A Gallemore
Director
Registered number: 06539496

Company statement of changes in equity for the year ended 31 December 2017

	Note	Ordinary shares £'000	Share premium £'000	Merger reserve £'000	Capital Redemption Reserve £'000	Retained earnings £'000	**Total** £'000
Balance at 1 January 2017		**3,299**	**94,260**	**615**	**518**	**13,042**	**111,734**
Loss for the year		–	–	–	–	(12,244)	(12,244)
Issue of ordinary share capital		447	183,120	–	–	–	183,567
Share buy-back		–	–	–	–	(2,466)	(2,466)
Capital contribution		–	–	–	–	1,164	1,164
Share-based payments						594	594
Balance at 31 December 2017		**3,746**	**277,380**	**615**	**518**	**90**	**282,349**

Notes to the company financial statements

1. Accounting policies

The principle accounting policies have been applied in accordance with 'Financial Reporting Standard 101 Reduced Disclosure Framework' (FRS 101), and are detailed below. The policies have been applied consistently throughout both the current and preceding year.

a. Basis of preparation

As permitted by Section 408 of the Companies Act 2006, an entity profit and loss account is not included as part of the published consolidated financial statements of The Hut Group Limited. The loss for the financial year in the financial statements of the Company is £12.2m (2016: £4.7m profit).

In accordance with FRS101, the Company has taken advantage of the disclosure exemptions relating to the preparation of a cash flow statement and disclosure of related party transactions. The consolidated financial statements of The Hut Group Limited have been prepared in accordance with International Financial Reporting Standards as adopted by the EU.

b. Taxation and deferred taxation

Current tax including UK Corporation Tax is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Temporary differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

c. Borrowing costs

Borrowing costs are not capitalised; they are recognised in profit or loss in the period in which they are incurred.

d. Financial instruments

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

e. Borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis through the profit and loss account using the effective interest method and are added to the carrying amount of the instrument to the extent they are not settled in the period in which they arise. The Company has not entered into any transactions involving derivative instruments.

f. Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

g. Investments in subsidiaries

Investments in subsidiaries are held at cost, less any provision for impairment. Where equity settled share-based payments are granted to the employees of subsidiary companies, the fair value of the award is treated as a capital contribution by the Company and the investments in subsidiaries are adjusted to reflect this capital contribution.

h. Share-based payments

The Company operates a share-based compensation plan, under which the Company and the Group subsidiary entities receive services from employees as consideration for equity instruments (options) of the Company. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

Notes to the company financial statements (continued)

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

The Group has an employee benefit trust (EBT) which facilitates an internal market for participants in employee share schemes to sell their shares in the Company. Shares held are recognised at cost as a deduction from shareholding equity. Subsequent consideration received for the sale of such shares is also recognised in equity.

i. Significant estimates and judgements

Share-based payments

Critical estimates and assumptions are made in particular with regard to the calculation of the fair value of employee share options using appropriate valuation models. In addition, estimation is required in assessing the number of options expected to vest and the vesting periods of the awards.

Notes to the company financial statements (continued)

2. Employee costs and numbers

	2017 £'000	2016 £'000
Wages and salaries	**494**	601
Social security costs	**76**	87
Share-based payments	**467**	570
	1,037	**1,258**

The average number of employees during the year was 2 (2016: 2).

3. Auditor remuneration

Amounts paid to the Company's auditors are disclosed in note 5 of the Group consolidated financial statements.

4. Fixed asset investments

Fixed asset investments comprise investments in subsidiary undertakings.

	Note	2017 £'000	2016 £'000
At 1 January		**88,606**	87,361
Capital contribution	8	1,164	1,245
At 31 December		**89,770**	**88,606**

5. Debtors

	2017 £'000	2016 £'000
Amounts owed by group undertakings	**514,282**	203,335
Corporation tax asset	**154**	154
Other taxation and social security	**107**	20
Prepayments and accrued income	**4,105**	1,179
	518,648	**204,688**

Amounts owed by group undertakings are unsecured, non-interest bearing and repayable on demand.

Notes to the company financial statements (continued)

6. Creditors: amounts falling due within one year

	2017 £'000	2016 £'000
Trade creditors	**239**	180
Bank borrowings	**7,140**	7,189
Amounts owed to group undertakings	–	287
Accruals and deferred income	**1,845**	368
	9,224	**8,024**

Amounts owed to group undertakings are unsecured, non-interest bearing and repayable on demand.

7. Creditors: amounts falling due after one year

	2017 £'000	2016 £'000
Bank borrowings	**396,903**	299,692

Refer to note 18 of the Group financial statements for details of the bank borrowings. Bank borrowings carried an interest rate of 2.35% (2016: 1.65%) plus LIBOR. If interest rates during the year had been 100 basis points higher/lower with all other variables held constant, post-tax loss for the year would have been £2.4m (2016: £0.9m) higher/lower as a result of the higher/lower interest expense which would have been payable.

Notes to the company financial statements (continued)

8. Share capital and reserves

The Company has the following authorised, allotted, issued, fully paid and partly-paid ordinary share capital:

	2017	2016
	Number	Number
Class		
A ordinary	**461,620**	520,645
B ordinary	**2,856,746**	519,013
C ordinary	**3,289**	–
D ordinary	**459,118**	483,704
A shares	**–**	80,654
A1 shares	**–**	213,419
A2 shares	**52,068**	605,660
A3 shares	**–**	254,037
A4 shares	**153,904**	153,904
A5 shares	**–**	113,596
A6 shares	**–**	594,884
Deferred shares	**33,515**	33,515
£1 nominal value ordinary shares*	**4,020,260**	**3,573,031**

*Included within this number is 364,455 partly-paid shares (2016: 390,535).

On 13 April 2017, 53,612 A5 shares were converted into and re-designated as B ordinary shares.

On 5 September 2017, the following shares were converted into and re-designated as B ordinary shares: (i) 80,654 A shares; (ii) 213,419 A1 shares; (iii) 553,592 A2 shares; (iv) 254,037 A3 shares; (v) 59,984 A5 shares; and (vi) 594,884 A6 shares.

A2 shares, A4 shares, A ordinary shares and B ordinary shares

The holders of A2 shares, A4 shares, A ordinary shares and B ordinary shares are entitled to receive dividends pro rata according to the number of shares held by them respectively as if they constituted one class of share. The A2 shares, A4 shares, A ordinary shares and B ordinary shares are non-redeemable. The holders of such shares have, on a show of hands one vote, and, on a poll have one vote for each such share held by them. On a return of capital, the holders of such shares have different rights to receive any surplus assets remaining after the payment of liabilities ("net proceeds").

C ordinary shares

The holders of C ordinary shares are not entitled to receive dividends. The shares do not carry any voting rights and are non-redeemable. On a return of capital, the holders of such shares are entitled to receive surplus assets remaining after the payment of liabilities ("net proceeds").

Notes to the company financial statements (continued)

D ordinary shares

The holders of D ordinary shares are not entitled to receive dividends. The shares do not carry any voting rights and are non-redeemable. On a return of capital, the holders of such shares are not entitled to receive any surplus assets remaining after the payment of liabilities ("net proceeds") unless a hurdle is achieved.

Deferred shares

The holders of deferred shares have no right to receive a dividend and no voting rights. The deferred shares are non-redeemable. On a return of capital, the holders of deferred shares are entitled to receive the amount paid up or credited as paid up on such shares once the holders of all the other shares have received the sum of £100,000 per share.

	Note	Ordinary shares £'000	Share premium £'000	Merger reserve £'000	Capital Redemption Reserve £'000	Retained earnings £'000	**Total £'000**
Balance at 1 January 2017		**3,299**	**94,260**	**615**	**518**	**13,042**	**111,734**
Loss for the year		–	–	–	–	(12,244)	**(12,244)**
Issue of ordinary share capital		447	183,120	–	–	–	**183,567**
Share buy-backs		–	–	–	–	(2,466)	**(2,466)**
Capital contribution		–	–	–	–	1,164	**1,164**
Share-based payments		–	–	–	–	594	**594**
Balance at 31 December 2017		**3,746**	**277,380**	**615**	**518**	**90**	**282,349**

£0.6m (2016: £0.8m) has been charged to the Company profit and loss account in respect of the share-based payments. £1.2m of share-based payments is reflected in the subsidiary financial statements.

Disclosures on the share-based payment schemes can be found in note 7 of the Group financial statements.

Further information in respect of the movement in the share premium account and share buy-backs can be found in note 22 of the Group financial statements.

9. Post balance sheet events

Disclosure on the post balance sheet events is in Directors' report on page 43.