



# THG

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## ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

THE HUT GROUP LIMITED. COMPANY NUMBER / 06539496

# CONTENTS

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02

Highlights and key shareholders

---

04

Strategic Report

---

18

Directors' Report

---

23

Independent Auditor's Report to the members  
of The Hut Group Ltd

---

26

Consolidated Statement of Comprehensive  
Income

---

28

Consolidated Statement of Financial Position

---

---

30

Consolidated Statement of Changes in Equity

---

32

Consolidated Statement of Cash Flows

---

34

Notes to the Financial Statements

---

69

Company Balance Sheet

---

71

Company Statement of Changes in Equity

---

73

Notes to the Company Financial Statements

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# HIGHLIGHTS

Total Group  
Sales £501m  
**+50%**

Investment In  
Growth Projects  
**£252m**

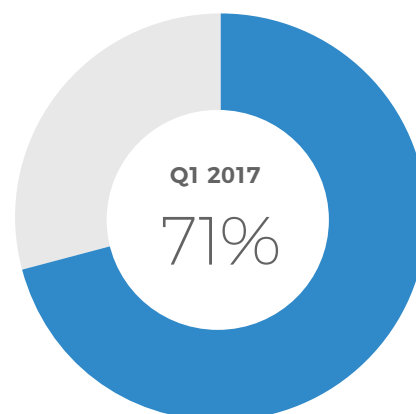
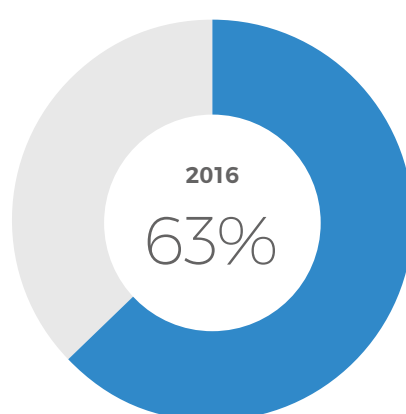
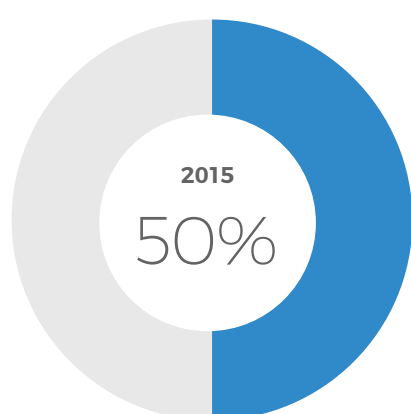
EBITDA  
£50m  
**+67%**  
EBITDA 10% of Sales

Cash Generated  
From Ops  
**175%**  
Of EBITDA at  
£87.6m

Cash On Hand  
**£174m**

Banking  
Facility  
**£345m**

## Group International Sales



Production and Distribution centre in Cheshire and  
Kentucky commissioned in the year

# KEY SHAREHOLDERS

As at 31 December 2016, the key shareholders holding more than 10% of fully diluted share capital in the Group are as follows:

Matthew & Jodie Moulding	20.28%
Kohlberg Kravis Roberts & Co	17.98%
Balderton Capital	17.09%
THG employees (148 employees)	11.00%



# STRATEGIC REPORT

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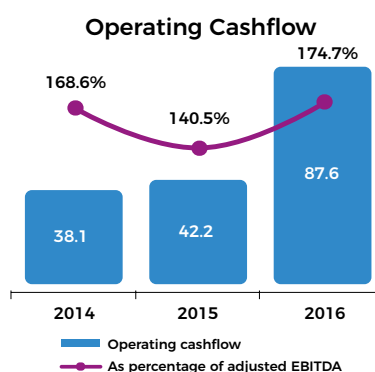
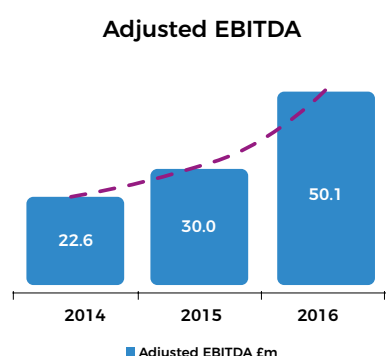
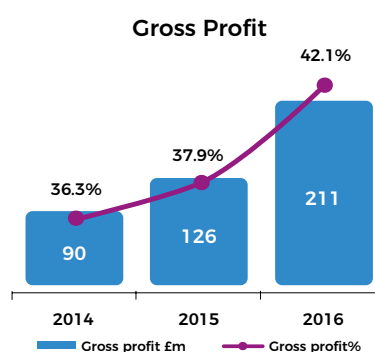
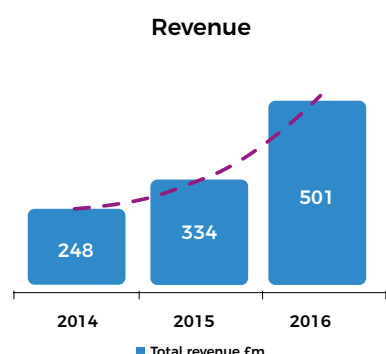
FOR THE YEAR ENDED 31 DECEMBER 2016

# STRATEGIC REPORT

The Directors present their strategic report for The Hut Group Limited (“the Company”) and its subsidiaries (together “the Group”) for the year ended 31 December 2016.

## FINANCIAL HIGHLIGHTS

- Total Group Sales increased by 50% to over £500m;
- Gross Profit increased by 67% with gross margin up 424bps compared to 2015;
- Adjusted EBITDA\* increased by 67% year-on-year reflecting the gross margin progression;
- Cash generated from operations was 175% of adjusted EBITDA at £87.6m;
- Over 63% of Group Sales were to international customers compared to 50% in 2015;
- 52% of sales were derived from the Group’s own brands (52% in 2015);
- Group Sales CAGR of 29% and adjusted EBITDA CAGR of 63% for the period 2011 to 2016;
- £174m of cash and cash equivalents;
- £345m banking facility for strategic initiatives.



\* Adjusted EBITDA is operating profit before depreciation, amortisation, share-based payments and exceptional items

## OPERATIONAL HIGHLIGHTS

### LAYING THE FOUNDATIONS FOR FUTURE ACCELERATED GROWTH

The Group invested £252m in key drivers of growth in the year, including share buy-backs, all significantly enhancing shareholder value:

<b>Infrastructure</b>	£153m of capital was deployed in physical infrastructure projects including manufacture, distribution, supply chain and office accommodation;
<b>Technology</b>	£19m of investment in the technology platform to further enhance its functionality and globalisation capability;
<b>M&amp;A</b>	£63m of acquisitions targeted at specifically developing our global own brand proposition as well as geographical reach of our beauty supply chain;
<b>Capital Structure</b>	Share buy-backs were completed totalling £17.0m, including £4.8m returned to qualifying staff via buy-backs of shares and options;
<b>Banking and Finance</b>	Banking facilities were further extended to £345m, with £174m of cash equivalents at year end;
<b>Talent</b>	1,400 new jobs were created including 400 graduate positions.



## OPERATIONAL HIGHLIGHTS

### INFRASTRUCTURE

Three key distribution and infrastructure projects were undertaken in the year with £153m of funds deployed in design, build and deployment:

- The 1m sq ft Cheshire based food production and distribution facility (Omega) was commissioned in the latter part of the year. In addition to the physical nature of the investment, the facility is also powered by our proprietary software (Voyager), developed in Cheshire by our development team working on site in tandem with the physical build. This approach provides an unprecedentedly well matched software solution to the physical demands of the build, with full flexibility for further development.
- The existing four Cheshire based facilities will all be incorporated into this site by the summer of 2017. The total site investment will be c£120m and this now gives the Group full proprietary end to end infrastructure and technology.
- Our Kentucky based US food production and distribution facility was commissioned in August of 2016. This facility represents our first investment of this type in our US market with further expansion in the planning stage for 2017.
- We completed the acquisition of two further office buildings at our Cheshire base, with an additional two acquired in the early part of 2017. These investments will provide adequate capacity as we finalise details for our longer term HQ base, currently in planning. Additionally, we completed the acquisition of the prestigious Hale Country Club for a consideration of £24m. With this facility we aim to develop a global centre of fitness and wellbeing excellence. Within this we will have the opportunity to develop our own brands, as well as selected third party brands from within the Health and Beauty industry.



**CHESHIRE**  
Production and  
distribution facility



**NORTHWICH**  
Head office (7 buildings)



**HALE COUNTRY  
CLUB & SPA**  
Luxury Health Club



**HANGAR SEVEN  
STUDIOS**  
Macclesfield, Leeds,  
London, Portugal



**SALT LAKE CITY**  
Social media centre



**KENTUCKY**  
Production and  
distribution facility



## OPERATIONAL HIGHLIGHTS

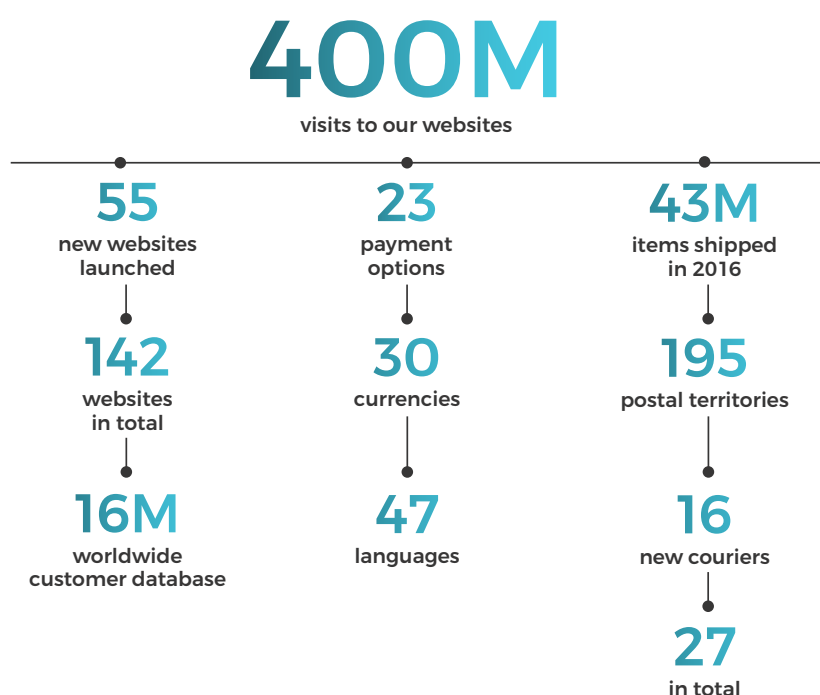
### TECHNOLOGY

In addition to powering our distribution centres, our technology platform, now entering its second decade, continues to be the engine of our growth. Continued investment (£19m) in our end to end proprietary technology platform facilitates our global scale and addresses the ever changing social trends of our customers across the globe.

- International revenue has increased to 63% of the mix, up on 50% delivered last year. Qtr 1 2017 run rate at 71%.
- International sales growth at 89%.
- The THG Franker launched 55 International Websites in the year, taking the total number of traded websites to 142.
- THG Platform now operates on 47 languages, 30 currencies, 23 payment options, delivering to 195 Postal Territories with 27 final mile couriers now integrated.
- THG's Data Science platform personalises the customer journey on- and off-site through bandwidth detection, geo-location and customer clustering. Our bespoke data platform processes every website interaction through a proprietary identification algorithm.

To further enhance the customer experience, as well as deliver substantial operational efficiency, we deployed a further 16 final mile couriers in territories across the globe, taking the total number of couriers now integrated into our platform to 27. This area remains a key focus for the Group, with a continued roll out of these services and improvement of cost efficiencies.

To ensure that we both improve quality of service to our international customers but also demonstrate that we can reduce shipping costs as we scale internationally, we have integrated a further 16 international couriers into the platform giving a total of 27 now available to the distribution service (Mercury). We have a further 24 new courier integrations in production for launch in 2017. That international scale has grown to 63% of the total mix in the year, increasing again in the first quarter of 2017 to over 70%.



## OPERATIONAL HIGHLIGHTS

### M&A

To accelerate the development of the business model, whilst enhancing territorial progression in strategic long term markets, the Group completed carefully selected acquisitions in key verticals.

In total we deployed £63m in our North American market to acquire an additional brand in each of the health and beauty markets, as well as two further investments in beauty supply chain. These transactions have substantially re-engineered our territorial spread, providing an essential hedge against risk to any one material market:

- The acquisition of Grow Gorgeous was completed in February, adding to our emerging house of beauty brands;
- Two additional beauty brand online department stores were acquired in the USA in Skinstore.com and SkincareRx.com increasing the Group's collection of third party brands to over 750, substantially enhancing global distribution rights at the same time;
- In September we introduced the predominantly female targeted Ideal collection of nutrition brands to the Health division. Although at present solely focussed on the US market, we see huge potential to globalise that brand as well as growing local market share.

Post year end, the Group completed the acquisition of Hangar Seven, a leading British content creation business for video, as well as branding and photography.

### CAPITAL STRUCTURE

The Group continues to benefit from a very liquid market for its stock, despite its private status.

- Reflecting its continued strong cash flow performance over a number of years, the Board decided to return surplus cash to shareholders during the year via £17.0m of share buy-backs. Included within this figure is £4.8m returned to qualifying staff via buybacks of shares and options.
- During the year, BlackRock increased their investment in the business and we welcomed Sofina to the shareholder register, see note 22.



## OPERATIONAL HIGHLIGHTS

### BANKING AND FINANCE

- The Group agreed a significant increase in its available corporate debt facilities during 2017, amending the existing £210m revolving credit facility ("RCF") to an increased £345m facility (including a £30m accordion facility) provided by Barclays, HSBC, Santander, Lloyds, RBS with the welcome addition of Bank of Ireland and Silicon Valley Bank. The increased facilities will be used for any strategic initiatives the Group may undertake.
- The scale and flexibility of the facility provides the Group with substantial capacity to accelerate its international expansion plans and fund possible future acquisitions.

**Barclays Bank Plc**

1 Churchill Place  
London  
E14 5HP

**Lloyds Bank Plc**

25 Gresham Street  
London  
EC2V 7HN

**HSBC**

8 Canada Square  
Canary Wharf  
London  
E14 5HQ

**Bank of Ireland (UK) plc**

Bow Bells House  
1 Bread Street  
London  
EC4M 9BE

**Santander UK Plc**

2 Triton Square  
Regent's Place  
London  
NW1 3AN

**The Royal Bank of Scotland Plc**

36 St Andrew Square  
Edinburgh  
EH2 2YB

**Silicon Valley Bank**

Alphabeta  
14-18 Finsbury Square  
London  
EC2A 1BR

## OPERATIONAL HIGHLIGHTS

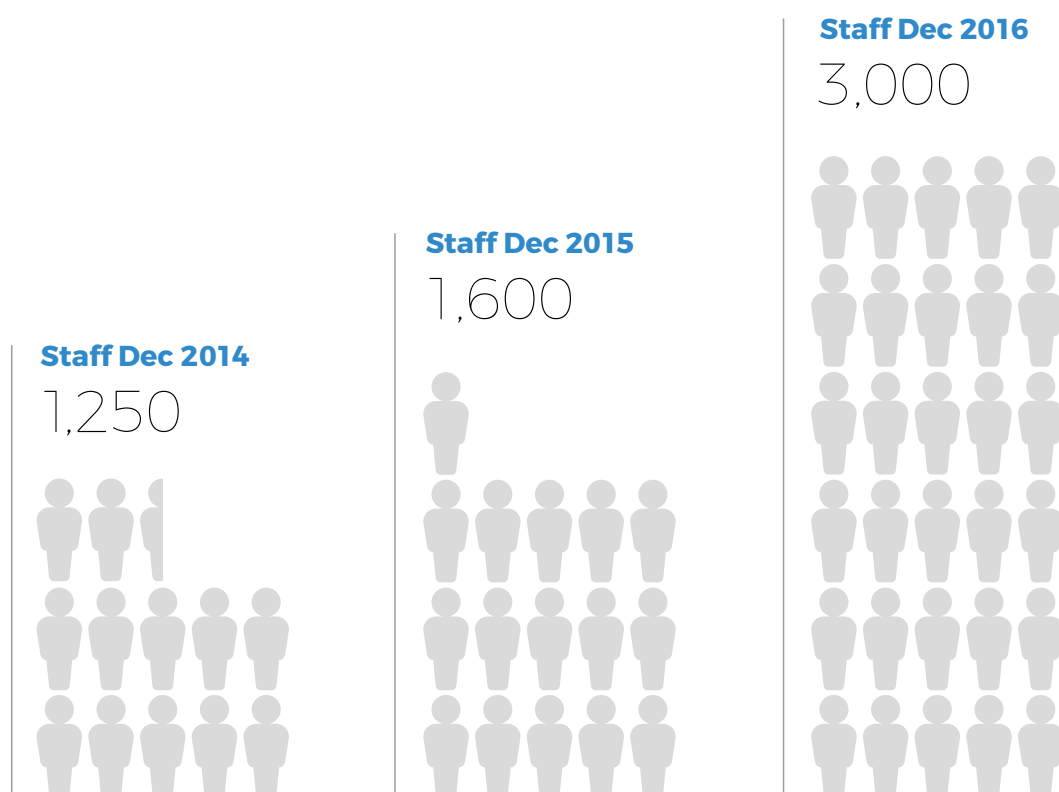
### TALENT

Rapid expansion drives a rapid need for resource. We focus on hiring talented people and providing them with the freedom, autonomy and responsibility they need to achieve their full potential. Over 2016 we have invested more than ever before in people, both in creating jobs and in enhancing the potential of our existing talent.

As each division has continued to push for sales growth, as well as expanding internationally, we have brought in over 1,400 new employees, including over 400 graduates. Our belief in challenging traditions and a constant drive to disrupt the industry means we are constantly looking to bring in fresh talent with new ideas, new perspectives and new experiences.

Our commitment to investing also brings us to look within the Company and this year saw our biggest investment in internal development. In December we launched The THG Academy, opening up a new realm of opportunities for employees to gain knowledge and experience in areas that they are interested in. With over 800 employees already signed up to the scheme, the enthusiasm to progress is a testament to our policy of hiring ambitious, talented young people who want to map out their own career paths.

The culture at The Hut Group is fast-paced, ambitious and driven by achievement and our unique approach to people makes a career at THG anything but ordinary. 2016 has been the year of investment in talent for The Hut Group and we continue to see motivated individuals joining, developing and succeeding in all areas of the business.



## PRINCIPAL ACTIVITIES AND PERFORMANCE

### ‘THG IS A PLATFORM’

The Platform is wholly owned, entirely internally developed and fully end to end through the business, from the manufacture of the product, to the customer visit through to the order despatch, giving the business full control over all disciplines we identify as being essential if we are to further progress the business model. The model defines us as a brand owner and global distributor of prestige beauty and health products, consistently delivering high sales growth rates, geographical and margin progression, substantial profitability growth more than matched by impressive operating cash generation and a strong balance sheet.

In addition to controlling the physical movement of product, the Group's proprietary technology platform is central to the business model. The platform facilitates highly effective data-driven retailing through optimised website content and bespoke marketing, generating high levels of consumer loyalty, choice, repeat purchase and satisfaction. The retail activities of the Group focus on premium own brand product in Health and Beauty markets, both sectors characterised by low e-commerce penetration levels, a high degree of fragmentation and huge global demand.

In addition to powering the Group's own brands and retail sites, the Group's Technology Services division provides business to business software and e-commerce platform services for media and brand partners. In a sector where provision is scarce, incomplete and expensive, THG Platform stands out reflecting its fully scaled, global, world class end to end solution.

For a complete listing of the Group's sites and further information, visit [thehutgroup.com](http://thehutgroup.com)

## REVENUE

The Group generated total sales growth of 50% during the year, with sales increasing from £334 million to £501 million.

The Rest of the World segment has grown to 29% of the total mix in the year (2015: 18%) reflecting the 144% growth rate in that market. In the early part of 2017 this has become our largest area as total international sales have passed 70% of the mix. Undoubtedly, the deployment of the US production and distribution facility has played a significant part in our North American performance. Our South East Asian markets continue to demonstrate huge levels of demand for our core product range, with this market continuing to be serviced from our Cheshire distribution facility.

Europe continues to be a strong segment with sales increasing 59% comprising 34% of the mix (2015: 32%). This rate of growth reflects not only the continued development of the international platform in the period, but also further improvements to our delivery network as we make use of the premium service. Improvements in the international platform include language, currency, payment and pricing flexibility by territory.

The Group's returns rate from customers remains low at 1% (2015: 1%), continuing to reflect the high repeat, highly personalised nature of the retail and product offering.

## GROSS PROFITABILITY

The gross profit margin increased by 420bps in the year to 42.1% (2015: 37.9%).

This unprecedented 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 Health and Beauty sales.
- Investment in Health supply chain both in breadth and volume of in house production.
- Acquisition of our second Beauty brand (Grow Gorgeous) in the year.
- Selective North American supply chain acquisitions in the Beauty market establishing a mature portfolio of prestige third party brands in that continent.

## OPERATING EXPENSES

Distribution costs remain well controlled at 17.0% of sales, in line with the prior year (16.8%), despite the significant increase in international mix. This reflects the last mile carrier roll out undertaken in international markets delivering substantial cost reduction as well as significant service level improvements.

The return rate remains in control at 1% of sales.

Costs associated with the ongoing transition of our 4 Cheshire warehousing and production facilities to the new warehouse site have been recognised within exceptional items, as have set up costs associated with the US site.

Underlying administrative costs (staff, marketing, other administrative but excluding exceptional items, share-based payments, depreciation and amortisation) increased during the year to £76.1 million (15.2% on sales) from £40.4 million in 2015 (12.1% on sales).

Marketing costs increased by 180bps in the year to 8.4% on sales (2015: 6.6%) driven by increased digital marketing activities as we continued to invest in own brand penetration and customer acquisition in international territories. Over 4.0m new customers transacted with the Group in the year, which combined with increasing annual repeat behaviour trends, positions the Group well to further accelerate growth into international territories from this growing base. All of this combined leads to increasingly strong gross profit margins across the Group.

Staff costs excluding distribution increased by 110bps to 5.7% on sales (2015: 4.6%), due to the significant investment in scalability, international growth and the success of the graduate talent programme.

Other administrative costs represent just 1.1% on sales (2015: 0.9%) which reflects the efficient nature of the operating model, even as the business grows.

## DEPRECIATION AND AMORTISATION

Total depreciation and amortisation costs have increased by 67% year-on-year, in line with gross profit, which is a reflection of our accelerated £252m investment in growth projects:

- The Group invested £129m in tangible assets during the year (2015: £25m). This primarily related to investment in the physical infrastructure throughout our warehouses, including new production and distribution facilities in the UK and North America, along with £10m relating to tangible assets acquired through business combinations.
- 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. £19m was invested in the platform up from £11m in 2015.
- £13m was invested in intellectual property in 2016 (2015: £2m). The majority of this increase in investment related to the acquisition of the Grow Gorgeous trademark, which was acquired in February 2016 and is a continuation of the Group's strategy to augment its predominantly third party beauty brand offering with own label ranges.
- 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 £6m and £17m 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 administrative costs, have been classified as exceptional items. These items principally relate to:

- Reorganisation and restructuring costs associated with acquisitions and include dual site and technology decollation costs, redundancies, onerous lease costs and other one off costs.
- During the year the Group commissioned the 1m sq ft Cheshire based food production and distribution facility (Omega), as well as the Group's Kentucky based US food production and distribution centre. As a result costs associated with the integration of both of these centres have also been included in exceptional items. 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 148 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 £2.0 million (2015: £1.5 million).

Share-based payments also contain a cash charge for the year amounting to £1.1 million. 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.

<b>Number of share options in issue 1 January 2016</b>	<b>386,904</b>
Number of share options granted during the year	19,123
Number of share options cancelled during the year	(22,133)
<b>Number of share options in issue 31 December 2016</b>	<b>383,894</b>
Number of employees holding share options 31 December 2016	148

During the year the Group issued a number of Employee Share Scheme (ESS) shares to staff. The ESS share were issued as part of a new government approved scheme that allows employees to agree to waive/vary certain statutory employment rights in exchange for at least £2,000 worth of newly issued shares which benefit from potentially very significant tax breaks. As a result of this share issue there was a £0.7 million non-cash share-based payment charge during the year relating to the 77,067 ESS shares in issue at the year-end.

## FINANCE COSTS

Finance costs of £2.4 million primarily relate to arrangement fees and interest on the Group's increased £345 million bank facility, amending the existing £210 million revolving credit facility in the year.



## 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'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 the revolving credit facilities in place. The Group reviews its exposure to variable interest rates on a regular basis and fixes rates for the period until the next capital repayment.

By order of the Board



**J P Pochin**

Company Secretary

21 April 2017

# DIRECTORS' REPORT

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FOR THE YEAR ENDED 31 DECEMBER 2016

# DIRECTORS' REPORT

The Directors present their report with the audited consolidated financial statements of The Hut Group Limited and its subsidiaries for the year ended 31 December 2016.

## DIRECTORS, ADVISORS AND DIRECTORS' INTERESTS

The Directors and advisors of the Group who were in office during the year from 1 January 2016 and up to the date of signing the financial statements are listed below with the Directors' interests detailed in note 26.

### DIRECTORS



**M J Moulding**



**J A Gallemore**



**A Monro**



**I McDonald**



**W M Evans**



**P J Gedman**



**R J Pennycook**



**D P Murphy**



**A J Duckworth**



**E J Koopman**

### COMPANY SECRETARY



**J P Pochin**

### PROFESSIONAL ADVISOR



**Z Byng-Thorne**

## DIVIDENDS

No dividends will be distributed for the year ended 31 December 2016 (2015: £nil).

The Board returned £17.0 million of equity to minority shareholders in a continued effort to provide ongoing shareholder liquidity.

## RESEARCH AND DEVELOPMENT

The Group's e-commerce and technology services divisions are powered by its proprietary technology platform. In addition to providing end-to-end e-commerce 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 207 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 £34,000 (2015: £48,000).

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the Consolidated 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.

## 2017 OUTLOOK AND POST BALANCE SHEET EVENTS

### TRADING

The key trading trends in evidence throughout 2016 have continued in 2017, re-affirming management's confidence for the 2017 outlook. Management anticipate a strong level of revenue growth in 2017, 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 2017 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 2017, 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.

### ACQUISITION

On 12 April 2016, the Group acquired the entire share capital of Hangar Seven Limited (Hangar Seven), a digital media and content business for a cash consideration of £10.5m. Hangar Seven employs over 200 people across 160,000 sq. ft of studios in locations across London, Manchester, Leeds and Portugal. The business delivers end-to-end creative and production solutions for global FMCG brand owners including eight of the top ten UK retailers (e.g. Diageo, Kingfisher, Tesco, Asda, Boots, Britvic, John Lewis).

### AUDITORS

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

Ernst & Young LLP  
100 Barbirolli Square  
Manchester M2 3EY  
By order of the Board



**J P Pochin**  
Company secretary  
21 April 2017

# INDEPENDENT AUDITOR'S REPORT

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FOR THE YEAR ENDED 31 DECEMBER 2016



# INDEPENDENT AUDITOR'S REPORT

We have audited the Annual Report and Financial Statements of The Hut Group Limited for the year ended 31 December 2016 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statements of Changes in Equity, the Consolidated Statement of Cash Flows, the related notes to the financial statements 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. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company Financial Statements, as applied in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement set out on page 21, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## OPINION ON FINANCIAL STATEMENTS

In our opinion:

- the Group Financial Statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2016 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company Financial Statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

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

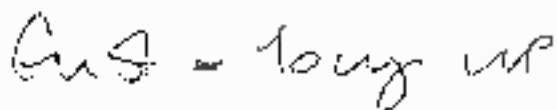
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with these financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements;

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and the Directors' Report.

## MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where 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.



**Alastair John Richard Nuttall (Senior statutory auditor)**

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

21 April 2017

The Directors are responsible for the maintenance and integrity of the Group's website 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

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FOR THE YEAR ENDED 31 DECEMBER 2016

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME


FOR THE YEAR ENDED 31 DECEMBER 2016

	NOTE	2016 £'000	2015 £'000
Revenue	2	501,376	333,543
Cost of sales		(290,142)	(207,176)
<b>Gross profit</b>		<b>211,234</b>	<b>126,367</b>
Distribution costs		(84,993)	(55,935)
Administrative costs		(109,690)	(52,623)
<b>Operating profit</b>	3	<b>16,551</b>	<b>17,809</b>
<b>Adjusted EBITDA*</b>		<b>50,157</b>	<b>30,041</b>
Depreciation	12	(6,181)	(3,482)
Amortisation	11	(13,580)	(8,382)
<b>Operating profit before exceptional items and share-based payments</b>		<b>30,396</b>	<b>18,177</b>
Share-based payments	7	(3,853)	(1,512)
Exceptional items	4	(9,992)	1,144
<b>Operating profit</b>		<b>16,551</b>	<b>17,809</b>
Finance income	8	61	83
Finance costs	8	(2,418)	(2,622)
<b>Profit before taxation</b>		<b>14,194</b>	<b>15,270</b>
Income tax charge	9	(3,390)	(1,783)
<b>Profit for the financial year</b>		<b>10,804</b>	<b>13,487</b>
<b>Other comprehensive income:</b>			
Exchange differences on translating foreign operations, net of tax		(245)	(22)
<b>Total comprehensive income for the financial year</b>	22	<b>10,559</b>	<b>13,465</b>

\* 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 income is 100% attributable to the owners of the Parent Company.

The background of the page is a deep space image featuring a vibrant nebula with shades of purple, pink, and orange. A dark, triangular shape, resembling a stylized mountain or a large letter 'V', is positioned at the bottom of the frame. The text is centered in the upper half of the image.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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AS AT 31 DECEMBER 2016

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

	NOTE	2016 £'000	2015 £'000
<b>Non-current assets</b>			
Intangible assets	11	221,636	129,436
Property, plant and equipment	12	152,049	29,466
		<b>373,685</b>	<b>158,902</b>
<b>Current assets</b>			
Inventories	13	58,911	34,887
Trade and other receivables	15	17,857	12,811
Current tax asset		1,663	367
Cash and cash equivalents	16	174,286	141,535
		<b>252,717</b>	<b>189,600</b>
<b>Total assets</b>		<b>626,402</b>	<b>348,502</b>
<b>Equity</b>			
Ordinary shares	22	3,299	2,743
Share premium	22	94,260	13,748
Employee benefit scheme reserve	22	175	175
Merger reserve	22	615	615
Capital redemption reserve	22	518	457
Retained earnings	22	44,666	45,565
		<b>143,533</b>	<b>63,303</b>
<b>Non-current liabilities</b>			
Borrowings	18	299,999	175,197
Deferred tax	20	7,493	2,860
		<b>307,492</b>	<b>178,057</b>
<b>Current liabilities</b>			
Trade and other payables	17	166,456	99,666
Borrowings	18	8,156	7,061
Provisions	19	765	415
		<b>175,377</b>	<b>107,142</b>
<b>Total liabilities</b>		<b>482,869</b>	<b>285,199</b>
<b>Total equity and liabilities</b>		<b>626,402</b>	<b>348,502</b>

The financial statements on pages 26 to 68 were approved by the Board of Directors on 21 April 2017 and were signed on its behalf by:



**J A Gallemore**  
Director

Registered number: 06539496

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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FOR THE YEAR ENDED 31 DECEMBER 2016

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

		ORDINARY SHARES	SHARE PREMIUM	EMPLOYEE BENEFIT SCHEME RESERVE	MERGER RESERVE	CAPITAL REDEMPTION RESERVE	RETAINED EARNINGS	TOTAL EQUITY
	NOTE	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance at 1 January 2015</b>		<b>2,915</b>	<b>14,294</b>	<b>175</b>	<b>615</b>	<b>285</b>	<b>50,196</b>	<b>68,480</b>
Total comprehensive income for the year		-	-	-	-	-	13,465	13,465
Share buy-backs		(172)	(546)	-	-	172	(19,750)	(20,296)
Share-based payments	7	-	-	-	-	-	1,512	1,512
Deferred tax effect of share-based payments	20	-	-	-	-	-	142	142
<b>Balance at 31 December 2015</b>		<b>2,743</b>	<b>13,748</b>	<b>175</b>	<b>615</b>	<b>457</b>	<b>45,565</b>	<b>63,303</b>
<b>Balance at 1 January 2016</b>		<b>2,743</b>	<b>13,748</b>	<b>175</b>	<b>615</b>	<b>457</b>	<b>45,565</b>	<b>63,303</b>
Total comprehensive income for the year	22	-	-	-	-	-	10,559	10,559
Issue of ordinary share capital		483	81,882	-	-	-	-	82,365
Share buy-backs	22	(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	20	-	-	-	-	-	1,105	1,105
<b>Balance at 31 December 2016</b>		<b>3,299</b>	<b>94,260</b>	<b>175</b>	<b>615</b>	<b>518</b>	<b>44,666</b>	<b>143,533</b>



# CONSOLIDATED STATEMENT OF CASH FLOWS

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FOR THE YEAR ENDED 31 DECEMBER 2016

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

	NOTE	2016 £'000	2015 £'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	24	87,607	42,201
Income tax paid		(2,591)	(896)
<b>Net cash generated from operating activities before exceptional cash flows</b>		<b>85,016</b>	<b>41,305</b>
Cash flows relating to exceptional items		(9,992)	(4,947)
Cend Limited vendor case damages awarded*		-	4,743
<b>Net cash generated from operating activities</b>		<b>75,024</b>	<b>41,101</b>
<b>Cash flows from investing activities</b>			
Acquisition of subsidiaries net of cash acquired	10	(73,841)	(3,339)
Settlement of deferred consideration		-	(10,800)
Purchase of property, plant and equipment		(118,561)	(23,190)
Proceeds from sale of property, plant and equipment		-	143
Purchase of intangible assets		(32,551)	(14,003)
Interest received		100	83
<b>Net cash used in investing activities</b>		<b>(224,853)</b>	<b>(51,106)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of ordinary shares net of fees		81,677	-
Share buy-backs		(17,040)	(20,296)
Interest paid		(2,418)	(1,881)
Repayment of bank borrowings		(255,302)	(137,177)
Proceeds from bank borrowings net of fees		376,577	257,074
Capital element of finance lease payments		(914)	(767)
<b>Net cash used in financing activities</b>		<b>182,580</b>	<b>96,953</b>
<b>Net increase in cash and cash equivalents</b>		<b>32,751</b>	<b>86,948</b>
Cash and cash equivalents at the beginning of the year		141,535	54,587
<b>Cash and cash equivalents at the end of the year</b>	16	<b>174,286</b>	<b>141,535</b>

\*The High Court awarded substantial damages in favour of THG arising from a breach of warranty provided by Mr Oliver Nobahar-Cookson and Barclays Private Bank & Trust Limited (as trustee of The Oliver Nobahar-Cookson Trust) (the "Trust") that Cend's Management Accounts gave a true and fair view of its financial position at the time of THG's acquisition of Cend Limited (Myprotein) in 2011 and had been prepared on a basis consistent with its audited accounts. Mr Nobahar-Cookson and the Trust appealed this damages award against them to the Court of Appeal who in March 2016 unanimously dismissed the appeal awarding costs in favour of THG.

# NOTES TO THE FINANCIAL STATEMENTS

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FOR THE YEAR ENDED 31 DECEMBER 2016

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 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 2015. 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 Recognition is not expected to have a material impact on these, or future, financial statements. The Group are currently reviewing the impact of all new standards and amendments ahead of subsequent adoption in future years.

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 bank 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 2016, and have been applied to 2015 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 2016. 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.

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 make 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 despatch 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.

## 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 holds 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.

## 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 Statement of Comprehensive income. 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 Statement of Comprehensive Income 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 Statement of Comprehensive Income 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 Statement of Comprehensive Income 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. 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 accounts 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. Exceptions to this include Ideal Shape, Skinstore, Skincare RX and a subsidiary of Mio that all have a functional and presentational currency of US Dollar. ANI remains the only company within the Group to have a Euro functional and presentational currency.

## 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 Statement of Comprehensive Income.

## 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 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.

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 1 and 5 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.

## 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.

The Group is deemed to have one reporting segment as the operations of all elements 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 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:

	2016 £'000	2015 £'000
UK	184,539	166,301
Europe	169,828	107,046
Rest of the world	147,009	60,196
	<b>501,376</b>	<b>333,543</b>

Rendering of services represents 2% of total revenue (2015: 3%)

All material non-current assets are based in the UK.

### 3. OPERATING PROFIT

	NOTE	2016 £'000	2015 £'000
Operating profit has been arrived at after charging:			
Employee costs	6	49,704	26,032
Share-based payments	7	3,853	1,512
Depreciation	12	6,181	3,482
Profit on disposal of property, plant and equipment		(7)	(59)
Amortisation	11	13,580	8,382
Operating lease rentals :			
Motor vehicles		20	27
Land and buildings		5,527	1,943

The non-cash IFRS 2 share-based payments charge for the year relating to the share options in issue during the year was £2.0m (2015: £1.5m).

Share-based payments also contain a cash charge for the year amounting to £1.2m as a result of payments that were made to employees in return for the cancellation of their share options, 22,133 share options were cancelled in total.

During the year the Group issued a number of Employee Share Scheme (ESS) shares to a select group of senior employees. The ESS shares were issued as part of a new government approved scheme that allows employees to agree to waive/vary certain statutory employment rights in exchange for at least £2,000 worth of newly issued shares which benefit from potentially significant tax breaks. As a result of this share issue there was a £0.7m non-cash share-based payment charge during the year.

Total depreciation and amortisation costs have increased by 67% year-on-year, in line with gross profit, which is a reflection of our continued investment in the future growth of the Group, through expanding the physical infrastructure throughout our 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.

## 4. EXCEPTIONAL ITEMS

	2016 £'000	2015 £'000
Production and distribution facility	5,272	-
Acquisition, legal and professional costs	4,720	3,599
Cend Limited vendor case damages awarded	-	(4,743)
	9,992	(1,144)
Tax effect	(1,586)	(422)
	8,406	(1,566)

During November 2016, the Group commissioned the 1m sq ft Cheshire based production and distribution facility (Omega) as part of a £120m investment in the site. In addition, the Group's Kentucky based US production and distribution centre was commissioned in August 2016 to service the Group's ever-growing international customer base. The costs incurred during the year primarily relate to the integration phase of both production and distribution centres with further costs to follow during 2017 when the existing four Cheshire based facilities will be incorporated into the new site.

The Group completed a number of carefully selected acquisitions in 2016 to further enhance the territorial progression in strategic long-term markets. To enable the Group to fully maximise its distribution and technology platform there is a process of reorganisation common across all acquisitions. The costs in the year relate to dual site and technology decollation costs, reorganisation, legal and professional fees and other one-off costs incurred during the integration phase of various acquisitions.

The High Court awarded substantial damages in favour of THG arising from a breach of warranty provided by Mr Oliver Nobahar-Cookson and Barclays Private Bank & Trust Limited (as trustee of The Oliver Nobahar-Cookson Trust) (the "Trust") that Cend's Management Accounts gave a true and fair view of its financial position at the time of THG's acquisition of Cend Limited (Myprotein) in 2011 and had been prepared on a basis consistent with its audited accounts. Mr Nobahar-Cookson and the Trust appealed this damages award against them to the Court of Appeal who in March 2016 unanimously dismissed the appeal awarding costs in favour of THG.

Detail around the prior year exceptional items can be found in note 4 of the 2015 consolidated financial statements.

## 5. AUDITOR'S REMUNERATION

	2016 £'000	2015 £'000
Audit of the Company and consolidated financial statements	115	114
Other services :		
audit of the Company's subsidiaries	45	45
corporate finance services	221	423
	<b>381</b>	<b>582</b>

## 6. EMPLOYEE COSTS AND DIRECTORS' REMUNERATION

	NOTE	2016 £'000	2015 £'000
Wages and salaries		59,549	32,727
Social security costs		5,506	3,155
Pension costs		324	185
Share-based payments	7	1,995	1,512
		<b>67,374</b>	<b>37,579</b>

The aggregate amount of employee costs included above that have been capitalised within platform development costs was £15.7m (2015: £10.0m).

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

	2016 £'000	2015 £'000
Directors' emoluments	1,440	1,195
Highest paid director	595	381

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 2016 (2015: nil).

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

	2016 NUMBER	2015 NUMBER
Retail	689	400
Administration	376	249
Distribution	475	375
Information technology	293	207
	<b>1,833</b>	<b>1,231</b>



## 7. SHARE-BASED PAYMENTS

During the year, the Group issued equity settled unapproved options to its employees. The options have been 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:

	2016 NUMBER	2016 WAEP	2015 NUMBER	2015 WAEP
Outstanding at 1 January	386,904	5.41	410,792	5.42
Granted	19,123	1.00	-	-
Lapsed	-	-	(23,888)	5.61
Cancelled	(22,133)	4.52	-	-
Outstanding at 31 December	383,894	5.19	386,904	5.41

The IFRS 2 Share-based payment charge for the current year is £2.0m (2015: £1.5m). Included within the share-based payment charge in the Consolidated Statement of Comprehensive Income is £1.2m in relation to options bought back by the Company from qualifying staff and £0.7m in relation to the issue of ESS shares to qualifying staff.

The lowest exercise price of share options outstanding at the end of the period was £1.00 (2015: £1.00) and the highest exercise price was £8.25 (2015: £8.25).

## 8. FINANCE INCOME AND COST

	2016 £'000	2015 £'000
<b>Finance income</b>		
Bank interest receivable	61	83
<b>Finance costs</b>		
Bank interest payable and charges	2,370	2,548
Finance lease interest	48	74
	<b>2,418</b>	<b>2,622</b>

## 9. INCOME TAX

	NOTE	2016 £'000	2015 £'000
<b>Current tax</b>			
Tax charge for the year		2,622	1,941
Adjustments in respect of prior year		(393)	235
		<b>2,229</b>	<b>2,176</b>
<b>Deferred tax</b>			
Origination and reversal of temporary differences		1,194	(346)
Adjustments in respect of prior year		(11)	15
Change in tax rates		(22)	(62)
	20	<b>1,161</b>	<b>(393)</b>
<b>Total income tax charge</b>		<b>3,390</b>	<b>1,783</b>

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

	2016 £'000	2015 £'000
Profit before tax	14,194	15,270
Profit before tax at 20% (2015: 20.25%)	2,839	3,092
Tax effects of:		
Adjustments in respect of prior year	(405)	250
Expenses not deductible / non-taxable income	1,631	(1,023)
R&D enhanced deductions	(712)	(500)
Effect of higher tax rates in other jurisdictions	111	-
Losses not recognised	(52)	26
Effect of change in tax rate	(22)	(62)
	<b>3,390</b>	<b>1,783</b>

The standard rate of Corporation Tax in the UK changed to 20% with effect from 1 April 2015. Accordingly, the Group's profits for this accounting period are taxed at an effective rate of 20%. The reduction of the main rate of Corporation Tax from 20% to 19% from 1 April 2017 and to 18% from 1 April 2020 was included within the Summer Finance Bill 2015, which was substantively enacted on 26 October 2015. Future profits will be taxed at the appropriate rate. Deferred tax as at 31 December 2016 has been calculated at 17% (2015: 18%), the enacted rate at which the deferred tax is expected to reverse.

## 10. BUSINESS COMBINATIONS

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

	Country of incorporation	Nature of activity	Date of acquisition	Consideration (£'000)	Percentage ownership
Salu Beauty Inc (Skinstore)	USA	Online retailing	18 May 2016	17,858	100%
Hale Country Club Limited (Hale CC)	UK	Retail and Leisure	28 June 2016	23,787	100%
Ideal Shape LLC (Ideal Shape)	USA	Online retailing	19 September 2016	30,666	100%
Inteladerm LLC (Skincare RX)	USA	Online retailing	13 December 2016	4,428	100%

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

	Skinstore £'000	Hale CC £'000	Ideal Shape £'000	Skincare RX £'000	Total £'000
Intangible assets	-	-	-	193	193
Property, plant and equipment	146	9,654	412	-	10,212
Inventories	4,219	32	5,360	854	10,465
Other receivables	11	2	383	48	444
Cash and cash equivalents	523	606	984	785	2,898
Trade and other payables	(2,692)	(2,884)	(5,369)	(3,696)	(14,641)
Deferred tax	-	(640)	-	-	(640)
<b>Total carrying amount</b>	<b>2,207</b>	<b>6,770</b>	<b>1,770</b>	<b>(1,816)</b>	<b>8,931</b>

The following intangible assets were recognised at acquisition:

	Skinstore £'000	Hale CC £'000	Ideal Shape £'000	Skincare RX £'000	Total £'000
Intangible assets - brands	10,335	496	2,752	3,384	16,967
Intangible assets - customer lists	3,170	246	448	1,605	5,469
Deferred tax	(2,482)	(137)	(587)	(731)	(3,937)
<b>Total carrying amount</b>	<b>11,023</b>	<b>605</b>	<b>2,613</b>	<b>4,258</b>	<b>18,499</b>

## 10. BUSINESS COMBINATIONS (CONTINUED)

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

		Skinstore	Hale CC	Ideal Shape	Skincare RX	Total
	NOTE	£'000	£'000	£'000	£'000	£'000
Intangible assets	11	13,505	742	3,200	5,182	22,629
Property, plant and equipment		146	9,654	412	-	10,212
Inventories		3,109	32	4,301	854	8,296
Other receivables		11	2	383	48	444
Cash and cash equivalents		523	606	984	785	2,898
Trade and other payables		(2,692)	(2,884)	(5,369)	(3,696)	(14,641)
Deferred tax	20	(2,482)	(777)	(587)	(731)	(4,577)
<b>Net assets acquired</b>		<b>12,120</b>	<b>7,375</b>	<b>3,324</b>	<b>2,442</b>	<b>25,261</b>
<b>Goodwill</b>	11	<b>5,738</b>	<b>16,412</b>	<b>27,342</b>	<b>1,986</b>	<b>51,478</b>
<b>Purchase consideration</b>		<b>17,858</b>	<b>23,787</b>	<b>30,666</b>	<b>4,428</b>	<b>76,739</b>

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:

	Skinstore	Hale CC	Ideal Shape	Skincare RX	Total
	£'000	£'000	£'000	£'000	£'000
Purchase consideration settled in cash	17,858	23,787	30,666	4,428	76,739
Cash and cash equivalents acquired	(523)	(606)	(984)	(785)	(2,898)
<b>Total cash outflow</b>	<b>17,335</b>	<b>23,181</b>	<b>29,682</b>	<b>3,643</b>	<b>73,841</b>

From the dates of acquisition to 31 December 2016 the newly acquired companies contributed the following to Group revenues and profit before tax:

	Skinstore	Hale CC	Ideal Shape	Skincare RX	Total
	£'000	£'000	£'000	£'000	£'000
Revenue	21,071	2,374	10,550	313	34,308
Adjusted EBITDA	3,115	885	1,808	18	5,826
Net profit before tax	2,222	598	1,106	18	3,944

If the acquisitions had occurred on 1 January 2016, the Group's revenue and profit before tax for the year would have been £565.3m and £19.6m respectively.

## 11. INTANGIBLE ASSETS

		Goodwill	Platform development costs	Intellectual property	Brands	Total
	NOTE	£'000	£'000	£'000	£'000	£'000
<b>Cost or valuation</b>						
<b>At 1 January 2015</b>		<b>93,659</b>	<b>24,588</b>	<b>8,105</b>	<b>11,272</b>	<b>137,624</b>
Additions		-	11,060	2,320	-	13,380
Business combinations		2,020	-	372	882	3,274
<b>At 31 December 2015</b>		<b>95,679</b>	<b>35,648</b>	<b>10,797</b>	<b>12,154</b>	<b>154,278</b>
<b>At 1 January 2016</b>		<b>95,679</b>	<b>35,648</b>	<b>10,797</b>	<b>12,154</b>	<b>154,278</b>
Additions		-	18,899	12,806	-	31,705
Disposals		(32)	-	-	-	(32)
Business combinations	10	51,478	-	5,662	16,967	74,107
<b>At 31 December 2016</b>		<b>147,125</b>	<b>54,547</b>	<b>29,265</b>	<b>29,121</b>	<b>260,058</b>
<b>Accumulated amortisation</b>						
<b>At 1 January 2015</b>		<b>270</b>	<b>10,944</b>	<b>3,778</b>	<b>1,468</b>	<b>16,460</b>
Amortisation	3	-	5,331	2,714	337	8,382
<b>At 31 December 2015</b>		<b>270</b>	<b>16,275</b>	<b>6,492</b>	<b>1,805</b>	<b>24,842</b>
<b>At 1 January 2016</b>		<b>270</b>	<b>16,275</b>	<b>6,492</b>	<b>1,805</b>	<b>24,842</b>
Amortisation	3	-	8,970	3,811	799	13,580
Disposals		-	-	-	-	-
<b>At 31 December 2016</b>		<b>270</b>	<b>25,245</b>	<b>10,303</b>	<b>2,604</b>	<b>38,422</b>
<b>Net book amount</b>						
<b>At 1 January 2015</b>		<b>93,389</b>	<b>13,644</b>	<b>4,327</b>	<b>9,804</b>	<b>121,164</b>
<b>At 31 December 2015</b>		<b>95,409</b>	<b>19,373</b>	<b>4,305</b>	<b>10,349</b>	<b>129,436</b>
<b>At 31 December 2016</b>		<b>146,855</b>	<b>29,302</b>	<b>18,962</b>	<b>26,517</b>	<b>221,636</b>

Included within platform development costs additions there is a credit for £0.9m (2015: £0.6m) in respect of qualifying R&D expenditure.

Included within the Group's intangible asset additions is £9.0m for the intellectual property of Grow Gorgeous. In February 2016, the Group acquired the Canadian headquartered prestige haircare brand from the brand-house Deciem. Grow Gorgeous is sold in North America, the UK, Europe and the Far East both through online and offline retail channels.

## 11. INTANGIBLE ASSETS (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 (2015: 3-5 years) and pre-tax cash flows projected forward assuming a perpetual growth rate of 2% (2015: 2%). The discount rate applied to the cash flow projections was 7.5% on a pre-tax basis (2015: 8.2%). The average per-annum growth rate applied to the initial period ranged from 2% to 25% dependent on the maturity of the CGU (2015: 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:

		2016 Goodwill	2016 Brands	2015 Goodwill	2015 Brands
	NOTE	£'000	£'000	£'000	£'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		1,609	-	1,609	-
Mio		1,946	-	1,978	-
PIAB / MGB		42	-	42	-
SkinStore	10	5,738	-	-	-
Hale CC	10	16,412	-	-	-
Ideal Shape	10	27,342	-	-	-
Skincare RX	10	1,986	-	-	-
		<b>146,855</b>	<b>5,527</b>	95,409	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, brands and intellectual property 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.

## 12. PROPERTY, PLANT AND EQUIPMENT

	Motor vehicles	Plant and machinery	Fixtures and fittings	Computer equipment and software	Freehold buildings	Total
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost</b>						
<b>At 1 January 2015</b>	<b>386</b>	<b>5,457</b>	<b>1,688</b>	<b>4,060</b>	<b>2,288</b>	<b>13,879</b>
Additions	103	20,413	2,027	1,032	1,218	24,793
Business combinations	-	19	-	-	-	19
Disposals	(152)	(141)	(5)	-	-	(298)
<b>At 31 December 2015</b>	<b>337</b>	<b>25,748</b>	<b>3,710</b>	<b>5,092</b>	<b>3,506</b>	<b>38,393</b>
<b>At 1 January 2016</b>	<b>337</b>	<b>25,748</b>	<b>3,710</b>	<b>5,092</b>	<b>3,506</b>	<b>38,393</b>
Additions	1,604	34,937	15,958	6,123	59,884	118,506
Business combinations (note 10)	25	395	197	299	9,296	10,212
Currency translation differences	2	-	11	140	17	170
Disposals	(86)	-	-	-	-	(86)
<b>At 31 December 2016</b>	<b>1,882</b>	<b>61,080</b>	<b>19,876</b>	<b>11,654</b>	<b>72,703</b>	<b>167,195</b>
<b>Accumulated depreciation</b>						
<b>At 1 January 2015</b>	<b>210</b>	<b>1,890</b>	<b>628</b>	<b>2,671</b>	<b>260</b>	<b>5,659</b>
Depreciation	127	1,956	426	853	120	3,482
Disposals	(148)	(62)	(4)	-	-	(214)
<b>At 31 December 2015</b>	<b>189</b>	<b>3,784</b>	<b>1,050</b>	<b>3,524</b>	<b>380</b>	<b>8,927</b>
<b>At 1 January 2016</b>	<b>189</b>	<b>3,784</b>	<b>1,050</b>	<b>3,524</b>	<b>380</b>	<b>8,927</b>
Depreciation (note 3)	172	3,130	1,167	1,389	323	6,181
Currency translation differences	1	-	4	108	4	117
Disposals	(79)	-	-	-	-	(79)
<b>At 31 December 2016</b>	<b>283</b>	<b>6,914</b>	<b>2,221</b>	<b>5,021</b>	<b>707</b>	<b>15,146</b>
<b>Net book amount</b>						
<b>At 1 January 2015</b>	<b>176</b>	<b>3,567</b>	<b>1,060</b>	<b>1,389</b>	<b>2,028</b>	<b>8,220</b>
<b>At 31 December 2015</b>	<b>148</b>	<b>21,964</b>	<b>2,660</b>	<b>1,568</b>	<b>3,126</b>	<b>29,466</b>
<b>At 31 December 2016</b>	<b>1,599</b>	<b>54,166</b>	<b>17,655</b>	<b>6,633</b>	<b>71,996</b>	<b>152,049</b>

The Group had committed capital expenditure of £25.8m as at 31 December 2016.

## 12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

	Motor vehicles £'000	Plant and machinery £'000	Total £'000
<b>As at 31 December 2015</b>			
Cost	339	3,617	3,956
Accumulated depreciation	(90)	(1,447)	(1,537)
<b>Net book value</b>	<b>249</b>	<b>2,170</b>	<b>2,419</b>
<b>As at 31 December 2016</b>			
Cost	291	3,617	3,908
Accumulated depreciation	(199)	(2,055)	(2,254)
<b>Net book value</b>	<b>92</b>	<b>1,562</b>	<b>1,654</b>

## 13. INVENTORIES

	2016 £'000	2015 £'000
<b>Goods held for resale</b>	<b>58,911</b>	<b>34,887</b>

The cost of inventories recognised as an expense and included in cost of sales amounted to £290.1m (2015: £207.2m). Included within the cost of sales expense is £3.4m in relation to an additional provision against the value of inventory.



## 14. FINANCIAL ASSETS AND LIABILITIES

	2016 £'000	2015 £'000
<b>Assets as per balance sheet - loans and receivables</b>		
Trade and other receivables excluding prepayments	5,685	2,882
Cash and cash equivalents	174,286	141,535
	<b>179,971</b>	<b>144,417</b>
<b>Liabilities as per balance sheet - other financial liabilities at amortised cost</b>		
Bank borrowings	306,881	180,070
Finance leases	1,274	2,188
Trade and other payables excluding non-financial liabilities	152,311	98,539
	<b>460,466</b>	<b>280,797</b>

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 £35k (2015: £0.5m asset) 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 16 of the Strategic Report.

## 15. TRADE AND OTHER RECEIVABLES

	2016 £'000	2015 £'000
Trade receivables	3,617	2,420
Less provision for impairment	(58)	(210)
	<b>3,559</b>	<b>2,210</b>
Prepayments and accrued income	12,172	9,929
Other receivables	2,126	672
	<b>17,857</b>	<b>12,811</b>

Trade and other receivables are principally denominated in Sterling.

## 15. TRADE AND OTHER RECEIVABLES (CONTINUED)

At 31 December 2016 the ageing of trade receivables was as follows:

	2016 £'000	2015 £'000
Not due	2,631	1,408
0 to 3 months overdue	800	923
3 to 6 months overdue	96	78
Over 6 months overdue	90	11
	<b>3,617</b>	<b>2,420</b>

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

	£'000
At 1 January 2016	210
Released	(300)
Charge for the year	148
<b>At 31 December 2016</b>	<b>58</b>

## 16. CASH AND CASH EQUIVALENTS

	2016 £'000	2015 £'000
Cash at bank and on hand	<b>174,286</b>	141,535

## 17. TRADE AND OTHER PAYABLES

	2016 £'000	2015 £'000
Trade creditors	<b>111,976</b>	78,844
Accruals and deferred income	<b>52,186</b>	20,357
Other taxation and social security	<b>1,752</b>	259
Other creditors	<b>542</b>	206
	<b>166,456</b>	<b>99,666</b>

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.

## 18. BORROWINGS

	NOTE	2016 £'000	2015 £'000
<b>Current</b>			
Bank borrowings		7,189	6,171
Finance leases	21	967	890
		<b>8,156</b>	<b>7,061</b>
<b>Non-current</b>			
Bank borrowings		299,692	173,899
Finance leases	21	307	1,298
		<b>299,999</b>	<b>175,197</b>

Bank borrowings relate predominantly to the amended facility provided by Barclays, HSBC, RBS, Lloyds Bank, Bank of Ireland, Santander and Silicon Valley Bank referred to on page 10. The contractual terms of the non-amortising facility covers 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 1.65% (2015: 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 £878,000 (2015: £597,000) 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:

	2016 £'000	2015 £'000
Within one year	7,189	6,171
Between two and five years	299,692	173,899
	<b>306,881</b>	<b>180,070</b>

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.

## 19. PROVISIONS

	2016 £'000	2015 £'000
<b>Current</b>		
Onerous leases	41	41
Customer loyalty points	724	374
	<b>765</b>	<b>415</b>

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 are 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 2016	41	374	415
Utilisation	-	(649)	(649)
Created	-	999	999
<b>At 31 December 2016</b>	<b>41</b>	<b>724</b>	<b>765</b>

## 20. DEFERRED TAX

The deferred tax balance comprises:

	2016	2015
	£'000	£'000
Short term timing differences	(224)	639
Accelerated capital allowances	1,729	(105)
Business combinations	5,988	2,326
	<b>7,493</b>	<b>2,860</b>

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

	NOTE	£'000
At 1 January 2016		2,860
Business combinations	10	4,577
Consolidated statement of comprehensive income	9	1,161
Recognised in equity		(1,105)
<b>At 31 December 2016</b>		<b>7,493</b>

The Group has unrecognised deferred tax assets relating to losses of £0.5m (2015: £0.7m), which have not been recognised due to the unpredictability of when these assets will be realised.

## 21. LEASES

### OPERATING LEASES

At 31 December 2016, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings 2016	Other 2016	Land and buildings 2015	Other 2015
	£'000	£'000	£'000	£'000
Within one year	3,036	-	5,527	17
Between two and five years	5,170	-	17,055	-
After five years	467	-	37,430	-
	8,673	-	60,012	17

### 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	2016	2015	2016	2015
		£'000	£'000	£'000	£'000
Expiring within one year		988	939	967	890
Expiring between two and five years		309	1,324	307	1,298
		1,297	2,263	1,274	2,188
Less interest payable		(23)	(75)	-	-
Finance lease liability	18	1,274	2,188	1,274	2,188

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

## 22. SHARE CAPITAL AND RESERVES

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

	2016	2015
	Number	Number
<b>Class</b>		
A ordinary	520,645	553,222
B ordinary	519,013	27,835
D ordinary	483,704	-
A shares	80,654	80,654
A1 shares	213,419	213,419
A2 shares	605,660	633,600
A3 shares	254,037	334,915
A4 shares	153,904	153,904
A5 shares	113,596	116,984
A6 shares	594,884	594,884
Deferred shares	33,515	33,515
<b>£1 nominal value ordinary shares*</b>	<b>3,573,031</b>	<b>2,742,932</b>

\*included within this number is 273,579 partly-paid shares (2015: nil).

### A SHARES, A1 SHARES, A2 SHARES, A3 SHARES, A4 SHARES, A5 SHARES, A6 SHARES, A ORDINARY SHARES AND B ORDINARY SHARES

The holders of A shares, A1 shares, A2 shares, A3 shares, A4 shares, A5 shares, A6 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 A shares, A1 shares, A2 shares, A3 shares, A4 shares, A5 shares, A6 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").

### D ORDINARY SHARES

The holders of D 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.

## 22. SHARE CAPITAL AND RESERVES (CONTINUED)

### 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.

		ORDINARY SHARES	SHARE PREMIUM	EMPLOYEE BENEFIT SCHEME RESERVE	MERGER RESERVE	CAPITAL REDEMPTION RESERVE	RETAINED EARNINGS	TOTAL EQUITY
	NOTE	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance at 1 January 2016</b>		<b>2,743</b>	<b>13,748</b>	<b>175</b>	<b>615</b>	<b>457</b>	<b>45,565</b>	<b>63,303</b>
Profit and total comprehensive income for the year		-	-	-	-	-	10,559	10,559
Issue of ordinary share capital		483	81,882	-	-	-	-	82,365
Share buy-back		(61)	(1,236)	-	-	61	(14,557)	(15,793)
Share-based payments	7	-	-	-	-	-	1,994	1,994
Deferred tax effect of share-based payments		-	-	-	-	-	1,105	1,105
Bonus issue		134	(134)	-	-	-	-	-
<b>Balance at 31 December 2016</b>		<b>3,299</b>	<b>94,260</b>	<b>175</b>	<b>615</b>	<b>518</b>	<b>44,666</b>	<b>143,533</b>

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.

The Group completed a share buy-back of 24,477 shares on 3 March 2016, 34,758 shares on 3 May 2016 and 500 shares on 5 October 2016 for aggregate consideration of £15.8m. All buybacks were funded from existing cash and banking resources.

On 19 February 2016, 350,646 D ordinary shares were issued for a total cash consideration of £688k, 77,067 shares of which related to the new Employee Share Scheme (ESS) and 273,579 of shares which were partly-paid.

On 3 May 2016 a further 405,630 B ordinary shares were issued at a nominal value of £1 per share for a cash consideration of £81.8m net of fees directly related to the share issue.

There was a bonus issue made on 11 June 2016 of 133,558 D ordinary shares, as well as buy-backs of 180 and 529 B ordinary shares held in The Hut Management Company Limited, a subsidiary of the Group. These shares were bought back by the Group on 1 June 2016 and 7 December 2016 respectively for a total cash consideration of £3.6m.



## 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 £312,500 (2015: £185,000). There were no outstanding contributions due to the fund at the year end.

## 24. CASH FLOW GENERATED FROM OPERATIONS

		2016	2015
	NOTE	£'000	£'000
<b>Profit before taxation</b>		<b>14,194</b>	<b>15,270</b>
Adjustments for :			
Depreciation	12	6,181	3,482
Amortisation	11	13,580	8,382
Share-based payments	7	3,853	1,512
Exceptional items	4	9,992	(1,144)
Net finance costs	8	2,357	2,539
<b>Operating cashflow before exceptional items and before movements in working capital and provisions</b>		<b>50,157</b>	<b>30,041</b>
Increase in inventories		(15,727)	(6,605)
Increase in trade and other receivables		(4,602)	(3,857)
Increase in trade and other payables		57,674	22,452
Increase in provisions		350	170
Foreign exchange loss		(245)	-
<b>Cash generated from operations before exceptional cash flows</b>		<b>87,607</b>	<b>42,201</b>

## 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 2016 and up to the date of signing the financial statements are:

M J Moulding  
 J A Gallemore  
 A Monro  
 I McDonald  
 W M Evans  
 P J Gedman  
 R J Pennycook  
 D P Murphy  
 A J Duckworth  
 E J Koopman (appointed 3 May 2016)

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

	Ordinary shares 2016	Ordinary shares 2015
	Number	Number
M J Moulding	678,768	476,455
J A Gallemore	24,678	-
A Monro	26,992	93,992
I McDonald	22,467	30,279
	752,905	600,726

## 26. RELATED PARTY TRANSACTIONS (CONTINUED)

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 £	2016 Number	2015 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	17,584	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	10,550
A J Duckworth	Nov-13	5.00	7,024	7,034
			<b>239,646</b>	<b>240,348</b>

The Group has provided interest free loans of £0.7m (2015: £0.8m) 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 £1.0m (2015: £1.1m).

## 27. POST BALANCE SHEET EVENTS

For further details on events after the balance sheet date see the Director's Report on page 18.

## 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 company

## 28. SUBSIDIARY UNDERTAKINGS (CONTINUED)

Subsidiary	Country of incorporation	Nature of business
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
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

\* - 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 Manco which gives it the right to control the appointment of Board Directors.

Majority of the Group's subsidiaries are registered at the following address:

### Meridian House

Rudheath  
Gadbrook Park  
Northwich  
Cheshire  
CW9 7RA

# COMPANY BALANCE SHEET

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AS AT 31 DECEMBER 2016

# COMPANY BALANCE SHEET

AS AT 31 DECEMBER 2016

	NOTE	2016 £'000	2015 £'000
<b>Fixed assets</b>			
Investments	4	88,606	87,361
		<b>88,606</b>	<b>87,361</b>
<b>Current assets</b>			
Debtors	5	204,688	33,737
Cash		126,156	111,947
		<b>330,844</b>	<b>145,684</b>
Creditors: amounts falling due within one year	6	(8,024)	(11,266)
<b>Net current assets</b>		<b>322,820</b>	<b>134,418</b>
<b>Total assets less current liabilities</b>		<b>411,426</b>	<b>221,779</b>
Creditors: amounts falling due after one year	7	(299,692)	(173,899)
<b>Net assets</b>		<b>111,734</b>	<b>47,880</b>
<b>Capital and reserves</b>			
Called up share capital	8	3,299	2,743
Share premium	8	94,260	13,748
Merger reserve	8	615	615
Capital redemption reserve	8	518	457
Retained earnings	8	17,755	30,035
Profit and loss account	8	(4,713)	282
<b>Total shareholders' funds</b>		<b>111,734</b>	<b>47,880</b>

The financial statements on pages 69 to 79 were approved by the Board of Directors on 21 April 2017 and were signed on its behalf by:


**J A Gallimore**

Director

Registered number: 06539496

# COMPANY STATEMENT OF CHANGES IN EQUITY

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FOR THE YEAR ENDED 31 DECEMBER 2016



# COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

		ORDINARY SHARES	SHARE PREMIUM	MERGER RESERVE	CAPITAL REDEMPTION RESERVE	RETAINED EARNINGS	TOTAL EQUITY
	NOTE	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2016		2,743	13,748	615	457	30,317	47,880
Loss for the year		-	-	-	-	(4,713)	(4,713)
Issue of ordinary share capital		483	81,882	-	-	-	82,365
Share buy-back		(61)	(1,236)	-	61	(14,557)	(15,793)
Capital contribution		-	-	-	-	1,245	1,245
Share-based payments	7	-	-	-	-	750	750
Bonus issue		134	(134)	-	-	-	-
Balance at 31 December 2016		3,299	94,260	615	518	13,042	111,734



# NOTES TO THE COMPANY FINANCIAL STATEMENTS

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FOR THE YEAR ENDED 31 DECEMBER 2016

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 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 year and the 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 £4.7m (2015: £0.3m profit).

In accordance with FRS101 Reduced Disclosure Framework, 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.

### 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 investment 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.

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.

## 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.

## 2. EMPLOYEE COSTS AND NUMBERS

	2016 £'000	2015 £'000
Wages and salaries	601	384
Social security costs	87	51
Share-based payments	570	658
	<b>1,258</b>	<b>1,093</b>

The average number of employees during the year was 2 (2015: 2).

## 3. AUDITOR'S 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	2016 £'000	2015 £'000
At 1 January		87,361	86,689
Additions		-	-
Capital contribution	8	1,245	672
At 31 December		<b>88,606</b>	<b>87,361</b>

There were no additions during the current year.

## 5. DEBTORS

	2016	2015
	£'000	£'000
Amounts owed by group undertakings	203,335	32,243
Corporation tax asset	154	154
Other taxation and social security	20	66
Prepayments and accrued income	1,179	1,274
	<b>204,688</b>	<b>33,737</b>

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

## 6. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2016	2015
	£'000	£'000
Trade creditors	180	4,640
Bank borrowings	7,189	6,171
Amounts owed to group undertakings	287	175
Accruals and deferred income	368	280
	<b>8,024</b>	<b>11,266</b>

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

## 7. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	2016	2015
	£'000	£'000
Bank borrowings	299,692	173,899

Refer to note 18 of the Group Financial Statements for details of the bank borrowings. Bank borrowings carried an interest rate of 1.65% (2015: 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 £878,000 (2015: £597,000) higher/lower as a result of the higher/lower interest expense which would have been payable.

## 8. SHARE CAPITAL AND RESERVES

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

	2016	2015
	Number	Number
<b>Class</b>		
A ordinary	520,645	553,222
B ordinary	519,013	27,835
D ordinary	483,704	-
A shares	80,654	80,654
A1 shares	213,419	213,419
A2 shares	605,660	633,600
A3 shares	254,037	334,915
A4 shares	153,904	153,904
A5 shares	113,596	116,984
A6 shares	594,884	594,884
Deferred shares	33,515	33,515
<b>£1 nominal value ordinary shares*</b>	<b>3,573,031</b>	<b>2,742,932</b>

\*included within this number is 273,579 partly-paid shares (2015: nil).

### A SHARES, A1 SHARES, A2 SHARES, A3 SHARES, A4 SHARES, A5 SHARES, A6 SHARES, A ORDINARY SHARES AND B ORDINARY SHARES

The holders of A shares, A1 shares, A2 shares, A3 shares, A4 shares, A5 shares, A6 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 A shares, A1 shares, A2 shares, A3 shares, A4 shares, A5 shares, A6 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").

### D ORDINARY SHARES

The holders of D 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.

## 8. SHARE CAPITAL AND RESERVES (CONTINUED)

		ORDINARY SHARES	SHARE PREMIUM	MERGER RESERVE	CAPITAL REDEMPTION RESERVE	RETAINED EARNINGS	TOTAL EQUITY
	NOTE	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2016		2,743	13,748	615	457	30,317	47,880
Loss for the year		-	-	-	-	(4,713)	(4,713)
Issue of ordinary share capital		483	81,882	-	-	-	82,365
Share buy-back		(61)	(1,236)	-	61	(14,557)	(15,793)
Capital contribution		-	-	-	-	1,245	1,245
Share-based payments	7	-	-	-	-	750	750
Bonus issue		134	(134)	-	-	-	-
Balance at 31 December 2016		3,299	94,260	615	518	13,042	111,734

£0.8m (2015: £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-back can be found in note 22 of the Group Financial Statements.

## 9. POST BALANCE SHEET EVENTS

Disclosure on the post balance sheet events can be found in note 27 of the Group Financial Statements.



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## The Hut Group.

Registered Office: Meridian House, Gadbrook Park, Northwich, Cheshire, CW9 7RA.

**Media Enquiries:** [media-enquiries@thehutgroup.com](mailto:media-enquiries@thehutgroup.com)

**Recruitment Enquiries:** [recruitment@thehutgroup.com](mailto:recruitment@thehutgroup.com)