SCIENCE IN SPORT PLC

# ANNUAL REPORT & ACCOUNTS

## 12 MONTHS ENDING 31ST DECEMBER 2017


SiS SCIENCE IN SPORT

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**Science in Sport plc**

Annual report and accounts
Year ended 31 December 2017

Company number 08535116

# Contents

# Highlights

**Financial Highlights in the twelve month period**

- Revenues increased by 28% to £15.62 million (2016: £12.24 million) significantly ahead of market growth forecasts for the sports nutrition sector, with particularly strong growth in online channels and international markets;
- New product development continued to be a key growth driver, and delivered £0.9m of sales in the year (2016: £0.8m) contributing 27% to overall revenue growth;
- Gross profit increased to £9.32m (2016: £7.38m) reflecting continuing factory efficiencies which have maintained gross margin close to 60%;
- Underlying operating loss* of £1.70m (2016: £0.80m) in line with growth strategy and expectations, reflecting continued investment in brand awareness, e-commerce and international expansion. Core UK business delivered operating profit of £0.60m;
- Cash and cash equivalents of £16.57m (2016: £6.13m) reflect funds raised in December 2017.

* excludes depreciation and amortisation and non-cash share based payments

**Operational Highlights**

- Consistent investment in the Science in Sport brand resulted in record levels of brand awareness and usage;
- 55% of revenue was derived from online channels (2016: 49%), exceeding the 50% target set for 2017;
- Continued investment in the Science in Sport e-commerce platform:
    - Delivered 58% year on year growth, contributing 30% of revenues
- Revenue from International customers grew 60% across both Core and International segments, and 28% (2016: 22%) of revenue was derived from these customers;
- Innovation and new product development including;
    - Rego Rapid Recovery Plus developed with Team Sky
    - Further extension of the Whey 20 portfolio
    - Strong launch pipeline for 2018;
- Continued efficiency improvements in factory underpinned margin;
- Best in world banned substance testing regime introduced January 2017;
- New brand partnerships including British Cycling, USA Triathlon, Rock'n'Roll Marathon, Cycling Australia and Celtic FC. In January 2018, the Company signed 3-year exclusive strategic partnership with Manchester United Football Club.

# Chairman's and Chief Executive's joint review

*Overview and Strategy*

We are delighted to announce a strong set of results for the year ended 31 December 2017. Revenue of £15.6m for the year was 28% ahead of the same period in 2016 and saw the Company deliver a fifth consecutive year of strong revenue growth. This was well ahead of the 8% CAGR forecast by Euromonitor for 2017 for the sports nutrition sector in the UK.

The Company's growth strategy is predicated on consistent investment in science and innovation, developing brand awareness, building e-commerce capability and reach through its scienceinsport.com e-commerce platform and developing new International markets. In our core UK market, we remain committed to a multi-channel distribution strategy in all Online and Retail channels. We underpin growth by seeking to maintain and grow gross margin, while limiting overhead growth, to benefit from operational gearing.

The Board believes there continue to be significant growth opportunities for the Company over the next few years and in order to maximise this SiS raised £14.8 million before costs in December 2017 to fund growth in key strategic International markets, as well as a move into a new sport, Football. In January 2018 we were pleased to announce our partnership with Manchester United Football Club, which includes access to players and followers of the world's most popular football club. The Company will continue to invest in the development of its e-commerce business, including a dedicated site to support our Football strategy. If appropriate, we will consider acquisitions to complement our existing product range and to deliver synergies from our distribution, e-commerce and supply chain capabilities.

*Brand and Range*

Our brand strategy is to consistently invest in building equity in the SiS brand, which is widely recognised by professional and elite athletes. SiS is a leader in science and innovation, supported by world-class in-house expertise, together with a range of collaborations with academic institutes, elite athletes and sports teams.

The Science in Sport brand is trusted by professional and Olympic athletes in a range of sports, across the world. A key component of this trust is our approach to preventing banned substances entering its supply chain and finished products. In line with this, Science in Sport is the only brand globally to hold both Informed Sport Site Certification and Informed Product Certification. Each year an internal review of the banned substance prevention regime takes place, and from January 2018 an upgraded system was implemented to continually improve and evolve the controls and systems within the Company. The Company regime is built on the following pillars:

- Every single batch of Science in Sport finished product which leaves the Company's factory is screened against the 2018 World Anti-Doping Agency (WADA) list. Banned substances including steroids are tested to the level of 10 Nanograms per gram, and stimulants to 100 Nanograms per gram.
- Batches (sampled at the beginning, during and end of each product batch) receive the recognised and respected Informed Sport certificate. Finished product testing is the final and most effective step that we have to ensure product assurance.
- Raw material batch testing, in addition to testing on finished goods, for any product deemed 'high-risk'.
- Full trace management of all raw materials from raw material base and manufacturing supplier, through to finished goods manufactured per production batch. This allows the Company to demonstrate to athletes the source of ingredients and all parties involved in the manufacturing process.
- Rigorous screening of all ingredient suppliers, including annual auditing. All suppliers are required to be certified to a recognised Quality Management system that is approved by The Global Food Safety Initiative.
- In house product screening within the Company's production facility in Nelson, Lancashire, including swab testing for banned substances and conduct surprise third-party inspections throughout the year.

SiS is a trusted brand which is used widely by enthusiasts and elite athletes in a growing range of endurance sports. These customers include cyclists, triathletes, rowers, tennis players and runners. More recently the brand has started to extend into new sports including professional football at the highest level and international rugby.

# Chairman’s and Chief Executive’s joint review

SiS products are endorsed by the Company’s Brand Ambassadors, including Sir Chris Hoy MBE and Mark Cavendish MBE. SiS is an official nutrition supplier to professional cycling teams Team Sky along with national associations British Cycling, Cycling Australia, USA Cycling, USA Triathlon and British Triathlon. The Company works closely with its Ambassadors and partners on product innovation. SiS also benefits from a close relationship with organisations and training centres focused on athlete development, including the English Institute of Sport.

SiS products are designed to sustain performance, to aid recovery and to build lean muscle. The core product range fuels five key athlete needs:

- **Energy** – Bars, shots, gels and powders to give athletes energy
- **Hydration** – Gels, tablets and powders to keep athletes energised and hydrated
- **Recovery** – Powder range to aid athletes recovery post-exercise
- **Rebuild** – Powders, gels and bars to build and maintain lean muscle mass
- **Athlete Health** – Vitamins and supplements range designed to support and maintain immune function, digestive health and bone health amongst athletes.

*Overview of the financial year*

The year ended 31 December 2017 saw sales up 28% at £15.6 million (2016: £12.2 million). E-commerce sales, both from our own website and Third-party Online retailers were particularly strong, reflecting the continued investment in brand awareness and e-commerce technology and management. Our International channels also grew significantly over the period under review. We believe that in our marketplace of endurance sport nutrition we delivered sector leading revenue growth, both organic growth and by taking market share from key competitors.

The underlying operating loss was in line with management expectations at £1.7 million (2016: £0.8 million) and this reflected continued investment in marketing, sales and e-commerce of £8.0 million (2016: £5.9 million).

Overheads excluding sales and marketing were £3.0 million (2016: £2.2 million) for the year. Within this amount is £0.5 million spend on Testing and Projects (2016: £0.1million) and a foreign exchange loss on the revaluation of subsidiary loans of £0.1 million (2016: £0.1 million gain).

Depreciation and amortisation costs of £0.6 million (2016: £0.4 million), non-cash share-based payments related to short and long-term management incentive schemes of £1.6 million (2016: £1.6 million), resulted in a pre-tax loss of £3.9 million (2016: £2.8 million).

Net cash and cash equivalents at the year-end were £16.6 million (31 December 2016: £6.1 million). The increase in cash is due to an equity fundraise completed in December 2017 which raised £14.8 million before costs.

Non-cash share-based payments amounting to £1.6 million (2016: £1.6 million), which have been excluded from underlying operating loss, continue to reflect the grant of options to employees under the Company’s Long Term Incentive Plan (“LTIP”) and Short Term Incentive Plan (“STIP”).

*Sales Channels*

The Company's sales channels comprise our own E-commerce platform, Third-Party Online retailers, Heartland of independent sports retailers, major Grocers, High Street Chains, and International sales distributors.

Our E-commerce platform was a focus again during 2017 and delivered 58% growth, as we continued to invest in developing our consumer database and driving stronger conversion and improved loyalty. Third-Party Online retailers, led by Wiggle, Chain Reaction and Amazon also delivered another year of outstanding growth, as we continued to invest in this channel. Overall 55% of revenue was derived from Online channels being both the Company’s own E-commerce platform and Third-Party Online retailers, and we expect this growth to continue in 2018.

# Chairman's and Chief Executive's joint review

We have continued to work closely with the leading five major Grocery chains during what has been a challenging year for grocers. Like-for-like growth of 8% was in line with the category. High Street revenue grew 11% in 2017 after a decline in 2016, with the sales growth being driven by one of the leading sports retailers. The Heartland of independent cycle and running shops also saw growth in a challenging market, with sales growing 5% and we remain committed to our distribution in this important and opinion leading channel.

International sales, defined as sales to an end consumer outside of the UK through any channel, grew 60% and some 28% of total revenues came from existing and new overseas markets. Sales in the US were £0.4m against £0.1m in 2016, and in Italy sales grew over 100% from £0.3m to £0.6m. We are investing in these markets and expect to see accelerated growth as set out in our equity fundraise announcement released on 14 November 2017. Sales in Australia grew by 28%, from £0.5m to £0.7m, significantly outgrowing the market in this geography. In addition, our strategic Heartland distributor Shimano performed exceptionally well again across all geographies in Europe.

*Product Innovation*

Trust, quality and innovation are the key qualities for which SiS is recognised and we continue to invest in this strategically important area. Once again, innovation has been a key driver of growth, with 6% of sales and 27% of total revenue growth coming from new products, continuing the trend of the previous three years.

Key highlights during the financial year were;

- Rego Rapid Recovery Plus developed with Team Sky
- Further extension of the Whey 20 portfolio
- Strong launch pipeline for 2018;

Renowned for our innovation and product development in conjunction with elite athlete insight, we have worked with Team Sky and developed and launched Rego Rapid Recovery Plus. This is an enhanced version of Rego with more carbohydrate and whey protein which is absorbed faster than soy protein, and was launched exclusively on our website. The introduction of two new flavours extending our novel WHEY20 range of ready to consume protein in 2017 has broadened the appeal of our patented product, ahead of sustained activity planned for 2018. In a study completed by Northumbria University, WHEY20 was proven to significantly reduce the loss of important muscle proteins, attenuated muscle stiffness and result in faster recovery of muscle strength. These findings clearly demonstrate WHEY20 improves muscle recovery and have been published in the journal of Applied Nutrition, Physiology and Metabolism.

In line with our strategy we continuously invest in science and new product development and innovation and as a result, the pipeline for new products in 2018 is very strong. We are also investing in major new technologies for future product development.

*Supply chain*

Gross margin at our Nelson, Lancashire manufacturing facility was 59.7%, a slight decrease from the previous period which reflects the increase in International business and the associated costs of shipping and duties. The factory has continued to achieve record efficiencies in production and picking and packing. There has been benign raw material pricing at the start of 2018.

The low-cost base of the Nelson site, together with the controls afforded in the banned substance testing programme, continue to provide a strategic advantage for the Company.

*People*

The Company has continued to invest in its employees. Key highlights within the organisation for the financial year have been as follows;

- Decentralised commercial teams are now in place in key strategic international markets, being the USA and Italy. The Company has also put in place a standalone commercial team focussed on the Football market.

- High quality individuals have been recruited in e-commerce and customer service teams to support high growth in both Core and new International markets and to enhance levels of customer service.
- Continued investment in development of key staff.

We continued to further strengthen e-commerce and customer service teams in 2017 to support high growth in both core and new International markets and to enhance our level of customer service.

The Board wishes to thank all the team in London and Nelson and the strategic International markets for their professionalism, enthusiasm and dedication in delivering another sector leading performance for the Company.

*Outlook*

We are seeking to achieve further strong revenue growth in 2018 and the year has started well for us. International growth, Football and e-commerce are our key strategic focus, with brand investment and science and innovation underpinning growth.

We continue to invest heavily in brand awareness in all markets, as well as aggressively building our e-commerce consumer database and seeking to improve conversion and loyalty.

Continued investment in the website will see further enhanced functionality launching in the first quarter, this will improve our e-commerce metrics and drive further growth.

We look forward to 2018 with optimism as we continue to build SiS to become the global leader in the endurance sports nutrition market.

John Clarke
**Non-Executive Chairman**

Stephen Moon
**Chief Executive**

20 March 2018

# Strategic report

The Strategic report should be read in conjunction with the Chairman's and Chief Executive's Joint review on pages 2 to 5, the Group financial statements on pages 25 to 28 and the Notes to the Group financial statements set out on pages 29 to 48.

The Annual Report and Accounts ("Annual Report") for the Company and the Group are presented under International Financial Reporting Standards ("IFRSs") as adopted by the European Union. The financial statements of the parent company are set out on pages 49 to 53.

**Company strategy**
SiS seeks to maximise its product sales by undertaking the following actions:

- working closely with elite athletes and research partners to develop advocacy of SiS products by the elite sports community;
- investing in and developing SiS products with superior performance characteristics and quality;
- making SiS products available, both in the UK and internationally, through both e-commerce sales and traditional retailers, adopting a multi-channel sales approach;
- effective marketing of SiS products, including advertising, sponsorship and social media; and
- efficiency of production in terms of both low cost and high customer service levels.

Further detail of the Company strategy is included in the Chairman's and Chief Executive's Joint review on pages 2 to 5.

**Market opportunity**
UK Sports Nutrition is expected to continue to grow with a compound annual growth rate of 8% in constant value terms in the period 2014-2019 reaching value sales of £527 million according to research from Euromonitor. Protein powder remains the largest Category in UK Sports Nutrition with value sales of £138 million per annum. Protein bars and protein ready-to-drink products continue to display the fastest growth rates as consumers continue to switch to convenient on-the-go single serve nutrition products.

In the USA we have established a fully resourced base in San Francisco and are building our brand awareness through leveraging key partnerships with USA Cycling, USA Triathlon and Rock'n'Roll Marathon, as well as extensive brand in hand initiatives and product and flavour innovation.

The USA remains the biggest market globally for sports nutrition. US Sport Nutrition is expected to continue to grow with a compound annual growth rate of 10% in constant value terms in the period 2013-2018 reaching value sales of $8,557 million (£5,984 million). Within this endurance sports nutrition is $500 million with approximately 12 million athletes in our target group. The use of sports nutrition in this group is 89% and 36% shop online. This aligns with our multichannel strategy focussing on e-commerce both through our own website and Amazon.

Football offers a significant market opportunity, the size of the UK market is similar to the cycling market with 2 million participants, of which 93% use sports nutrition. We have developed a relationship with 48 leading professional clubs and our new partnership with Manchester United Football Club gives us the opportunity to broaden awareness through their extensive social media and Facebook reach, as well as developing assets and product innovation.

We have also established a fully resourced base in Italy. The number of endurance athletes in Italy is 7 million and of these, 78% use sports nutrition. This offers an opportunity for us to grow the business further through additional investment following the fundraise in December 2017. We are focussing on driving a multi-channel strategy, brand awareness and product innovation.

**Statutory audited results for the year ended 31 December 2017**
In the year under review revenue was £15.62 million, gross margin achieved was 59.7% and there was an underlying operating loss of £1.70 million. These results are in line with the Board's expectation. The loss from operations is £3.85 million which is stated after depreciation, amortisation and share based payments.

At the reporting date the Company held inventory of £2.71 million (31 December 2016: £2.24 million). Trade and other receivables were £2.85 million (31 December 2016: £2.22 million) and equates to 45 debtor days (2016: 49 days). Cash balance as at 31 December 2017 of £16.57 million (31 December 2016: £6.13 million), the increase is due to a fundraise of £14.02 million, net of associated costs. During the year cash use primarily relates to investment in brand, new markets and infrastructure efficiencies together with working capital requirements.

*Revenue*

The Company has continued to grow strongly during the year ended 31 December 2017, with sales up 28% at £15.62 million (2016: £12.24 million). Revenue growth has been achieved through a particularly strong performance across the e-commerce, third-party online retailers and international channels and reflects the continued investment in the business across all channels. The investment in, and focus on, online sales has resulted in 55% of business revenues being derived from e-commerce sales across our own platform and third parties.

Our International growth strategy has delivered significant growth with 28% of revenues now coming from International customers (2016: 22%), across both Core and International segments.

In 2017, the Company also continued to invest in product innovation and launched a number of new products.

*Gross margin*

The Company generated a gross margin of £9.32 million (2016: £7.38 million) with the gross margin achieving a percentage of revenue of 59.7% (2016: 60.3%). The factory has delivered further efficiencies which have covered the increase in raw materials, however the margin overall is slightly lower due to the impact of selling more through our overseas subsidiaries, increasing the shipping and duty costs.

*Underlying operating loss*

The underlying operating loss of £1.70 million (2016: £0.80 million) reflects the ongoing investment in sales and marketing to drive revenue growth, together with additional investment in the e-commerce teams to drive revenue growth in overseas markets and the UK market. Operating loss is in line with management expectations.

The Group's cost base and its resources have been, and will continue to be, tightly managed within budgets approved and monitored by the Board. If a growth opportunity is identified then ex-plan investment will be approved.

The Group has chosen to report underlying operating loss as the Directors believe that the operating loss before depreciation, amortisation, non-cash share based payments and exceptional items provides additional useful information for shareholders on underlying trends and performance. This measure is used for internal performance analysis. A reconciliation of underlying operating loss to loss from operations is presented on the face of the consolidated statement of comprehensive income.

*Share based payments*

The Company operates both a Short Term Incentive Programme ("STIP") and a Long Term Incentive Programme ("LTIP"). Together the Share Option Plan ("SOP") was approved by the Remuneration Committee in June 2014 in line with the proposal contained in the Company's AIM Admission document in August 2013. A new LTIP was approved by the Remuneration Committee in September 2016, following the completion of the previous three year LTIP at the end of 2015.

Accordingly, the Company has recognised a share based payment charge totalling £1.58 million in the year ended 31 December 2017 (2016: £1.57 million).

The Company intends to put in place a new incentive scheme following the equity raise in December 2017 and will update shareholders on this matter in due course.

*Taxation*

The current tax charge is £Nil (2016: £Nil) due to the loss made in the year. The deferred tax credit of £0.25 million (2016: £0.15 million) is primarily due to the recognition of a deferred tax asset in respect of taxable losses created in the year.

*Losses and dividends*

The loss attributable to equity holders of the parent for the year ended 31 December 2017 was £3.61 million (2016: £2.64 million) and the basic and diluted loss per share was 7.7p (2016: 6.2p). The Directors are not recommending the payment of a dividend (2016: £Nil).

*Capital structure and funding*

On 4th December 2017 the Company raised £14.80 million before costs by the issue and allotment of 21,211,365 Ordinary Shares at a placing price of 70 pence per share. The placing was undertaken with new and existing institutional shareholders and was oversubscribed. The placing has enabled the Company to fund investment and working capital required to underpin further revenue growth and also to expand further in the US and Italian markets, as well as launch Football as a new source of athletes.

The latest placing introduced a number of new and significant institutional investors onto the shareholder register of the Company. The Directors believe establishing a broader institutional shareholder base is in the long term interests of the Company.

**Going concern**

The Company made a loss after tax for the year attributable to owners of the parent of £3.61 million (2016: £2.64 million) and expects to make a further loss in the year ending 31 December 2018.

The net increase in cash and cash equivalents in the year ended 31 December 2017 was £10.44 million (2016: £2.62 million decrease). At 31 December 2017 the Company had cash balances of £16.57 million (2016: £6.13 million). As noted above, the Company raised additional equity of £14.02 million (net of associated costs) on 4 December 2017.

The Directors have prepared projected cash flow information for a period including 2 years from the date of approval of these financial statements.

Accordingly, the Directors have a reasonable expectation that the Company will have sufficient cash to meet all liabilities as they fall due for a period of at least 12 months from the date of approval of these financial statements. For these reasons, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

**Key performance indicators**

The principal financial KPIs monitored by the Board relate to sales, gross margin, underlying operating profit/(loss) and cash and cash equivalents.

Gross margin in the year was 59.7% (2016: 60.3%). Factory efficiencies have continued throughout 2017 and enabled the business to absorb small price increases in some raw materials. Additional shipping and duty costs as the International subsidiaries grow have contributed to the small reduction in margin percentage.

The table below shows the Company's underlying operating loss for the two years ended 31 December:

| | **Year ended 31 December 2017 £000** | Year ended 31 December 2016 £000 |
|---|---|---|
| Underlying operating loss | **(1,704)** | (799) |

The table below shows the Company's cash position at 31 December 2017 and 31 December 2016:

# Strategic report

| | 31 December 2017 £000 | 31 December 2016 £000 |
|---|---|---|
| Cash and cash equivalents | **16,570** | 6,130 |

The monitoring of cash gives due consideration to anticipated future spend required to prioritise development opportunities and to plan the resources required to achieve the goals of the business. The £10.4 million net increase in cash and cash equivalents during the financial period is the result of a fundraise where shareholders invested a further £14.0 million (net of associated costs) to fund further growth in key International markets (USA and Italy) and to invest in growing a new sport, Football. Investment in brand, infrastructure efficiencies, as well as servicing working capital requirements will also continue.

The Directors consider the successful launch of new products and increasing distribution both in the UK and internationally to be the major drivers of value creation for the Company. These are measures of the progress of the business towards its revenue generation goal and are considered by the Directors to be the key non-financial performance indicators used to determine achievement of Company strategy. The Company's performance with regard to such milestones is discussed in the Chairman's and Chief Executive's Joint review on pages 2 to 5.

**Principal risks and uncertainties**
In the course of its normal business the Company is exposed to a range of risks and uncertainties which could impact on the results of the Company. The Board considers that risk-management is an integral part of good business process and, on a quarterly basis, reviews the industry, operational and financial risks facing the Company and considers the adequacy of the controls and mitigations to manage these risks.

The Directors have identified the following principal risks and uncertainties that could have the most significant impact on the Company's long-term value generation.

*Food quality and safety*
Accidental or malicious ingredient or raw material contamination, or supply chain contamination caused by human error or equipment fault or due to manufacturing or design faults could compromise the safety and quality of SiS products. The consequences could be severe and may include adverse effects on consumer health, loss of market share, financial costs and loss of turnover to SiS.

A product recall as a result of accidental or malicious ingredient or raw material contamination, or due to supply chain contamination caused by human error or equipment fault or due to manufacturing or design faults, a subsequent product re-launch may not successfully return the relevant brand to its previous market position. This could result in a loss of market share and loss of turnover to SiS.

The Group maintains product liability insurance cover to mitigate the potential impact of such an event.

The Group's stringent approach to food quality and safety is controlled via quality assurance procedures which are based on a risk management approach. Internal systems are reviewed continuously and potential for improvement is monitored.

The manufacturing facility at Nelson is subject to regular food safety and quality control audits. Raw materials, the Nelson facility and finished products are analysed and tested regularly for banned substances by an experienced, independent surveillance company. During 2014 SiS (Science in Sport) Limited became the first company in the UK to achieve evolved certification from Informed Sport, the quality assurance programme for nutritional products used by athletes. This evolved certification is highly rigorous and it gives the reassurance that our products are produced in a way that minimises the risk of banned substance contamination. SiS (Science in Sport) Limited is currently the only company in the UK to have achieved this evolved certification from Informed Sport. At the beginning of 2018 we have further enhanced our banned substance testing regime to ensure we remain best in class.

*Commodity pricing risk*
Movement in the commodity prices of raw materials and, in the case of imported raw materials and other goods, the value of Sterling against other currencies may have a corresponding impact on finished product cost. Failure to manage the Company's exposure to price increase may adversely affect the Company's financial performance.

The risk is mitigated by securing supplies in advance based on estimated volumes, thus ensuring greater price certainty.

*Customers and consumers*
The Company operates in a competitive market sector and its ability to compete effectively requires an on-going commitment to marketing, product development, innovation, product quality and ability to offer value for money as well as first class customer service.

In the year a single customer contributed more than 10% of the revenue (2016: one customer). The risks associated with the reliance on one main customer are recognised by the Directors and SiS will continually look to drive sales from e-commerce both in the UK and internationally and expand the number of retail outlets where in line with strategy. Although no single retailer accounts for more than 14% of SiS sales, the dominance of the large retail multiples and third party e-commerce retailers could force an erosion of prices and, subsequently, profit margins. Significant resources are devoted to forging strong relationships with customers.

*Trademarks*
The Company's success will depend in part on its ability to obtain and protect its trademarks both in the UK and internationally. The Company cannot give definitive assurance that pending or future trademark applications will be granted or that trademarks granted will not be challenged or held unenforceable. To mitigate this, the Group enters into non-disclosure agreements with employees, consultants and prospective commercial partners but cannot assure that such agreements will provide complete safeguards against unauthorised disclosure of confidential information.

*People*
The Company recognises that its employees are critical to the successful delivery of service to customers. The failure to retain people of high quality would have an adverse effect on Company performance. The Company has high expectations of all staff and in return strives to provide an environment that is both challenging and rewarding. The business was awarded an accreditation from Investors In People.

*Funding and other risks*
The Company may require additional funding in the longer term to fund any new expansion plans or acquisitions. In the longer term it may be necessary to seek additional funds through future equity or debt financings and there is no certainty that such funds would be available. Any such further financings, if available at all, may be on terms that are not favourable to the Company. Further, if adequate capital cannot be obtained, the Company's operating results and financial condition could be adversely affected.

**Future development**
The future development of the Company is discussed in the Chairman's and Chief Executive's Joint review on pages 2 to 5.

**Other statutory disclosures**
*Directors*
At the end of the financial period Science in Sport plc had five Directors of whom four were male and one female.

*Senior managers*
At the end of the financial year the Group had nine senior managers of whom six were male and three female.

*All employees*
At the end of the financial year the Group employed 99 people of whom 62 were male and 37 were female.

*The Company's employees*
The Executive Directors keep staff informed of the progress and development of the Company regularly through formal and informal meetings and employee feedback is encouraged.

The Company does not discriminate between employees and prospective employees on grounds of age, race, religion or gender. Every effort is made to provide the same opportunities to disabled persons as to others.

# Strategic report

The Board recognises its obligation towards its employees to provide a safe and healthy working environment. The Company complies with health and safety legislation including conducting regular inspections and risk assessments.

**Information this report does not contain**
As a result of the size and nature of the Company's operations it was not deemed necessary to provide information about:

- Environmental matters and the impact of the company's business on the environment.
- Social, community and human rights issues.

This Strategic report, which has been prepared in accordance with the requirements of the Companies Act 2006, has been approved and signed on behalf of the Board.

**Stephen Moon**
Director
20 March 2018

# Directors’ report

The Directors present their report together with the consolidated financial statements for the year ended 31 December 2017.

Certain information that fulfils the requirements of the Directors’ report can be found elsewhere in this document and is referred to below. This information is incorporated into this Directors’ report by reference.

As at the date of signing this report, Science in Sport plc has four wholly owned subsidiaries, SiS (Science in Sport) Limited, SiS APAC Pty Limited, Science in Sport Inc and Science in Sport (Italy) Srl Limited, which are registered in England and Wales, Australia, the United States of America and Italy respectively.

**Future developments**
The Joint review from the Chairman and Chief Executive on pages 2 to 5 and the Strategic report on pages 6 to 11 cover the Company’s performance during the year ended 31 December 2017, its position at that date and its likely future development.

**Board of Directors**
The Board of Directors has overall responsibility for the Company.

The Directors of the Company during the year and up to the date that the financial statements were approved are shown below.

**Executive Directors**
S N Moon
E J Lake

**Non-executive Directors**
J M Clarke
T Wright
R Duignan

A qualifying third-party indemnity provision as defined in Section 234 of the Companies Act 2006 is in force for the benefit of each of the Directors in respect of liabilities incurred as a result of their office, to the extent permitted by law. In respect of those liabilities for which Directors may not be indemnified, the Company maintained a Directors’ and officers’ liability insurance policy throughout the financial year.

Details of each Directors’ interests in the Company’s ordinary shares and options over ordinary shares is set out in the Remuneration report on pages 17 to 19.

**Dividends**
No dividends were paid and none proposed (31 December 2016: £nil).

**Financial instruments**
The Group’s significant financial instruments are disclosed in note 2 and include trade receivables, trade payables and cash arising from operations.

**Going concern**
The Directors have a reasonable expectation that the Company will continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Company’s financial statements. Further detail with regards to the consideration of going concern can be found in the Strategic report on pages 6 to 11.

**Employee Benefit Trust Shares**
The Company issued 2,238,029 £0.10 ordinary shares to the Employee Benefit Trust to satisfy the provision of the share scheme (see note 18).

**Substantial shareholdings**
As at 31 December 2017, the following shareholders own more than 3% of issued share capital of the Company:

# Directors' report

| | % at 31 December 2017 | Number of shares |
|---|---|---|
| Downing LLP | 13.37% | 8,932,865 |
| Miton Asset Management | 6.81% | 4,549,271 |
| Otus Capital Management | 6.76% | 4,514,942 |
| Employee Benefit Trust (EBT) | 5.95% | 3,972,986 |
| Hargreave Hale | 5.90% | 3,945,526 |
| Tellworth | 5.61% | 3,750,170 |
| Fidelity | 5.34% | 3,571,500 |
| J O Hambro Capital Management | 4.86% | 3,250,000 |
| Amati Global Investors | 4.49% | 2,998,778 |

**Adequacy of information supplied to auditors**
Each Director has taken all reasonable steps to make himself/herself aware of any information needed by the Company's auditors for the purpose of their audit and to establish that the auditors are aware of that information. The Directors are not aware of any relevant audit information of which the auditors are unaware.

Moore Stephens LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the next annual general meeting.

**Directors' responsibilities**
The Directors are responsible for preparing the Directors' report, Strategic report, Directors' remuneration report and the 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 are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. They have also elected to prepare the Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 Company and of the total comprehensive profit or loss of the Group for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

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 and prudent;
- state whether the Group financial statements have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- state whether the Company financial statements have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

# Directors' report

**Website publication**
The Directors are responsible for ensuring the Annual Report and the financial statements are made available on a website. Financial statements are published on the Company's website, www.scienceinsport.com, in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

By order of the Board

**Stephen Moon**
Director
20 March 2018

# Corporate Governance

**Board of Directors**
The Board comprises a Non-executive Chairman, two additional Non-executive Directors, all of whom are independent, and two Executive Directors. The Board continues to be satisfied that it has an appropriate mix of independence and experience in its Non-executive Directors.

**Board responsibility**
The Board is responsible for maintaining a sound system of internal control to safeguard shareholders' investment and the Company's assets, as well as reviewing its effectiveness. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material loss and misstatement.

The Board is not required to comply with the UK Corporate Governance Code and has not adopted the Code in full. However the Board has sought to comply with a number of the provisions in so far as it considers them to be appropriate to the Company's size and nature. This is considered by the Board to be reasonable and does not compromise the overall corporate governance which the Board strongly supports.

**Audit Committee**
The Audit Committee comprises two Non-executive Directors and is chaired by Raymond Duignan. It meets as required and specifically to review the Interim Report and Annual Report and to consider the suitability and monitor the effectiveness of the internal control processes. There were two Audit Committee meetings during the year. The Audit Committee reviews the findings of the external auditors and reviews accounting policies and material accounting judgements.

The independence of the auditors is considered by the Audit Committee. The Audit Committee meets at least twice per calendar year with the auditors to discuss their objectivity and independence, the Annual Report, any audit issues arising, internal control processes and any other appropriate matters.

As well as providing audit related services the auditors have, in the past, provided taxation compliance, corporate finance services and share option scheme advice. The fees in respect of the non-audit services provided are £6,800 for the year (2016: £10,050). The Audit Committee have considered the non-audit fees agreed with Moore Stephens LLP and are satisfied that the objectivity and independence of the auditors is safeguarded.

The current terms of reference of the Audit Committee are set out in the governance pages on the Company's website www.scienceinsport.com.

**Internal control**
The Audit Committee continues to monitor and review the effectiveness of the system of internal control and report to the Board when appropriate with recommendations. There have been no significant changes to the system of internal control throughout the year.

The key control procedures operating within the Company include, but are not limited to:

1. a comprehensive system of financial budgeting, forecasting and then reporting and reviewing actual monthly results for the current year against these expectations;
2. a system of operational and financial Key Performance Indicators ("KPIs"), which are reviewed on a weekly and monthly basis;
3. procedures for appraisal, review and authorisation of capital expenditure;
4. properly authorised treasury procedures and banking arrangements;
5. regular review of materials and services supply agreements; and
6. regular review of tax, insurance and health and safety matters.

At this stage in the Company's development, the Board does not consider it appropriate to establish an internal audit function.

**Nominations Committee**
The Nominations Committee consists of the Chairman and the Non-executive Directors. It is chaired by John Clarke and meets as required, at least once during the year.

The current terms of reference of the Nominations Committee are set out in the governance pages on the Company's website www.scienceinsport.com.

# Corporate Governance

**Relationship with shareholders**
The Directors seek to build a mutual understanding of objectives between the Company and its shareholders. The Company reports formally to shareholders in its interim and annual reports setting out details of its activities. In addition, the Company keeps shareholders informed of events and progress through the issue of regulatory news in accordance with the AIM rules of the London Stock Exchange. The Chief Executive seeks to meet with significant shareholders following interim and final results. The Company also maintains investor relations pages and other information regarding the business, its products and activities on its website www.scienceinsport.com.

The Annual Report is made available to shareholders on the website at least 21 working days before the Annual General Meeting. Directors are required to attend the Annual General Meetings of the Company unless unable to do so for personal reasons or due to pressing commercial commitments. Shareholders are given the opportunity to vote on each separate issue. The Company counts all proxy votes and will indicate the level of proxies lodged on each resolution, after it has been dealt with by a show of hands.

**Employees**
Other statutory disclosures required by the Strategic report, as detailed on page 10, report on the involvement of employees in the affairs, policy and performance of the company.

**Environmental, social and community matters**
Given the size and nature of the Company's operations, the impact of the Company's operations on the local community and the environment is not considered to be significant. Recycling of office supplies is undertaken where possible.

# Remuneration Report

**Remuneration Committee: composition and terms of reference**
The Company's Remuneration Committee since the date of Admission to AIM comprises at least two independent Non-executive Directors and is chaired by John Clarke.

The purpose of the Remuneration Committee is to ensure that the Executive Directors are fairly rewarded for their individual contribution to the overall performance of the Company. The Committee considers and recommends to the Board the remuneration of the Executive Directors and is kept informed of the remuneration packages of senior staff and invited to comment on these.

**Policy on Executive Directors' remuneration**
Executive remuneration packages are designed to attract and retain executives of the necessary skill and calibre to run the Company successfully but avoiding paying more than is necessary. Direct benchmarking of remuneration is not possible given the specialised nature and size of the Company. The Remuneration Committee recommends to the Board remuneration packages by reference to individual performance and uses the knowledge and experience of the Non-executive Directors and published surveys relating to AIM Directors, and market changes generally. The Remuneration Committee has responsibility for recommending any long term incentive schemes.

The full Board determines whether or not Executive Directors are permitted to serve in roles with other companies. Such permission is only granted where a role is on a strictly limited basis, where there are no conflicts of interest or competing activities and providing there is not an adverse impact on the commitments required to the Company. Earnings from such roles are not disclosed nor paid to the Company.

There are three main elements of the remuneration package for Executive Directors and senior staff:

**(i) Basic salaries and benefits in kind**
Basic salaries are recommended to the Board by the Remuneration Committee, taking into account the performance of the individual and the rates for similar positions in comparable companies. Benefits in kind comprising private medical insurance are available to all senior staff and Executive Directors.

**(ii) Share option scheme**
The Company operates a Share Option Plan (SOP) which grants options over Ordinary Shares to certain Directors and senior employees. The purpose of the scheme is to incentivise key members of the management team and to align their interests with those of the shareholders.

The SOP was approved by the Remuneration Committee in June 2014 as outlined in the AIM Admission document. Further amendments to the SOP were approved in September 2016, introducing a new 3 year plan to replace the existing 5 year plan.

Under the SOP there are both short term and long term incentive arrangements. In both cases the options granted are nil-cost options, meaning that the participants are not required to pay cash to exercise the option. An Employee Benefit Trust has been established to purchase, hold and issue ordinary shares when awards are exercised. The maximum amount that can be issued under the SOP is 20% of the Company's share capital immediately prior to the date on which the SOP was approved. Options must be exercised within a period of 10 years after the vesting date for that option otherwise the option will lapse.

**Short term incentive plan (STIP)**
Awards are calculated as a percentage of base salary and are determined by reference to the attainment of personal objectives or sales growth or both.

**Long term incentive plan (LTIP)**
The Board approved a new LTIP element of the SOP on 22 September 2016 which relates to revenue growth achievement. This award replaces the existing 5 year LTIP, the 3 year revenue growth phase of this scheme vested in March 2016, and was then planned to be a profit plan for 2 years thereafter. Following the raising of additional capital in October 2015, the strategy has continued to be focussed on revenue growth following the completion of the first three years of the previous LTIP:

1. Revenue incentive motivates management to grow revenue in years one to three, where year three ends December 2018.

The Options will be awarded each year on a sliding scale for revenue growth between 15% and 30% per annum over the three years. The maximum value of the shares subject to these awards is 200% of the basic salary of the Chairman and CEO, and 100% of the basic salary of the Finance Director and other senior management.

During the year under review the Remuneration Committee made awards under the STIP and LTIP as follows:

- In respect of the STIP for the year ended 31 December 2016, 338,530 nil cost options were granted to senior employees on 22 March 2017 (2016: 284,795), and 58,850 nil cost options were granted to EJ Lake on 22 March 2017 (2016: nil) and 623,721 nil cost options were granted to SN Moon on 22 March 2017 (2016: 350,908).

- In respect of the STIP for the year ended 31 December 2017, 219,444 nil cost options were granted to senior employees on 22 March 2017 (2016: nil), and 81,278 nil cost options were granted to EJ Lake on 22 March 2017 (2016: nil), and 460,164 nil cost options were granted to SN Moon on 22 March 2017 (2016: £nil).

**(iii) Pension contributions**
The Company pays a defined contribution to the pension scheme of Executive Directors and employees. The individual pension schemes are private and their assets are held separately from those of the Company.

**Service contracts**
The Chief Executive is employed under a service contract requiring twelve months' notice by either party. Non-executive Directors receive payments under appointment letters which are terminable by six months' notice from either party.

**Policy on Non-executive Directors' remuneration**
John Clarke, Raymond Duignan and Tim Wright each receive a fee for their services as a Director, which is approved by the Board, mindful of the time commitment and responsibilities of their roles and of current market rates for comparable organisations and appointments. Non-executive Directors are reimbursed for travelling and other minor expenses incurred.

**Details of Directors' remuneration**
The emoluments paid to the individual Directors of the Company for the period were as follows:

| | Year ended 31 December 2017 | | | | | | Year ended |
|---|---|---|---|---|---|---|---|
| | **Salary /fees** | **LTIP** | **STIP** | **Benefits in kind** | **Pension** | **Total** | 31December 2016 |
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | £'000 |
| **Executive Directors** | | | | | | | |
| S N Moon | **230** | **301** | **391** | **3** | **-** | **925** | 956 |
| E J Lake | **146** | **100** | **80** | **2** | **9** | **337** | 163 |
| **Non Executive Directors** | | | | | | | |
| JM Clarke | **45** | **68** | **-** | **-** | **-** | **113** | 130 |
| R Duignan | **35** | **-** | **-** | **-** | **-** | **35** | 35 |
| T Wright | **35** | **-** | **-** | **-** | **-** | **35** | 9 |
| | **491** | **469** | **471** | **5** | **9** | **1,445** | 1,293 |

Prior year remuneration includes share awards of £754,401 for SN Moon, £90,000 for JM Clarke, and £99,750 for EJ Lake.

The above fees and emoluments exclude reimbursed expenditure incurred in the conduct of Company business.

**Directors' interests in shares**

The Directors' interests in the ordinary shares of the Company, as recorded in the register maintained by the Company in accordance with the provisions of the Companies Act 2006, were as follows:

# Remuneration Report

| Beneficial interests | **Ordinary shares of 10 pence each 31 December 2017** | Ordinary shares of 10 pence each 31 December 2016 |
|---|---|---|
| S N Moon | **843,456** | 736,313 |
| E J Lake (appointed 17 July 2016) | **-** | - |
| J M Clarke | **178,500** | 178,500 |
| R Duignan | **-** | - |
| T Wright (appointed 22 September 2016) | **-** | - |
| | **1,021,956** | 914,813 |

**Directors' interests in share options**

The share options held by the Directors and not exercised at the period end date are summarised below:

| | **31 December 2017** | 31 December 2016 |
|---|---|---|
| S N Moon | **4,521,320** | 3,437,435 |
| JM Clarke | **614,087** | 614,087 |
| EJ Lake | **623,765** | 483,637 |

Details of share options at 31 December 2017 of the Directors who served during the year are set out below:

| | **Date of grant** | **Exercise price pence** | **Share price on date of grant** | **Number of options** | **Earliest exercise date** | **Expiry date** |
|---|---|---|---|---|---|---|
| SN Moon | 22 July 2014 | nil | 72.0p | 328,125 | 22 July 2014 | 21 July 2024 |
| SN Moon | 26 March 2015 | nil | 68.0p | 267,206 | 26 March 2015 | 25 March 2025 |
| SN Moon | 22 March 2016 | nil | 52.5p | 1,089,675 | 22 March 2016 | 21 March 2026 |
| SN Moon | 26 Sept 2016 | nil | 68.75p | 1,752,429 | 22 March 2019 | 25 Sept 2026 |
| SN Moon | 22 March 2017 | nil | 81p | 623,721 | 22 March 2017 | 21 March 2027 |
| SN Moon | 22 March 2017 | nil | 81p | 460,164 | 22 March 2018 | 21 March 2027 |
| JM Clarke | 22 March 2016 | nil | 52.5p | 221,360 | 22 March 2016 | 21 March 2026 |
| JM Clarke | 26 Sept 2016 | nil | 68.75p | 392,727 | 22 March 2019 | 25 Sept 2026 |
| EJ Lake | 26 Sept 2016 | nil | 68.75p | 483,637 | 22 March 2019 | 25 Sept 2026 |
| EJ Lake | 22 March 2017 | nil | 81p | 58,850 | 22 March 2017 | 21 March 2027 |
| EJ Lake | 22 March 2017 | nil | 81p | 81,278 | 22 March 2018 | 21 March 2027 |

Other than as shown in the tables above no Director had any interest in the shares or share options of the Company or its subsidiary company at 31 December 2017 or 31 December 2016.

**John Clarke**
Chairman of the Remuneration Committee
20 March 2018

# Independent auditor's report to the members of Science in Sport plc

**Opinion**
In our opinion:

- Science in Sport Plc's Group financial statements and Parent company financial statements (the '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 2017 and of the Group's and Parent company's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the Companies Act 2006.

**What we have audited**
Science in Sport Plc financial statements comprise:

| Group | Parent Company |
|---|---|
| Consolidated statement of comprehensive income | Parent company statement of financial position |
| Consolidated statement of financial position | Parent company statement of cash flows |
| Consolidated statement of cash flows | Parent company statement of changes in equity |
| Consolidated statement of changes in equity | Related notes 1 to 6 to the financial statements |
| Related notes 1 to 24 to the financial statements | |

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 the provisions of the Companies Act 2006.

**Basis for opinion**
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

**Conclusions relating to going concern**
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

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

# Independent auditor's report to the members of Science in Sport plc

**Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| **Revenue** | |
|---|---|
| Risk | Revenue is significant to the Group due to its size and the risk that the entity might overstate revenue to meet targets or market expectations.<br><br>In addition the Group enters into commercial arrangements with its customers to offer promotional discounts, rebates and customer loyalty programs. Due to the potentially complex and varying nature of these arrangements there is a risk that they are not appropriately accounted for and as a result revenue is misstated. |
| Our response | Our procedures included:<br><br>• Assessing the appropriateness of the revenue recognition accounting policies, in particular those relating to volume rebates and discounts;<br>• Testing a sample of invoices through the statement of comprehensive income during the year and verifying these to supporting documentation;<br>• Transactions falling outside of the normal revenue transaction cycle were agreed to supporting documentation;<br>• Revenue recognised in the final week of the period was agreed to proof of delivery to ensure that revenue has been correctly recorded in the period. This was performed with reference to the Group's terms and conditions of sale;<br>• Testing credit notes issued after the period end to assess the completeness of the commercial accruals recorded and the existence of revenue; and<br>• We tested on a sample basis year end product rebate accruals and obtained documentation to support the existence and measurement of the accruals balance |
| Our findings | Based on our audit procedures we concluded that revenue recognised is appropriate and cut off has been adequately applied. |

| **Inventory valuation** | |
|---|---|
| Risk | Until the new ERP system is implemented, manual cost absorption calculations are being prepared to ensure compliance with IAS 2. There is a risk that costs are not accurately absorbed into inventory, impacting the valuation of inventory as well as the split of costs recognised in cost of sales and administrative expenses. |
| Our response | Our procedures included:<br><br>• Reviewing overhead absorption calculations in accordance with the requirements of IAS 2;<br>• Considered whether actual production levels represents a close approximation with normal capacity used in the absorption calculations; and<br>• Performing calculations to confirm mathematical accuracy of the models used. |
| Our findings | We concluded that the absorption calculations are compliant with IAS 2 and have been appropriately recognised. |

# Independent auditor’s report to the members of Science in Sport plc

**Our application of materiality**
The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as whole as follows:

| | |
|---|---|
| **Benchmark** | Revenue |
| **Materiality** | £200,000 |
| ***(% of benchmark)*** | *1.28* |
| **Rationale for benchmark** | As an organically growing business at the current stage of its lifecycle, the main focus of the group is revenue generation. Whilst underlying loss before tax is still a key metric, it is not considered to be an appropriate benchmark for determining materiality as the group continues to make losses as part of a strategic decision to invest for revenue growth. |

Performance materiality relates to the application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the company’s overall control environment, our judgement was that basic performance materiality was 75% of materiality, being £150,000. Basic performance materiality is adjusted further for higher risk assertions.

We agreed with the Audit Committee that we would report misstatements identified during our audit above £10,000.

**An overview of the scope of our audit**
Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account the size, the risk profile the organisation of the group, changes in the business environment and other factors such as output from discussion with management when assessing the work to be performed on each component.

We analysed the key financial metrics of the group’s components to determine those we consider to be financially significant to the group. Both Science in Sport plc and SiS (Science in Sport) Limited are considered to be significant components. As such, both companies were subject to full scope audits to component materiality.

The group includes subsidiaries based in Australia, the US and Italy. Based on their percentage contribution to key financial metrics, our scoping deemed these components to be non-significant to the group. As such they are not in scope for a full component audit, however our approach included specific audit procedures on inventory and overheads.

We considered each key audit matter identified above in respect of the non-significant components, however we determined that these risks were appropriately addressed through our work performed at a group level.

All component audits were performed by Moore Stephens LLP with no use of component audit teams.

# Independent auditor's report to the members of Science in Sport plc

**Other information**
The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Opinions on other matters prescribed by the Companies Act 2006**
In our opinion, based on the work undertaken in the course of the audit:
- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

**Matters on which we are required to report by exception**
In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**Responsibilities of directors**
As explained more fully in the directors' responsibilities statement set out on page 13, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

**Auditor's responsibilities for the audit of the financial statements**
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

# Independent auditor's report to the members of Science in Sport plc

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

Daniel Henwood (Senior Statutory Auditor)
For and on behalf of Moore Stephens LLP, Statutory Auditor
58 Queens Road
Reading
Berkshire
RG1 4RP

20 March 2018

# Consolidated statement of comprehensive income

| | Notes | Year ended 31 December 2017 £000 | Year ended 31 December 2016 £000 |
|---|---|---|---|
| **Revenue** | 3 | **15,615** | 12,243 |
| Cost of goods | | **(6,300)** | (4,865) |
| **Gross profit** | | **9,315** | 7,378 |
| **Underlying operating loss** | | **(1,704)** | (799) |
| Depreciation and amortisation | | **(567)** | (419) |
| Share based payments charge | 4 | **(1,581)** | (1,572) |
| **Loss from operations** | 4,5 | **(3,852)** | (2,790) |
| Finance income | | **-** | 1 |
| Finance costs | | **-** | (4) |
| **Loss before taxation** | | **(3,852)** | (2,793) |
| Taxation | 9 | **246** | 149 |
| **Loss for the year** | | **(3,606)** | (2,644) |
| **Other comprehensive income** | | | |
| Exchange differences on translation of foreign operations | | **78** | (50) |
| **Total comprehensive loss for the year** | | **(3,528)** | (2,694) |
| **Loss per share to owners of the parent** | | | |
| Basic and diluted – pence | 10 | **(7.7p)** | (6.2p) |

All amounts relate to continuing operations.

The notes on pages 29 to 48 form part of these consolidated financial statements.

# Consolidated statement of financial position

| *Company number 08535116* | Notes | As at 31 December 2017 £000 | As at 31 December 2016 £000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Intangible assets | 11 | **1,359** | 884 |
| Property, plant and equipment | 12 | **793** | 798 |
| Deferred tax | 17 | **1,332** | 1,086 |
| **Total non-current assets** | | **3,484** | 2,768 |
| **Current assets** | | | |
| Inventories | 13 | **2,713** | 2,238 |
| Trade and other receivables | 14 | **2,851** | 2,217 |
| Cash and cash equivalents | 15 | **16,570** | 6,130 |
| **Total current assets** | | **22,134** | 10,585 |
| **Total assets** | | **25,618** | 13,353 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 16 | **(2,810)** | (2,534) |
| **Total current liabilities** | | **(2,810)** | (2,534) |
| **Net current assets/(liabilities)** | | **19,324** | 8,051 |
| **Total net assets** | | **22,808** | 10,819 |
| **Capital and reserves attributable to owners of the parent company** | | | |
| Share capital | 18 | **6,683** | 4,322 |
| Share premium reserve | | **22,339** | 10,331 |
| Employee benefit trust reserve | | **(397)** | (215) |
| Other reserve | | **(907)** | (907) |
| Foreign exchange reserve | | **28** | (50) |
| Retained deficit | | **(4,938)** | (2,662) |
| **Total equity** | | **22,808** | 10,819 |

These consolidated financial statements were approved and authorised for issue by the Board on 20 March 2018 and signed on its behalf by:

**Stephen Moon**
Director

The notes on pages 29 to 48 form part of these consolidated financial statements.

# Consolidated statement of cash flows

| | Notes | Year ended 31 December 2017 £000 | Year ended 31 December 2016 £000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Total comprehensive loss for the year | | **(3,606)** | (2,644) |
| ***Adjustments for:*** | | | |
| Amortisation | 11 | **307** | 160 |
| Depreciation | 12 | **260** | 261 |
| Loss on sale of fixed assets | 5 | **17** | - |
| Net finance cost | | **-** | 3 |
| Taxation | 9 | **(246)** | (149) |
| Share based payment charge | | **1,581** | 1,572 |
| **Operating cash outflow before changes in working capital** | | **(1,687)** | (797) |
| Changes in inventories | | **(475)** | (767) |
| Changes in trade and other receivables | | **(635)** | (968) |
| Changes in trade and other payables | | **271** | 921 |
| **Total cash outflow from operations** | | **(2,526)** | (1,611) |
| **Cash flow from investing activities** | | | |
| Purchase of property, plant and equipment | 12 | **(255)** | (402) |
| Purchase of intangible assets | 11 | **(799)** | (558) |
| Interest received | | **-** | 1 |
| **Net cash outflow from investing activities** | | **(1,054)** | (959) |
| **Cash flow from financing activities** | | | |
| Proceeds from issue of share capital | | **14,848** | - |
| Expenses paid on share issues | | **(828)** | - |
| Repayment of borrowings | | **-** | (49) |
| Interest paid | | **-** | (4) |
| **Net cash (outflow) / inflow from financing activities** | | **14,020** | (53) |
| **Net (decrease) / increase in cash and cash equivalents** | | **10,440** | (2,623) |
| **Opening cash and cash equivalents** | 15 | **6,130** | 8,753 |
| **Closing cash and cash equivalents** | 15 | **16,570** | 6,130 |

The notes on pages 29 to 48 form part of these consolidated financial statements.

# Consolidated statement of changes in equity

| | Share capital £000 | Share premium £000 | Employee benefit trust reserve £000 | Other reserve £000 | Foreign exchange reserve £000 | Retained deficit £000 | Total Equity £000 |
|---|---|---|---|---|---|---|---|
| **At 31 December 2015** | **4,025** | **10,228** | **(61)** | **(907)** | **-** | **(1,269)** | **12,016** |
| Issue of shares – consideration relating to sponsorship services 4 January 2016 | 22 | 103 | - | - | - | - | 125 |
| Issue of shares to EBT on 23 March 2016 | 275 | - | (275) | - | - | - | - |
| Exercise of share options | - | - | 121 | - | - | (121) | - |
| Share based payments | - | - | - | - | - | 1,372 | 1,372 |
| Total comprehensive loss for the year | - | - | - | - | (50) | (2,644) | (2,694) |
| **At 31 December 2016** | **4,322** | **10,331** | **(215)** | **(907)** | **(50)** | **(2,662)** | **10,819** |
| Issue of shares – consideration relating to sponsorship services 9 January 2017 | 16 | 109 | - | - | - | - | 125 |
| Placing and open offer 4 December 2017 | 2,121 | 12,727 | - | - | - | - | 14,848 |
| Transaction costs of placing | - | (828) | - | - | - | - | (828) |
| Issue of shares to EBT on 23 March 2017 | 224 | - | (224) | - | - | - | - |
| Exercise of share options | - | - | 42 | - | - | (42) | - |
| Share based payments | - | - | - | - | - | 1,372 | 1,372 |
| Total comprehensive loss for the year | - | - | - | - | 78 | (3,606) | (3,528) |
| **At 31 December 2017** | **6,683** | **22,339** | **(397)** | **(907)** | **28** | **(4,938)** | **22,808** |

The notes on pages 29 to 48 form part of these consolidated financial statements.

# Notes to the consolidated financial statements

## 1. Accounting policies

***General information***
Science in Sport plc (the "Company" and together with its subsidiaries "SiS" or the "Group") is a public limited company incorporated and domiciled in the United Kingdom (registration number 08535116). The address of the registered office is 4th Floor, 16 - 18 Hatton Garden, Farringdon, London EC1N 8AT. The functional and presentation currency is pounds sterling and the financial statements are rounded to the nearest £1,000.

The main activities of the Company are those of developing, manufacturing and marketing sports nutrition products for professional athletes and sports enthusiasts.

***Basis of preparation***
The Company has elected to prepare its parent company financial statements in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the European Union ("adopted IFRS") and as applied in accordance with the provisions of the Companies Act 2006, and these are set out on pages 49 to 53.

The financial statements are prepared for the year ended 31 December 2017.

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the European Union ("adopted IFRS") and those parts of the Companies Act 2006 that are applicable to financial statements prepared in accordance with IFRS. The Group's financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The accounting policies set out below have been applied to all periods presented in these Group financial statements and are in accordance with IFRS, as adopted by the European Union and International Financial Reporting Interpretations Committee ("IFRIC") interpretations that were applicable for the period ended 31 December 2017.

The Group has adopted the new interpretations and revised standards effective for the year ended 31 December 2017. The adoption of these interpretations and revised standards do not have an impact on the disclosures and presentation of the financial statements.

The following significant new standards, amendments to standards and interpretations have been issued but are not effective for the period ended 31 December 2017. The directors do not anticipate that the adoption of these revised standards and interpretations will have a significant impact on the figures included in the financial statements in the period of initial application other than the following:

**IFRS 9 Financial Instruments**
The standard makes substantial changes to the recognition and measurement of financial assets and financial liabilities. There will only be three categories of financial assets whereby financial assets are recognised at either fair value through profit and loss, fair value through other comprehensive income or measured at amortised cost. On adoption of the standard, the Group will have to re-determine the classification of its financial assets. This is not considered likely to give rise to any significant adjustments other than the re-categorization.

The standard is effective for periods beginning on or after 1 January 2018.

# Notes to the consolidated financial statements

## 1. Accounting policies *(continued)*

**IFRS 15 – Revenue from contracts with customers**
The standard has been developed to provide a comprehensive set of principles in presenting the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is based around five steps in recognising revenue:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price
- Recognise revenue when a performance obligation is satisfied

On application of the standard the disclosures are likely to increase. The standard includes principles on disclosing the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, by providing qualitative and quantitative information.

The Group has evaluated the full extent of the impact that the standard will have on its financial statements, and the effect is not considered likely to be material. The standard is effective for periods beginning on or after 1 January 2018.

**IFRS 16 – Leases**
The standard makes substantial changes to the recognition and measurement of leases by lessees. On adoption of the standard, lessees, with certain exceptions for short term or low value leases, will be required to recognise all leased assets on their balance sheet as 'right-of-use assets' with a corresponding lease liability. The requirements for lessors are substantially unchanged.

On application of the standard the disclosures are likely to increase for both lessors and lessees. The standard includes principles on disclosing the nature, amount, timing and variability of lease payments and cash flows, by providing qualitative and quantitative information.

The Group has not yet evaluated the full extent of the impact that the standard will have on its financial statements, nor the transitional provisions which may be utilised. The standard is effective for periods beginning on or after 1 January 2019 but is yet to be endorsed by the EU.

***Going concern***
The Directors are of the opinion that as at 20 March 2018, the Company and the Company's liquidity and capital resources are adequate to deliver the current strategic objectives having considered projected cash flow information for a period including twelve months from the date of approval of these financial statements and that the Company and its subsidiaries, SiS (Science in Sport) Limited, SiS (APAC) Pty Limited, Science in Sport Inc and Science in Sport (Italy) Srl remain a going concern.

***Basis of consolidation***
The consolidated financial information presents the results of the Company and its subsidiaries, SiS (Science in Sport) Limited, SiS (APAC) Pty Limited, Science in Sport Inc and Science in Sport (Italy) Srl as if they formed a single entity ("the Company"). All group companies share the same reporting date, 31 December 2017. All inter company balances are eliminated in preparing the financial statements.

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

***Revenue***
Revenue comprises sale of goods to external customers at the fair value of consideration received or receivable and is shown net of value added tax or local taxes on sales.

# Notes to the consolidated financial statements

## 1. Accounting policies *(continued)*

***Revenue (continued)***
Revenue from sales to external customers is recognised when the significant risks and rewards of ownership have been transferred to the buyer in accordance with the customer terms. This is when goods are collected by trade export customers and certain UK trade customers, and when the goods are despatched for all other customers. Sales rebate and discount reserves are established based on management's best estimate of the amounts necessary to meet claims by customers in respect of these rebates and discounts. The provision is made at the time of sale and released, if unutilised, after assessment that the likelihood of such a claim being made has become remote.

***Segment reporting***
The Directors have determined that two operating segments exist under the terms of International Financial Reporting Standard 8 'Operating Segments'. The Company is organised between core business which covers all sales made from the UK entity, (this will include sales into International markets through both the UK website and International distributors), and International which consists of business through the subsidiaries in the US, Australia and Italy.

***Use of non-GAAP profit measure – underlying operating loss***
The Directors believe that the operating loss before depreciation, amortisation and impairment of intangibles, share based payments and exceptional items as a measure provides additional useful information for shareholders on underlying trends and performance. This measure is used for internal performance analysis. Underlying operating loss is not defined by IFRS and therefore may not be directly comparable with other companies' adjusted profit measures. It is not intended to be a substitute for, or superior to IFRS measurements of profit. A reconciliation of underlying operating loss to statutory operating loss is set out on the face of the consolidated Statement of Comprehensive Income.

***Exceptional items***
Exceptional items are those material items which, by virtue of their size or incidence, are presented in aggregate, separately in the Statement of Comprehensive Income to give a full understanding of the Company's underlying financial performance. Transactions which may give rise to exceptional items include the restructuring of business activities and acquisitions.

***Foreign currency translation***
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign subsidiaries are retranslated using the closing rate method and foreign exchange gains and losses on translation are recognised through other comprehensive income. The exchange differences are held in a separate reserve and will be recycled to the profit or loss on disposal of the subsidiary.

***Employee benefits***
*(i) Defined contribution plans*
The Company provides retirement benefits to a number of employees and Executive Directors. The assets of these schemes are held separately from those of the Company in independently administered funds. Contributions made by the Company are charged to profit or loss in the period in which they become payable.

*(ii) Accrued holiday pay*
Provision has been made at the reporting date for holidays accrued but not taken at the salary of the relevant employee at that date.

***Leased assets***
Leases, which contain terms whereby the company does not assume substantially all the risks and rewards incidental to ownership of the leased item are classified as operating leases. Operating lease rentals are charged to profit or loss on a straight line basis over the lease term. The company does not hold any assets under finance leases.

***Interest income***
Interest income is recognised on a time-proportion basis using the effective interest rate method.

# Notes to the consolidated financial statements

## 1. Accounting policies *(continued)*

***Research and development***

Expenditure on research and development activities of internal projects are written off as incurred unless the criteria are met to recognise an intangible asset in accordance with IAS 38 'Intangible assets'. Development costs that are directly attributable to the design and testing of identifiable and unique products controlled by the Company are capitalised as intangible assets only when the following criteria are met: (i) it is technically feasible to complete the product so that it will be available for use; (ii) the directors intend to complete the product and use it; (iii) there is an ability to use the product; (iv) it can be demonstrated how the product will generate probable future economic benefits; (v) adequate technical, financial and other resources to complete the development and use the product are available; and (vi) the expenditure attributable to the product during its development can be measured reliably.

Directly attributable costs that are capitalised include relevant employee costs. Capitalised development costs are amortised on a straight line basis over a period of five years from the date that the product is brought into first use. The directors consider that five years represents the usual period over which the main benefits of a new product are gained by the Company.

***Taxation***

Current tax is provided at amounts expected to be recovered or to be paid using the tax rates and tax laws that have been enacted or substantively enacted at the reporting date. When research and development tax credits are claimed, they are recognised on an accruals basis and are included as a grant and are taken above the line as a credit to expenditure.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability differs from its tax base, except for differences arising on:

- The initial recognition of goodwill;
- The initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- Investments in subsidiaries where the Company can control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profits will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered). Deferred tax balances are not discounted.

***Property, plant and equipment***

Plant and equipment assets are stated at cost. Cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is charged to profit or loss on all plant and equipment at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight line basis over their estimated useful lives, which is:

| | |
|---|---|
| Leasehold improvements | - Over the length of the lease |
| Plant and machinery | - 4 - 10 years |
| Fixtures and fittings | - 4 years |
| Motor Vehicles | - 4 years |

The assets' residual values and useful lives are determined by the Directors and reviewed and adjusted if appropriate at each reporting date in accordance with the Company policy for impairment of assets.

***Intangible assets***

Externally acquired intangible assets are initially recognised at cost less impairment and subsequently amortised on a straight line basis over their expected useful economic lives as follows:

| | |
|---|---|
| Website development costs | - 5 years |
| Computer software | - 5 years |
| Research and development costs | - 5 years |

# Notes to the consolidated financial statements

## 1. Accounting policies *(continued)*

***Impairment of assets***
Assets that have a finite useful life but that are not yet in use and are therefore not subject to amortisation or depreciation are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment annually and when events or circumstances suggest that the carrying amount may not be recoverable an impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of fair value, less disposal costs, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount that would have been determined is capped at the original carrying value prior to the impairment. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount in which case the reversal of the impairment loss is treated as a revaluation increase.

The gain or loss on the disposal of an asset is accounted for in profit or loss of the period in which the disposal occurs as the difference between the net sale proceeds and the carrying amount.

***Inventories***
Inventories are stated at the lower of cost and net realisable value. Cost is calculated as follows:

| | |
|---|---|
| Raw materials | - cost of purchase on a first in, first out basis. |
| Work in progress and finished goods | - cost of raw materials and labour, together with attributable overheads based on the normal level of activity. |

Net realisable value is based on estimated selling price less further costs to completion and disposal. A charge is made to profit or loss for slow moving inventories. The charge is reviewed at each reporting date.

***Financial instruments***
*Financial assets*
The Company's financial assets are comprised of 'trade and other receivables' and 'cash and cash equivalents'. They are recognised, when the Company becomes a party to the contractual provisions of the instrument, initially at their fair value and subsequently at amortised cost when the Company becomes a party to the contractual provisions of the instrument. The Company will assess at each reporting date whether there is objective evidence that the financial asset is impaired. If an asset is judged to be impaired the carrying amount of the asset will be adjusted to its impaired valuation.

*Financial liabilities*
The Company's financial liabilities comprise 'trade and other payables' and 'borrowings'. These are recognised initially at fair value and subsequently at amortised cost.

***Cash and cash equivalents***
Cash and cash equivalents comprise cash at bank and in hand.

***Critical accounting estimates and judgements***
The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Estimates and judgements are continually made and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable in the circumstances.

# Notes to the consolidated financial statements

## 1. Accounting policies *(continued)*

***Critical accounting estimates and judgements (continued)***
As the use of estimates is inherent in financial reporting, actual results could differ from these estimates. The Directors believe the following to be the key areas of estimation and judgement:

(i) Recognition of product rebates

Product rebates offered to certain customers are treated as a reduction in sales. Where the rebates are volume related an estimate for the reporting period is included for the expected sales relevant to each customer contract period.

(ii) Intangible assets

Note 1 describes the accounting policy for the recognition of research and development expenditure. The Company has determined the amounts of development expenditure to be recognised as intangible assets at each reporting date. In making their judgement, the directors have considered the progress of each project and whether there is sufficient certainty that the product under development will be economically viable and that economic benefits will flow to the Company.

(iii) Useful economic lives and residual values of intangible assets and property, plant and equipment

In relation to finite life intangible assets and property, plant and equipment disclosed in notes 11 and 12, useful economic lives and residual values of assets have been established using historical experience and an assessment of the nature of the assets involved. Assets are assessed on an ongoing basis to determine whether circumstances exist that could lead to potential impairment of the carrying value of such assets.

(iv) Recognition of deferred tax asset

The carrying value of deferred tax assets are disclosed in note 17. The Directors consider it appropriate to recognise a deferred tax asset in respect of tax losses on the basis that the losses incurred to date are as a result of the Group's current strategy to invest in growing revenue and they therefore consider it reasonable to conclude that suitable taxable profits against which losses can be utilised are able to be generated in the foreseeable future.

***Share based payments***

Some employees are granted share options which allow these employees to acquire shares in the Company, if certain performance conditions are met.

The fair value of share options is recognised as an employee expense in profit or loss with a corresponding increase in equity. The fair values of options are calculated at the earlier of the date on which an expectation of the share options arise and the date on which the options are granted. All options have a £nil exercise price and no market based performance conditions, therefore the fair value has been calculated using the market value of the shares at the date of grant adjusted for any non- entitlement to dividends over the vesting period.

The amount recognised as an expense is adjusted to reflect the number of equity instruments vested or expected to vest at each reporting date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of shares that eventually vest.

The social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge will be treated as a cash settled transaction.

***Employee Benefit Trust ('EBT')***

As the Company is deemed to have control of the EBT, it is treated as a subsidiary and consolidated for the purpose of the Group accounts. The EBT's investment in the Company's shares is deducted from shareholders' funds in the Group statement of financial position as if they were treasury shares.

# Notes to the consolidated financial statements

## *2. Financial risk management*

### *2.1 Financial risk factors*

The Company's activities inevitably expose it to a variety of financial risks: market risk (including currency risk, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk.

It is Company policy not to enter into speculative positions using complex financial instruments. The Company's primary treasury objective is to minimise exposure to potential capital losses whilst at the same time securing favourable market rates of interest on Company cash deposits using money market deposits with banks.

*(a) Market risk*
*Foreign exchange risk*
The Company primarily enters into contracts which are to be settled in UK pounds. However, some contracts involve other major world currencies including the US Dollar and the Euro. Where large contracts of more than £50,000 total value are to be settled in foreign currencies consideration is given to converting the appropriate amounts to or from UK pounds at the outset of the contract to minimise the risk of adverse currency fluctuations.

The Directors consider that the Company incurred minimal expenditure in foreign currencies during the year, and the prior year, and consequently there is currently no material exposure to foreign currency rate risk, although this may change in the future as export markets are developed.

*Cash flow and fair value interest rate risk*
The Company's interest rate risk arises from medium term and short term money market deposits. Deposits which earn variable rates of interest expose the Company to cash flow interest rate risk. Deposits at fixed rates expose the Company to fair value interest rate risk. The Company had no fixed rate deposits during the year. The Company analyses its interest rate exposure on a dynamic basis throughout the year.

The Company has no borrowings and therefore no interest rate swaps or other forms of interest risk management have been undertaken. There is no cash flow risk associated with these borrowings which are at fixed interest rates and an agreed payment schedule.

*(b) Credit risk*
Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions as well as credit exposure in relation to outstanding receivables. Company policy is to place deposits with institutions with investment grade A2 or better (Moody's credit rating) and deposits are made in sterling only.

The Company does not expect any losses from non-performance by these institutions. Management believes that the carrying value of outstanding receivables and deposits with banks represents the Company's maximum exposure to credit risk.

The top 10 customers account for 45.5% (2016: 50.2%) of the Company's revenue and hence there is some risk from the concentration of customers, however the largest single customer is only 14% (2016:15.3%) of revenue and is a major international business. As at 31 December 2017, the provision for doubtful debts totalled £43,000 (2016: £42,000). The Board believes no further provision is required for doubtful debts.

*(c) Liquidity risk*
Liquidity risk arises from the Company's management of working capital; it is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and management monitors rolling forecasts of the Company's liquidity on the basis of expected cash flow. The Company raised additional funds of £14.0m net of expenses in December 2017 to mitigate this risk as the Company continues to expand into new markets.

The Company had trade and other payables at the reporting date of £2.81 million (2016: £2.53 million) as disclosed in note 16.

# Notes to the consolidated financial statements

## *2.* Financial risk management (continued)

### *2.2 Capital risk management*

The Company considers its capital to comprise its ordinary share capital, share premium, other reserve and accumulated retained earnings/deficit as disclosed in the consolidated statement of financial position.

The Company remains funded primarily by equity capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for equity holders of the Company and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Company also had an asset loan agreement secured over plant and equipment for a four year term which expired in September 2016 at a fixed interest rate of 3.96%.

## 3. Segmental reporting

The Group's operating segments are determined based on the Group's internal reporting to the Chief Operating Decision Maker (CODM). The CODM has been determined to be the Chief Executive Officer, with support from the Board and senior management team. The performance of operating segments is assessed on earnings before interest, tax, exceptional items, depreciation, and amortisation excluding equity-settled share option charges recognised under IFRS 2 "Share-based payment". The products of the operating segments are detailed in the Accounting Policies Note 1.

The Core segment manufactures and sells sports nutrition in the UK through SiS.com, third-party etailers, grocers, high street and heartland bike shops. Also included in this segment is sales to Europe (excluding Italy) through distributors and online.

| Year ended 31 December 2017 | Core £'000 | International £'000 | Total Group £'000 |
|---|---|---|---|
| External revenue | 13,904 | 1,711 | 15,615 |
| **Segment loss before recharges** | **(72)** | **(1,632)** | **(1,704)** |
| Recharge International costs | 671 | (671) | - |
| **Segment profit/(loss)** | **599** | **(2,303)** | **(1,704)** |
| Depreciation and amortization | (567) | - | (567) |
| Share based payment charge | (1,581) | - | (1,581) |
| **Loss from operations** | **(1,549)** | **(2,303)** | **(3,852)** |
| Finance income | - | - | - |
| **Loss before taxation** | **(1,549)** | **(2,303)** | **(3,852)** |

The 2016 numbers have been restated below due to the change in the composition of operating segments

| Year ended 31 December 2016 | Core £'000 | International £'000 | Total Group £'000 |
|---|---|---|---|
| External revenue | 11,632 | 611 | 12,243 |
| **Segment loss before recharges** | **(53)** | **(746)** | **(799)** |
| Recharge International costs | 116 | (116) | - |
| **Segment profit/(loss)** | **63** | **(862)** | **(799)** |
| Depreciation and amortization | (419) | - | (419) |
| Share based payment charge | (1,572) | - | (1,572) |
| **Loss from operations** | **(1,928)** | **(862)** | **(2,790)** |
| Finance income | 1 | - | 1 |
| Finance Cost | (4) | - | (4) |
| **Loss before taxation** | **(1,931)** | **(862)** | **(2,793)** |

# Notes to the consolidated financial statements

## 3. Segmental reporting (continued)

Revenue from one customer in the Core segment of £2,181,000 individually exceeds 10% of Group revenue (2016: one, £1,867,000). All non-current assets, except for an immaterial amount of fixed assets, are located in the UK.

| Turnover by geographic destination may be analysed as follows: | **Year ended 31 December 2017 £000** | Year ended 31 December 2016 £000 |
|---|---|---|
| United Kingdom | **11,217** | 9,495 |
| EU excluding the UK | **2,880** | 1,922 |
| Australia | **680** | 530 |
| Rest of the World | **838** | 296 |
| | **15,615** | 12,243 |

## 4. Operating expenses

| | **Year ended 31 December 2017 £000** | Year ended 31 December 2016 £000 |
|---|---|---|
| Sales and marketing costs | **7,982** | 5,931 |
| Operating costs | **3,037** | 2,246 |
| Depreciation and amortisation | **567** | 419 |
| Share based payment charge (1) | **1,581** | 1,572 |
| Exceptional costs | **-** | - |
| Administrative expenses | **5,185** | 4,237 |
| **Total operating expenses** | **13,167** | 10,168 |

(1) Includes associated social security costs of £83,000 (31 December 2016: £75,000) and consideration in respect of sponsorship services of £125,000 (31 December 2016: £125,000).

## 5. Loss from operations

| Loss from operations is stated after charging: | **Year ended 31 December 2017 £000** | Year ended 31 December 2016 £000 |
|---|---|---|
| Depreciation of property, plant and equipment | **260** | 261 |
| Amortisation of intangible assets | **307** | 160 |
| Research and development costs | **339** | 337 |
| Grant income in respect of research and development tax credits | **125** | 262 |
| Foreign exchange losses/(gains) | **121** | (69) |
| Loss on disposal of property, plant and equipment | **17** | - |
| Operating lease costs | **196** | 177 |

# Notes to the consolidated financial statements

## 6. Auditors' remuneration

The total fees for services provided by the Company's auditor are analysed below:

| | **Year ended 31 December 2017 £000** | Year ended 31 December 2016 £000 |
|---|---|---|
| **Audit services** | | |
| Parent company | **18** | 16 |
| Subsidiary | **27** | 24 |
| **Tax services – compliance** | | |
| Subsidiary | **6** | 6 |
| **Other services** | **1** | 4 |
| **Total fees** | **52** | 50 |

## 7. Wages and salaries

The average monthly number of persons, including Directors, employed by the Group was:

| | **Year ended 31 December 2017 Number** | Year ended 31 December 2016 Number |
|---|---|---|
| Sales and marketing | **37** | 28 |
| Manufacturing | **55** | 47 |
| Administration | **8** | 6 |
| Directors | **4** | 4 |
| | **104** | 85 |

Their aggregate emoluments were:

| | **£000** | £000 |
|---|---|---|
| Wages and salaries | **3,714** | 2,865 |
| Directors' fees | **115** | 84 |
| Social security costs | **355** | 300 |
| Pension and other staff costs | **118** | 147 |
| **Total cash settled emoluments** | **4,302** | 3,396 |
| Share based payments - equity settled | **1,372** | 1,372 |
| Share based payments - social security costs | **83** | 75 |
| **Total emoluments** | **5,757** | 4,843 |

# Notes to the consolidated financial statements

## 8. Directors' and Key Management Personnel remuneration

| Amounts paid to the Directors of the parent company. | **Year ended 31 December 2017 £000** | Year ended 31 December 2016 £000 |
|---|---|---|
| **Directors** | | |
| Aggregate emoluments and fees | **491** | 345 |
| Benefits in kind | **5** | 3 |
| Company pension contributions | **9** | 2 |
| **Total emoluments** | **505** | 350 |
| Share based payment remuneration charge: equity settled | **940** | 943 |
| **Total Directors' emoluments** | **1,445** | 1,293 |

Directors fees of £35,000 (2016: £9,000) for one director are paid through a Limited Liability Company.

During the year, one Director participated in defined contribution pension schemes (year ended 31 December 2016: one).

The number of directors who participated in the long term incentive program was 3 (2016: 3).

No share options were exercised by any Director during the period.

Directors' emoluments include amounts attributable to benefits in kind comprising private medical insurance on which the Directors are assessed for tax purposes. The amounts attributable to benefits in kind are stated at cost to the Company, which is also the tax value of those benefits. Further details of Directors' emoluments are included in the Remuneration Report on pages 17 to 19.

The aggregate remuneration of members of key management personnel (which includes the board of directors and other senior management personnel) during the year was as follows:

| Amounts paid to Key Management Personnel | **Year ended 31 December 2017 £000** | Year ended 31 December 2016 £000 |
|---|---|---|
| Remuneration and short term benefits | **916** | 824 |
| Post employment benefits | **30** | 27 |
| Share based payments | **1,373** | 1,372 |
| | **2,319** | 2,223 |

# Notes to the consolidated financial statements

## 9. Taxation

| | **Year ended 31 December 2017 £000** | Year ended 31 December 2016 £000 |
|---|---|---|
| **Current tax income** | | |
| United Kingdom corporation tax | **-** | - |
| Adjustment in respect of prior period | - | - |
| **Total current tax income** | **-** | - |
| **Deferred tax** | | |
| Effect of change in tax rates | **-** | - |
| Origination and reversal of temporary differences | **246** | 149 |
| **Tax on loss for the period** | **246** | 149 |

The tax assessed for the year is different from the standard rate of corporation tax in the UK. The differences are explained below:

| | | |
|---|---|---|
| Loss before tax | **3,852** | 2,793 |
| Loss before tax multiplied by the standard rate of corporation tax in the UK of 19.25% (2016: 20%) | **741** | 559 |
| **Effects of:** | | |
| Expenses not deductible for tax purposes | **(289)** | (183) |
| Additional deduction for R&D expenditure | **(72)** | (36) |
| Share scheme deduction | **(14)** | (16) |
| Effect of changes in tax rate | **(3)** | (3) |
| Adjustment in respect of prior periods | **(94)** | (172) |
| Capital allowances in excess of depreciation | **(23)** | - |
| **Total tax credit for the period** | **246** | 149 |

At 31 December 2017 UK tax losses of the Company available to be carried forward are estimated to be £4,259,000 (31 December 2016: £4,011,000).

Deferred tax balances are valued at the rate of 18% in these accounts to the extent that timing differences are expected to reverse after this later date.

## 10. Loss per share

Basic and diluted loss per share is calculated by dividing the loss attributable to owners of the parent by the weighted average number of ordinary shares in issue during the period. The exercise of share options would have the effect of reducing the loss per share and is therefore anti-dilutive under the terms of IAS 33 'Earnings per share'.

| | **Year ended 31 December 2017** | Year ended 31 December 2016 |
|---|---|---|
| Loss for the year attributable to owners of the parent - £000 | **(3,606)** | (2,644) |
| Weighted average number of shares | **46,695,814** | 42,527,844 |
| **Basic and diluted loss per share – pence** | **(7.7p)** | (6.2p) |

The number of vested but unexercised share options is 4,733,600 (2016: 2,152,892).

# Notes to the consolidated financial statements

## 11. Intangible assets

| | Software | Website development costs | Research & Development Costs | Total |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| **Cost** | | | | |
| At 31 December 2015 | 142 | 426 | 117 | 685 |
| Additions | 342 | 148 | 68 | 558 |
| At 31 December 2016 | 484 | 574 | 185 | 1,243 |
| Additions | 449 | 178 | 172 | 799 |
| Disposal | - | (40) | - | (40) |
| **At 31 December 2017** | **933** | **712** | **357** | **2,002** |
| **Amortisation** | | | | |
| At 31 December 2015 | 28 | 171 | - | 199 |
| Charge for year | 20 | 116 | 24 | 160 |
| At 31 December 2016 | 48 | 287 | 24 | 359 |
| Charge for year | 120 | 132 | 55 | 307 |
| Disposal | - | (23) | - | (23) |
| **At 31 December 2017** | **168** | **396** | **79** | **643** |
| **Net book value** | | | | |
| **At 31 December 2017** | **765** | **316** | **278** | **1,359** |
| At 31 December 2016 | 436 | 287 | 161 | 884 |

At 31 December 2017, the Company had capital commitments £215,000 relating to website development and SAP development costs (31 December 2016: £Nil).

## 12. Property, plant and equipment

| | Leasehold improvements | Plant and machinery | Fixtures, fittings and computer equipment | Motor vehicles | Total |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| **Cost** | | | | | |
| At 31 December 2015 | 404 | 894 | 600 | - | 1,898 |
| Additions | 53 | 251 | 98 | | 402 |
| At 31 December 2016 | 457 | 1,145 | 698 | - | 2,300 |
| Additions | 4 | 92 | 143 | 16 | 255 |
| **At 31 December 2017** | **461** | **1,237** | **841** | **16** | **2,555** |
| **Depreciation** | | | | | |
| At 31 December 2015 | 237 | 566 | 438 | - | 1,241 |
| Charge for the year | 73 | 88 | 100 | - | 261 |
| At 31 December 2016 | 310 | 654 | 538 | - | 1,502 |
| Charge for the year | 32 | 142 | 86 | - | 260 |
| **At 31 December 2017** | **342** | **796** | **624** | **-** | **1,762** |
| **Net book value** | | | | | |
| **At 31 December 2017** | **119** | **441** | **217** | **16** | **793** |
| At 31 December 2016 | 147 | 491 | 160 | - | 798 |

# Notes to the consolidated financial statements

## 13. Inventories

| | **31 December 2017 £000** | 31 December 2016 £000 |
|---|---|---|
| Raw materials | **883** | 824 |
| Finished goods | **1,830** | 1,414 |
| | **2,713** | 2,238 |

There is a provision of £27,000 included within inventories in relation to the impairment of inventories (31 December 2016: £23,000).

During the period inventories of £4,852,000 (year ended 31 December 2016: £3,651,000) were recognised as an expense within cost of sales.

## 14. Trade and other receivables

| | **31 December 2017 £000** | 31 December 2016 £000 |
|---|---|---|
| Trade receivables | **1,947** | 1,678 |
| Less: provision for impairment of trade receivables | **(43)** | (42) |
| Trade receivables – net | **1,904** | 1,636 |
| Other receivables | **436** | 334 |
| **Total financial assets other than cash and cash equivalents classified as loans and receivables** | **2,340** | 1,970 |
| Prepayments and accrued income | **511** | 247 |
| Total trade and other receivables | **2,851** | 2,217 |

Trade receivables represent debts due for the sale of goods to customers. The provision for impairment of receivables is estimated by the Company's management based on prior experience.

Trade receivables are denominated in local currency of the operating entity and converted to sterling at the ruling exchange rate as at 31 December 2017. The Directors consider that the carrying amount of these receivables approximates to their fair value. Trade and other receivables are categorised as loans and receivables under IAS 39. All amounts shown under receivables fall due for payment within one year. The Group does not hold any collateral as security.

As at 31 December 2017 trade receivables of £1,055,000 (31 December 2016: £618,000) were past due but not impaired. They relate to customers with no default history. The ageing analysis of these receivables is as follows:

| | **31 December 2017 £000** | 31 December 2016 £000 |
|---|---|---|
| Less than 30 days overdue | **592** | **389** |
| Between 31 and 90 days overdue | **335** | **229** |
| 91 days and over | **128** | **-** |
| | **1,055** | **618** |

# Notes to the consolidated financial statements

## 14. Trade and other receivables (continued)

As at 31 December 2017 trade receivables of £43,000 (31 December 2016: £42,000) were past due and impaired. Movements on the Company provision for impairment of trade receivables are as follows:

| | **31 December 2017 £000** | 31 December 2016 £000 |
|---|---|---|
| At beginning of year | **42** | 37 |
| Provided during year | **1** | 5 |
| | **43** | 42 |

Any movement on the provision for impaired receivables is included in administrative expenses in the consolidated statement of comprehensive income. Other classes of financial assets included within trade and other receivables do not contain impaired assets.

## 15. Cash and cash equivalents

| | **31 December 2017 £000** | 31 December 2016 £000 |
|---|---|---|
| Cash at bank and in hand | **16,570** | 6,130 |

## 16. Trade and other payables

| | **31 December 2017 £000** | 31 December 2016 £000 |
|---|---|---|
| Trade payables | **1,222** | 1,130 |
| Accruals | **1,382** | 1,324 |
| **Total financial liabilities measured at amortised cost** | **2,604** | 2,454 |
| Other taxes and social security | **206** | 80 |
| **Total trade and other payables** | **2,810** | 2,534 |

The Directors consider that the carrying amount of these liabilities approximates to their fair value.

All amounts shown fall due within one year.

## 17. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 18% (year ended 31 December 2016: 18%). Details of the deferred tax asset and liability, amounts recognised in profit or loss and amounts recognised in other comprehensive income are as follows:

| | **At 31 December 2016 £000** | **Credited/ (charged) to income statement in the year £000** | **At 31 December 2017 £000** |
|---|---|---|---|
| Capital allowances in excess of depreciation | (103) | (10) | **(113)** |
| Unutilised tax losses | 722 | 45 | **767** |
| Other short term timing differences | 467 | 211 | **678** |
| | 1,086 | 246 | **1,332** |

# Notes to the consolidated financial statements

## 17. Deferred tax (continued)

A deferred tax asset of £1,332,000 (31 December 2016: £1,086,000) has been recognised in respect of tax losses and other temporary differences where the Directors believe it is probable that these assets will be recovered. The Directors consider it appropriate to recognise a deferred tax asset in respect of tax losses on the basis that the losses incurred to date are as a result of the Group's current strategy to invest in growing revenue and they therefore consider it reasonable to conclude that suitable taxable profits against which losses can be utilised will be generated in the foreseeable future.

## 18. Share capital

| | Ordinary 10p shares number | Ordinary 10p shares £000 |
|---|---|---|
| **Authorised share capital** | **221,000,000** | **22,100** |

| **Allotted, called up and fully paid** | **Ordinary 10p shares number** | **Ordinary 10p shares £000** |
|---|---|---|
| **At 31 December 2016** | 43,216,191 | 4,322 |
| Sponsorship consideration 9 January 2017 | 159,236 | 16 |
| Treasury shares issued 23 March 2017 | 2,238,029 | 224 |
| Firm Placing of shares issued 4 December 2017 | 20,000,000 | 2,000 |
| Open Offer of shares issued 4 December 2017 | 1,211,365 | 121 |
| **At 31 December 2017** | **66,824,821** | **6,683** |

The Company has one class of ordinary shares which carry no rights to fixed income.

On 9 January the Company issued 159,236 new ordinary shares of 10 pence each as consideration for sponsorship related services. The fair value of these shares at the date of issue was £125,000, this represented the market price for the sponsorship services provided.

On 23 March 2017 the Company issued 2,238,029 new ordinary shares of 10 pence each to the Employee Benefit Trust to satisfy share options granted in 2016 (2016: 2,748,964 new ordinary shares of 10 pence each). At 31 December 2017 the Employee Benefit Trust held in reserve 3,972,986 new ordinary shares of 10 pence each to be issued as share options (2016: 2,152,892 new ordinary shares of 10 pence each).

## 19. Share options

In June 2014 the Company adopted a new Share Option Plan ("SOP"). The key terms of the SOP are substantially the same as set out in the AIM Admission Document which is available on the Group's website. Under the SOP, options to purchase ordinary shares may be granted by the Remuneration Committee to Directors, senior executives and potentially other employees at nil cost. To enable the Company to grant nil-cost options it has established an Employee Benefit Trust to purchase, hold and transfer the ordinary shares pursuant to the options.

The SOP is managed by the Remuneration Committee on behalf of the Company. The Company will grant each participant an option subject to the terms and conditions of each participant's individual option agreement (including performance conditions) and the SOP rules. Each participant may be granted either annual or long term (three or five year vesting period) options or both. Annual options may be settled in either cash or shares at the sole discretion of the Remuneration Committee. As at 31 December 2017 3,972,986 unsettled options were held by the Employee Benefit Trust in respect of options awarded to the Directors in respect of previous years. All other annual options have been treated as equity settled options.

In the event that the option holder's employment is terminated before vesting, the option may not be exercised unless the Remuneration Committee so permits. Options expire 10 years from date of vesting.

# Notes to the consolidated financial statements

## 19. Share options (continued)

Further information regarding the SOP scheme may be found in the Remuneration Report.

The total charge for the year relating to employee share-based payment plans was £1,372,000 all of which related to equity settled share-based payment transactions (period ended 31 December 2016: £1,372,000). Total social security costs of £83,000 (period ended 31 December 2016: £75,000) have also been recognised and included in the share based payment charge of £1,581,000 (period ended 31 December 2016: £1,572,000) disclosed on the face of the consolidated statement of comprehensive income.

***Options granted during the period***

During the year ended 31 December 2017 options were granted under the short term incentive plan with regard to performance in the year ended 31 December 2016 and the year ended 31 December 2017. All options have a nil exercise price and no market based performance conditions, therefore the fair value has been calculated using the market value of the shares at the date of grant. As the expected dividend yield for the life of the option is assumed to be nil no adjustment is required for non-entitlement to dividends.

| **Date of grant** | **Exercise price pence** | **Share options number** | **Share price at date of grant pence** |
|---|---|---|---|
| 22 March 2017 | nil | 1,781,988 | 81p |

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

| | Weighted average exercise price pence | Weighted average share price at date of exercise pence | Share options Number |
|---|---|---|---|
| Options at 1 January 2016 | nil | - | 595,331 |
| Granted during year | nil | - | 6,609,785 |
| Exercised | nil | 53p | (1,208,255) |
| Forfeited during year | nil | - | - |
| **Outstanding at 31 December 2016** | nil | | 5,996,861 |
| Granted during year | nil | - | 1,781,988 |
| Exercised | nil | 74p | (417,937) |
| Forfeited during year | nil | - | - |
| **Outstanding at 31 December 2017** | nil | | 7,360,912 |

The exercise price of all options outstanding at the end of the year was nil. The average remaining contractual life for these options as at 31 December 2017 was 8.6 years (31 December 2016: 8.9 years).

# Notes to the consolidated financial statements

## 20. Reserves

Share premium account represents the amount subscribed for share capital in excess of nominal value less costs directly attributable to the issue of shares.

The Employee Benefit Trust reserve represents shares in the Company held by the Employee Benefit Trust which will be used to settle options held by employees under the SOP.

The other reserve arose as a result of applying the principles of reverse acquisition accounting following the demerger of SiS (Science in Sport) Limited from Provexis plc in August 2013 and represents the difference between the capital reserves of Science in Sport plc (the legal acquirer) and those of SiS (Science in Sport) Limited (the legal acquiree).

The retained deficit is cumulative net gains and losses recognised in the consolidated statement of comprehensive income.

The foreign exchange reserve arises on the translation of foreign subsidiaries into sterling at the year-end date. For the year ending 31 December 2017 a gain of £78,000 was recognised (2016: £50,000 loss) to this reserve.

## 21. Pension costs

The pension charge represents contributions payable by the Group to independently administered funds which during the period ended 31 December 2017 amounted to £118,000 (period ended 31 December 2016: £147,000). Pension contributions payable but not yet paid at 31 December 2017 totalled £17,000 (31 December 2016: £14,000).

## 22. Operating lease commitments

Future minimum rentals payable under non-cancellable operating leases are as follows:

| | **31 December 2017 £000** | 31 December 2016 £000 |
|---|---|---|
| Expiring: | | |
| Due within 1 year | **196** | 177 |
| Due between 2 years and 5 years | **327** | 72 |
| | **523** | 249 |

Operating lease payments primarily represent rentals payable by the Group for properties. The leases have various terms, escalation clauses and renewal rights typical of lease agreements for the class of asset.

# Notes to the consolidated financial statements

## 23. Related party transactions

IAS 24 'Related Party Transactions' requires the disclosure of the details of material transactions between reporting entities and related parties. Transactions and balances with group companies are eliminated on consolidation and therefore do not need to be disclosed.

**Details of Directors' remuneration**
The emoluments paid to the individual Directors of the Company for the period were as follows:

| | Year ended 31 December 2017 | | | | | | Year ended |
|---|---|---|---|---|---|---|---|
| | **Salary /fees** | **LTIP** | **STIP** | **Benefits in kind** | **Pension** | **Total** | 31December 2016 |
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | £'000 |
| **Executive Directors** | | | | | | | |
| S N Moon | **230** | **301** | **391** | **3** | **-** | **925** | 956 |
| E J Lake (appointed 17 July 2016) | **146** | **100** | **80** | **2** | **9** | **337** | 163 |
| **Non Executive Directors** | | | | | | | |
| JM Clarke | **45** | **68** | **-** | **-** | **-** | **113** | 130 |
| R Duignan | **35** | **-** | **-** | **-** | **-** | **35** | 35 |
| T Wright | **35** | **-** | **-** | **-** | **-** | **35** | 9 |
| | **491** | **469** | **471** | **5** | **9** | **1,445** | 1,293 |

Prior year remuneration includes share awards of £754,401 for SN Moon and £90,000 for JM Clarke and £99,750 for EJ Lake.
The above fees and emoluments exclude reimbursed expenditure incurred in the conduct of Company business.

**Directors' interests in shares**

The Directors' interests in the ordinary shares of the Company, as recorded in the register maintained by the Company in accordance with the provisions of the Companies Act 2006, were as follows:

| **Beneficial interests** | **Ordinary shares of 10 pence each 31 December 2017** | Ordinary shares of 10 pence each 31 December 2016 |
|---|---|---|
| S N Moon | **843,456** | 736,313 |
| E J Lake (appointed 17 July 2016) | **-** | - |
| J M Clarke | **178,500** | 178,500 |
| R Duignan | **-** | - |
| T Wright (appointed 22 September 2016) | **-** | - |
| | **1,021,956** | 914,813 |

**Directors' interests in share options**

The share options held by the Directors and not exercised at the period end date are summarised below.

| | **31 December 2017** | 31 December 2016 |
|---|---|---|
| S N Moon | **4,521,320** | 3,437,435 |
| JM Clarke | **614,087** | 614,087 |
| EJ Lake | **623,765** | **483,637** |

# Notes to the consolidated financial statements

## 23. Related party transactions (*continued*)

Details of share options at 31 December 2017 of the Directors who served during the year are set out below:

| | Date of grant | Exercise price pence | Share price on date of grant | Number of options | Earliest exercise date | Expiry date |
|---|---|---|---|---|---|---|
| SN Moon | 22 July 2014 | nil | 72.0p | 328,125 | 22 July 2014 | 21 July 2024 |
| SN Moon | 26 March 2015 | nil | 68.0p | 267,206 | 26 March 2015 | 25 March 2025 |
| SN Moon | 22 March 2016 | nil | 52.5p | 1,089,675 | 22 March 2016 | 21 March 2026 |
| SN Moon | 26 Sept 2016 | nil | 68.75p | 1,752,429 | 22 March 2019 | 25 Sept 2026 |
| SN Moon | 22 March 2017 | nil | 81p | 623,721 | 22 March 2017 | 21 March 2027 |
| SN Moon | 22 March 2017 | nil | 81p | 460,164 | 22 March 2018 | 21 March 2027 |
| JM Clarke | 22 March 2016 | nil | 52.5p | 221,360 | 22 March 2016 | 21 March 2026 |
| JM Clarke | 26 Sept 2016 | nil | 68.75p | 392,727 | 22 March 2019 | 25 Sept 2026 |
| EJ Lake | 26 Sept 2016 | nil | 68.75 | 483,637 | 22 March 2019 | 25 Sept 026 |
| EJ Lake | 22 March 2017 | nil | 81p | 58,850 | 22 March 2017 | 21 March 2027 |
| EJ Lake | 22 March 2017 | nil | 81p | 81,278 | 22 March 2018 | 21 March 2027 |

Other than as shown in the tables above no Director had any interest in the shares or share options of the Company or its subsidiary company at 31 December 2017 or 31 December 2016.

## 24. Financial Instruments

| | **31 December 2017 £000** | 31 December 2016 £000 |
|---|---|---|
| Financial assets measured at amortised cost | **18,474** | 7,766 |
| Financial liabilities measured at amortised cost | **1,222** | 1,130 |

Financial assets comprise cash and cash equivalents and trade receivables.

Financial liabilities comprise borrowings and trade payables.

# Parent company statement of financial position

| *Company number 08535116* | Notes | **As at 31 December 2017 £000** | As at 31 December 2016 £000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Investments | 3 | **10,578** | 9,081 |
| **Total non-current assets** | | **10,578** | 9,081 |
| | | | |
| **Current assets** | | | |
| Other receivables | 4 | **8,418** | 8,417 |
| Cash and cash equivalents | | **14,090** | - |
| **Total current assets** | | **22,508** | 8,417 |
| | | | |
| **Total assets** | | **33,086** | 17,498 |
| | | | |
| **Liabilities** | | | |
| **Current Liabilities** | 5 | | |
| Trade and other payables | | **(71)** | - |
| **Total current liabilities** | | **(71)** | - |
| **Net current assets/(liabilities)** | | **22,437** | 8,417 |
| | | | |
| **Total net assets** | | **33,015** | 17,498 |
| | | | |
| **Capital and reserves attributable to owners of the parent company** | | | |
| Share capital | 6 | **6,683** | 4,322 |
| Share premium reserve | | **22,339** | 10,331 |
| Share options reserve | | **4,814** | 3,442 |
| Employee benefit trust reserve | | **(397)** | (215) |
| Retained deficit | | **(424)** | (382) |
| **Total equity** | | **33,015** | 17,498 |

As permitted by Section 408 of the Companies Act 2006 no separate parent company profit and loss account has been included in these financial statements. The parent company loss for the period was £Nil (period ended 31 December 2016: £Nil).

These financial statements were approved and authorised for issue by the Board on 20 March 2018 and signed on its behalf by:

**Stephen Moon**
Director

The notes on pages 52 to 53 form part of these parent company financial statements.

# Parent company statement of cash flows

| | Year ended 31 December 2017 £000 | Year ended 31 December 2016 £000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Loss after tax | **-** | - |
| **Operating cash outflow before changes in working capital** | **-** | - |
| Changes in other receivables and investments | **(1)** | (8,452) |
| Changes in trade and other payables | **71** | - |
| **Total cash outflow from operations** | **70** | (8,452) |
| **Cash flow from financing activities** | | |
| Proceeds from issue of share capital | **14,848** | - |
| Expenses paid on share issues | **(828)** | - |
| Proceeds from issue of share capital to employee benefit trust | **-** | 275 |
| **Net cash inflow from financing activities** | **14,020** | 275 |
| **Net increase/ (decrease) in cash and cash equivalents** | **14,090** | (8,177) |
| **Opening cash and cash equivalents** | **-** | 8,177 |
| **Closing cash and cash equivalents** | **14,090** | - |

The notes on pages 52 to 53 form part of these parent company financial statements.

# Parent company statement of changes in equity

| | Share capital £000 | Share premium £000 | Share options £000 | Employee benefit trust reserve £000 | Retained deficit £000 | Total equity £000 |
|---|---|---|---|---|---|---|
| **At 31 December 2015** | **4,025** | **10,228** | **2,070** | **-** | **(228)** | **16,095** |
| Issue of shares – consideration relating to sponsorship services 4 January 2016 | 22 | 103 | - | - | - | 125 |
| Issue of shares to EBT on 23 March 2016 | 275 | - | - | (275) | - | - |
| Exercise of share options | - | - | - | 60 | (154) | (94) |
| Share based payment | - | - | 1,372 | - | - | 1,372 |
| **At 31 December 2016** | **4,322** | **10,331** | **3,442** | **(215)** | **(382)** | **17,498** |
| Issue of shares – consideration relating to sponsorship services 9 January 2017 | 16 | 109 | - | - | - | 125 |
| Issue of shares to EBT on 23 March 2017 | 224 | - | - | (224) | - | - |
| Issue of shares – placing 4th December 2017 | 2,121 | 12,727 | - | - | - | 14,848 |
| Transaction costs placing | - | (828) | - | - | - | (828) |
| Exercise of share options | - | - | - | 42 | (42) | - |
| Share based payment | - | - | 1,372 | - | - | 1,372 |
| **At 31 December 2017** | **6,683** | **22,339** | **4,814** | **(397)** | **(424)** | **33,015** |

The notes on pages 52 to 53 form part of these parent company financial statements.

# Notes to the parent company financial statements

## 1. Accounting policies

The parent company financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the European Union ("adopted IFRS"), and these are set out on pages 52 to 53. The accounting policies are consistent with those of the Group which are disclosed in note 1 to the consolidated financial statements.

***Going concern***

The going concern basis has been applied in preparing the parent company financial statements for the reasons identified and disclosed in note 1 to the consolidated financial statements.

***Valuation of investments***

The investment in SiS (Science in Sport) Limited is recorded at the nominal value of shares issued for the purposes of the demerger in accordance with s615 of the Companies Act 2006. Accordingly, no premium on the issue of shares has been recognised.

## 2. Profit attributable to shareholders

As permitted by Section 408 of the Companies Act 2006 no separate parent company profit and loss account has been included in these financial statements. The parent company loss for the period was £Nil (period ended 31 December 2016: £Nil).

All salary costs of employees of the Company are borne by SiS (Science in Sport) Limited, and are disclosed in note 7 of the consolidated financial statements.

## 3. Investments

| | **£000** |
|---|---|
| **At 31 December 2016** | 9,081 |
| Capital contribution | 1,497 |
| **At 31 December 2017** | **10,578** |

Capital contribution relates to share based payment transactions on behalf of SiS (Science in Sport) Ltd.

At 31 December 2017 the Company owned the following material subsidiary undertakings:

| | **Share of issued ordinary share capital, and voting rights** | **Registered office** | **Business activity** |
|---|---|---|---|
| SiS (Science in Sport) Limited | 100% | 4th Floor<br>16-18 Hatton Garden<br>Farringdon<br>London<br>EC1N 8AT<br>United Kingdom | Sports Nutrition |
| SiS (APAC) Pty Limited | 100% | 1/27 Belgrave Street<br>Manly<br>NSW 2095<br>Australia | Sports Nutrition |
| Science in Sport Inc | 100% | C/o USA Corporate Services Inc.<br>3500 S Dupont Hwy<br>Dover<br>DE 19901<br>USA | Sports Nutrition |
| Science in Sport (Italy) Srl | 100% | Via Bernadino Telesio 25<br>20142, Milan<br>Italy | Sports Nutrition |

# Notes to the parent company financial statements

There are no significant restrictions on the ability of the subsidiary undertaking to transfer funds to the parent, other than those imposed by the Companies Act 2006.

### 4. Other receivables

| | **31 December 2017 £000** | 31 December 2016 £000 |
|---|---|---|
| **Amounts falling due within one year** | | |
| Amounts owed by SiS (Science in Sport) Limited | 8,416 | 8,417 |
| Other receivables | 2 | - |
| **At 31 December 2017** | 8,418 | 8,417 |

### 5. Other Payables

| | **31 December 2017 £000** | 31 December 2016 £000 |
|---|---|---|
| **Amounts falling due within one year** | | |
| Trade payables | 18 | - |
| Accruals | 53 | - |
| **At 31 December 2017** | 71 | - |

### 6. Share capital

| **Allotted, called up and fully paid** | **Ordinary 10p shares number** | **Ordinary 10p shares £000** |
|---|---|---|
| **At 31 December 2016** | 43,216,191 | 4,322 |
| Sponsorship consideration 9 January 2017 | 159,236 | 16 |
| Treasury shares issued 23 March 2017 | 2,238,029 | 224 |
| Placing of shares consideration 4 December 2017 | 21,211,365 | 2,121 |
| **At 31 December 2017** | **66,824,821** | **6,683** |

Details on the share option scheme and share based payment charge for the year are given in note 19 to the consolidated financial statements.

# Company information

| | |
|---|---|
| **Company number** | 08535116 |
| **Directors** | J M Clarke<br>T Wright<br>R Duignan<br>S N Moon<br>E Lake |
| **Audit committee** | R Duignan (Chairman)<br>J M Clarke<br>E Lake |
| **Remuneration committee** | S N Moon<br>J M Clarke (Chairman) |
| **Registrars** | Equiniti Limited<br>Aspect House<br>Spencer Road<br>Lancing<br>West Sussex BN99 6DA |
| **Registered office** | 4th Floor<br>16 - 18 Hatton Garden<br>Farringdon<br>London EC1N 8AT |
| **Nominated adviser and broker** | Cenkos Securities plc<br>6.7.8 Tokenhouse Yard<br>London EC2R 7AS |
| **Principal solicitors** | Shoosmiths<br>Apex Plaza<br>Forbury Road<br>Reading<br>Berkshire RG1 1SH |
| **Auditors** | Moore Stephens LLP<br>Prospect House<br>Queens Road<br>Reading<br>Berkshire RG1 4RP |

# Notes


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