

Gear4Music (Holdings) Limited

**Directors' report and financial
statements**

Registered number 07786708

Year ended 28 February 2015

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Strategic report

The directors present their strategic report for the Company and Group for the year ended 28 February 2015.

Principal activities

Gear4music Group is a retailer of musical instruments and equipment, through 19 Gear4music branded websites across Europe in 15 languages, and a showroom in York. It retails own and other branded products.

Business review

The Group's principal objective is strong, profitable sales growth. It aims to achieve this by continuously improving its value proposition by investing in its websites and supporting infrastructure, product breadth and depth, and expanding the Gear4music team.

In the previous financial year the business updated its websites with a fully responsive design covering desktop, tablet and mobile devices, and began the process of consolidating its showroom, office and warehouse operations onto a single 135,000 sq. ft. site in York. In May 2014 the new showroom was opened, effectively completing the consolidation exercise, enabling the Directors to focus on driving sales growth into its UK and European markets.



The directors consider the results for the year to be strong - further to 44% sales growth in 2013/14, sales in 2014/15 increased by 37% to £24.2m, and gross profits increased by 43% to £2.03m, equating to an improved gross profit margin of 27.9% (2013/14: 26.7%), attributed to better product margins due to increased volumes.

Operating profit excluding exceptional costs was up £163,000 (55%) to £459,000, including on-going re-investment in the business and people.

The continued growth of online as a retail sales channel provides continued optimism, and the directors are confident that the Group has the resources, capability and capacity to meet customer expectations and order volumes going forward.

Principal risks and uncertainties

As a retail operation, the business faces a number of commercial risks ranging from international economic factors and the impact on consumer confidence and spending, through to local competitive pressure relevant to all markets. The business manages these risks by providing high quality products across a comprehensive range, at competitive prices, supported by good customer service.

The Group faces normal financial risk in relation to the availability of sufficient and appropriate funds to meet the business needs. The business reviews its requirements on a regular basis and manages its position in good time using appropriate funding options, usually provided by its bankers, HSBC.

The finance team monitors and manages exposure to foreign exchange and interest rates.

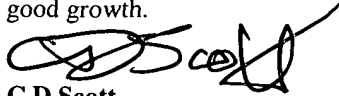
Key Performance Indicators

In addition to the usual day-to-day interactions of running a business, Senior Management hold weekly meetings, and the Board receives weekly KPIs and a comprehensive monthly reporting pack. Weekly review focuses on:

- sales and profit across a comprehensive range of bases;
- stock profitability and stock-turn;
- marketing expenditure and return; and
- historic and forecast cash-flow analysis.

Future developments

The directors are confident that the business is in a strong operational position and is expected to continue to deliver good growth.



C D Scott
Secretary

Kettlestring Lane
Clifton Moor
York
North Yorkshire
YO30 4XF

26 May 2015

Directors' report

The directors have pleasure in presenting their report and financial statements of the Company for the year ended 28 February 2015.

Proposed dividend

The directors do not recommend the payment of a final dividend.

Directors

The directors who held office during the year were as follows:

D Murray
AP Wass
M Buttler
GJ Bevan
CD Scott

A director benefits from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

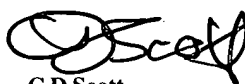
Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board



C D Scott
Secretary

Kettlestring Lane
Clifton Moor
York
North Yorkshire
YO30 4XF

26 May 2015

Statement of directors' responsibilities in respect of the Strategic Report, Directors' Report and the financial statements

The directors are responsible for preparing the Strategic Report, Directors' 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 they have elected to prepare the Group and Parent Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, 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 Group and the Parent Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.



KPMG LLP

1 The Embankment
Neville Street
Leeds
LS1 4DW
United Kingdom

Independent auditor's report to the members of Gear4Music (Holdings) Limited

We have audited the financial statements of Gear4Music (Holdings) Limited for the year ended 28 February 2015 set out on pages 8 to 25. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion 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 28 February 2015 and of the Group's loss for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Independent auditor's report to the members of Gear4Music (Holdings) Limited (continued)

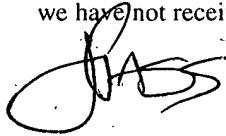
Opinion on other matter prescribed by the Companies Act 2006

In our opinion 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.

Matters on which we are required to report by exception

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

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



Johnathan Pass (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 The Embankment
Neville Street
Leeds
LS1 4DW

26 May 2015

Consolidated profit and loss account
for the year ended 28 February 2015

		Year ended 28 February 2015			Year ended 28 February 2014
	Note	Before exceptional items £	Exceptional items (see note 2) £	Total £	Total £
Turnover	1	24,239,946	-	24,239,946	17,677,674
Cost of sales		(17,482,795)	-	(17,482,795)	(12,952,793)
Gross profit		6,757,151	-	6,757,151	4,724,881
Administration expenses		(6,298,034)	(208,205)	(6,506,239)	(4,641,106)
Operating profit	2	459,117	(208,205)	250,912	83,775
Interest payable and similar charges	5	(448,699)	(271,825)	(720,524)	(413,319)
Profit (Loss) on ordinary activities before taxation	2-5	10,418	(480,030)	(469,612)	(29,544)
Tax on loss on ordinary activities	6	23,026	-	23,026	21,408
Loss for the period		33,444	(480,030)	(446,586)	(308,136)

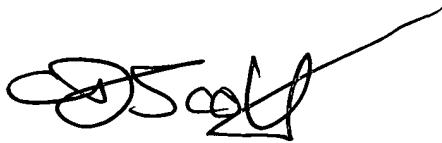
The Group has no recognised gains or losses other than as shown above and therefore no separate statement of total recognised gains and losses has been prepared.

The notes on pages 12-25 form part of these financial statements.

Consolidated balance sheet
as at 28 February 2015

	Notes	2015	2014
		£	£
Fixed assets			
Intangible assets - goodwill	8	1,408,064	1,525,403
Tangible assets	9	2,066,181	1,629,768
		<u>3,474,245</u>	<u>3,155,171</u>
Current assets			
Stocks	10	5,326,750	4,222,248
Debtors (including £41,523 (2014: £nil) due after one year)	11, 15	258,058	174,406
Cash at bank and in hand		915,580	707,911
		<u>6,500,388</u>	<u>5,104,565</u>
Creditors: amounts falling due within one year	12	<u>(5,257,493)</u>	<u>(3,238,783)</u>
Net current assets		<u>1,242,895</u>	<u>1,865,782</u>
Total assets less current liabilities		<u>4,717,140</u>	<u>5,020,953</u>
Creditors: amounts falling due after more than one year	13	<u>(4,403,679)</u>	<u>(4,227,408)</u>
Provision for liabilities	14	<u>-</u>	<u>(33,498)</u>
Net assets		<u>313,461</u>	<u>760,047</u>
Capital and reserves			
Called up share capital	16	1,265,625	1,265,625
Profit and loss account	17	(952,164)	(505,578)
Shareholders' funds		<u>313,461</u>	<u>760,047</u>

These financial statements were approved by the board of directors on 26 May 2015 and were signed on its behalf by:

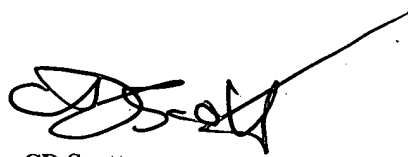


CD Scott
Director

Company balance sheet
as at 28 February 2015

	Notes	2015 £	£	2014 £
Fixed assets				
Investments	7	2,739,878		2,739,877
Current assets				
Cash In Hand and at bank		20,666	-	
Debtors (including £1,234,189 (2014: £1,624,679) due after more than one year)	11, 15	1,236,124	1,626,368	
		<u>1,256,790</u>	<u>1,626,368</u>	
Creditors: amounts falling due within one year	12	<u>(183,167)</u>	<u>(39,339)</u>	
Net current assets		1,073,623		1,587,029
Total assets less current liabilities		3,813,501		4,326,906
Creditors: amounts falling due after more than one year	13	(4,035,633)		(3,725,450)
Net assets		(222,132)		601,456
Capital and reserves				
Called up share capital	16	1,265,625		1,265,625
Profit and loss account	17	(1,487,757)		(664,169)
Shareholders' funds		(222,132)		601,456

These financial statements were approved by the board of directors on 26 May 2015 and were signed on its behalf by:


CD Scott
Director

Consolidated cash flow statement
for the year ended 28 February 2015

		2015	2014
		£	£
Net cash inflow/(outflow) from operating activities	19	1,549,221	764,420
Returns on investments and servicing of finance			
Interest paid		(164,693)	(216,458)
Interest element of HP/finance lease payments		(20,622)	-
Net cash outflow from returns on investments and servicing of finance		(185,315)	(216,458)
Taxation			
UK corporation tax paid		-	(18,700)
Net cash outflow from taxation		-	(18,700)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(966,969)	(858,917)
Proceeds from sale of fixed assets		14,583	95,228
Net cash outflow from capital expenditure and financial investment		(952,386)	(763,689)
Net cash outflow before financing		411,520	(234,427)
Financing			
Repayment of borrowings	20	(299,628)	-
New borrowings	20	111,310	403,953
Capital element of hire purchase contracts	20	(15,533)	(117,794)
		203,851	286,159
Increase in cash in the period	20	207,669	51,732

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 28 February 2015. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

Going concern

The financial statements have been prepared on the going concern basis which assumes that the Group will be able to continue to trade for the foreseeable future. The directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook. The directors are not aware of any reason why their sources of funding might be withdrawn. As a result they have adopted the going concern basis of accounting.

Turnover

Turnover comprises the invoiced value of sales of goods and services provided in the normal course of business, including delivery charges and excluding VAT and other sales taxes. Revenue is recognised on despatch or retail sale of the goods.

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over fair value of the separable net assets acquired) arising on consolidation in respect of acquisition is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life.

The estimated useful life of the Group's goodwill is 15 years.

Tangible fixed assets and depreciation

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life or, if held under a finance lease, over the lease term, whichever is the shorter.

Plant and machinery	20-25% on reducing balance
Fixtures and fittings	20-25% on reducing balance
Motor vehicles	25% on reducing balance
Website and IT infrastructure	20% on a straight line basis
Computer equipment	20-33% on a straight line basis

Investments

In the Company's financial statements, investments in subsidiary undertakings, associates and joint ventures are stated at cost (less amounts written off).

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items. Goods in transit are included when all significant risks and rewards have been transferred to the company.

Notes (continued)

1 Accounting policies (continued)

Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred taxation is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. Deferred taxation is calculated at the rates of tax that are expected to apply in the periods when the timing differences will reverse and has not been discounted.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Hire purchase and leasing commitments

Assets obtained under hire purchase contracts or finance leases are capitalised in the balance sheet. Those held under hire purchase contracts are depreciated over their estimated useful lives. Those held under finance leases are depreciated over their estimated useful lives or the lease term, whichever is the shorter.

The interest element of these obligations is charged to the profit and loss account over the relevant period. The capital element of the future payments is treated as a liability.

Rentals paid under operating leases are charged to the profit and loss account on a straight line basis over the period of the lease.

Government Grants

Government Grants relating to the purchase of fixed assets are depreciated over the term of the HP agreements attached to those assets on a straight line basis.

2 Notes to the profit and loss account

Operating profit is stated after charging/(crediting):

	Year ended 28 February 2015 £	Year ended 28 February 2014 £
Depreciation – owned assets	430,597	305,399
Depreciation – assets on hire purchase contracts	94,055	40,639
Amortisation of goodwill	117,339	117,339
Profit on disposal of fixed assets	(8,710)	(2,500)
Government Grant Amortisation	(15,276)	(3,933)
Hire of plant and machinery - operating leases	17,970	16,199
Hire of other assets - operating leases	94,641	233,889
Foreign exchange loss	130,774	33,365
Audit of these financial statements	16,000	14,580
Amounts receivable by auditors and their associates in respect of services relating to taxation	2,561	2,580
Pension costs	1,680	3,553
Exceptional costs	208,205	212,145

Exceptional costs in the period relate to the costs incurred by the Group in moving the warehouse, offices and showroom and fees relating to an IPO.

Exceptional Costs	2015 £	2014 £
Relocation Costs	41,835	212,145
IPO Related Costs	166,370	-
Loan Note Redemption Interest (note 5)	271,825	-
	<u>480,030</u>	<u>212,145</u>

Notes (continued)

3 Remuneration of directors

	Year ended 28 February 2015 £	Year ended 28 February 2014 £
Emoluments	361,690	341,980
Social Security	43,210	42,677
Pension Contributions	1,680	1,680
	<u>406,580</u>	<u>386,337</u>

There is one director (2014: 1) for whom retirement benefits are accruing under a money purchase pension scheme. Emoluments disclosed above include the following amounts paid in respect of the highest paid director.

Highest paid director	2015 £	2014 £
Emoluments	156,732	150,376
Social Security	20,220	19,420
Pension Contributions	1,680	1,680
	<u>178,632</u>	<u>171,476</u>

	Number of directors	Number of directors
	Year ended 28 February 2015	Year ended 28 February 2014
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	<u>1</u>	<u>1</u>

4 Staff numbers and costs

The average number of persons employed by the Group (excluding executive directors) during the year, analysed by category, was as follows:

	Year ended 28 February 2015 Number	Year ended 28 February 2014 Number
Administrative staff	96	70
Retail staff	4	4
	<u>100</u>	<u>74</u>

Notes (continued)

4 Staff numbers and costs (continued)

The aggregate payroll costs of these persons were as follows:

	Year ended 28 February 2015 £	Year ended 28 February 2014 £
Wages and salaries	1,609,437	1,542,338
Social security costs	118,048	131,093
Other pension costs	-	1,873
	<u>1,727,485</u>	<u>1,675,304</u>

5 Interest payable

	2015 £	2014 £
Bank overdraft and loan interest	52,330	39,703
Hire purchase contracts	20,622	13,292
Loan notes	375,747	360,324
Loan Note Redemption Interest	271,825	-
	<u>720,524</u>	<u>413,319</u>

The £271,825 KCP loan note expense in the year represents the accrual of the redemption premium which is payable on repayment of the loan notes. The expense includes a charge of £92,000 in respect of 2015 and £179,000 in respect of 2013 and 2014.

6 Taxation

The tax charge on the loss on ordinary activities for the year was as follows:

	Year ended 28 February 2015 £	Year ended 28 February 2014 £
Current tax		
UK corporation tax	-	-
Adjustment in respect of prior year	-	(2,633)
	<u>-</u>	<u>(2,633)</u>
Deferred tax (note 15)	23,026	(18,775)
	<u>23,026</u>	<u>(21,408)</u>
Tax on loss on ordinary activities	<u>23,026</u>	<u>(21,408)</u>

Notes (continued)

6 Taxation (continued)

Factors affecting the tax credit for the current year

The current tax credit for the year is higher (2014: lower) than the standard rate of corporation tax in the UK (21.17%). The differences are explained below:

	Year ended 28 February 2015 £	Year ended 28 February 2014 £
<i>Current tax reconciliation</i>		
Loss on ordinary activities before tax	(469,612)	(329,544)
Current tax at 21.17% (2013: 20%)	(99,417)	(65,909)
Effects of:		
Expenses not deductible for tax purposes	44,671	17,255
Amortisation of goodwill on consolidation	24,841	23,467
Timing differences – capital allowances	(27,640)	(39,289)
Timing differences – interest	50,666	-
Interest not taxable	6,879	39,505
Unrelieved Losses	-	24,971
Adjustment relating to prior year	-	(2,633)
Total current tax	-	(2,633)

7 Fixed asset investments

	Total	Unlisted investments £	Shares in group undertakings £	Total £
Company				
Cost				
At 28 February 2014		1	2,739,877	2,739,878
Net book value				
At 28 February 2015		1	2,739,877	2,739,878

The Company's investments at the balance sheet date in the share capital of companies include the following:

Company name	Nature of business	Class of share	Aggregate capital and reserves	%
Gear 4 Music Limited	Dormant	Holding	-	100.0
Red Submarine Limited	Retail	Ordinary	1,200,634	100.0

Shares in Gear 4 Music Limited are held via the subsidiary Red Submarine Ltd.

On 2nd April 2015 Gear 4 Music Limited changed its name to Cagney Limited.

On 2nd April 2015 Red Submarine Limited changed its name to Gear4music Limited.

Notes *(continued)*

8 Intangible fixed assets

	Goodwill £
<i>Group</i>	
<i>Cost</i>	
At start and end of the year	1,760,081
<i>Amortisation</i>	
At start of the year	(234,678)
Charge for the year	(117,339)
At end of year	(352,017)
<i>Net book value</i>	
At 28 February 2015	1,408,064
At 28 February 2014	1,525,403

Notes (continued)

9 Tangible fixed assets

	Plant and machinery £	Fixtures and fittings £	Motor vehicles £	Website and IT infrastructure £	Total £
Group					
<i>Cost</i>					
At 28 February 2014	205,078	886,276	8,450	1,983,456	3,083,260
Additions	7,525	369,735	-	589,678	966,938
Disposals	(20,032)	(3,579)	(8,450)	(884)	(32,945)
At 28 February 2015	192,571	1,252,432	-	2,572,250	4,017,253
<i>Depreciation</i>					
At 28 February 2014	64,711	281,579	6,696	1,100,506	1,453,492
Charge for the year	38,352	154,629	255	331,416	524,652
Eliminated on disposal	(20,032)	(71)	(6,951)	(18)	(27,072)
At 28 February 2015	83,031	436,137	-	1,431,904	1,951,072
Net book value	109,540	816,295	-	1,140,346	2,066,181
At 28 February 2015					
At 28 February 2014	140,367	604,697	1,754	882,950	1,629,768

Fixed assets, included in the above, which are held under hire purchase contracts are as follows:

	Plant and machinery £	Fixtures and fittings £	Website and IT infrastructure £	Total £
Group				
<i>Cost</i>				
At 28 February 2014	198,265	253,474	8,170	459,909
Additions	-	38,109	20,004	58,113
Transfer to ownership	(50,032)	(26,036)	-	(76,068)
At 28 February 2015	148,233	265,547	28,174	441,954
<i>Depreciation</i>				
At 28 February 2014	59,762	42,503	6,127	108,392
Charge for the year	37,059	48,622	8,374	94,055
Transfer to ownership	(20,032)	(14,911)	4,970	(29,973)
At 28 February 2015	76,789	76,214	19,471	172,474
Net book value	71,444	189,333	8,703	269,480
At 28 February 2015				
At 28 February 2014	138,503	210,971	2,043	351,517

Notes (continued)

10 Stocks

	Group 2015 £	Group 2014 £	Company 2015 £	Company 2014 £
Finished goods and goods for resale	5,326,750	4,222,248	-	-

11 Debtors

Due in less than one year

	Group 2015 £	Group 2014 £	Company 2015 £	Company 2014 £
Trade debtors	84,308	26,910	-	-
Prepayments and sundry debtors	132,227	128,999	1,935	1,689
	<u>216,535</u>	<u>155,909</u>	<u>1,935</u>	<u>1,689</u>

Due in more than one year

	Group 2015 £	Group 2014 £	Company 2015 £	Company 2014 £
Amounts owed by subsidiary undertaking	-	-	1,101,597	1,546,704
Deferred tax asset (note 15)	41,523	18,497	132,592	77,975
	<u>41,523</u>	<u>18,497</u>	<u>1,234,189</u>	<u>1,624,679</u>

The amount owed by subsidiary undertaking is considered long term funding and is scheduled for repayment after more than one year. The balance does not accrue interest.

12 Creditors: amounts falling due within one year

	Group 2015 £	Group 2014 £	Company 2015 £	Group 2014 £
Bank loans and overdraft	1,201,799	1,090,487	-	-
Hire purchase contracts	117,958	89,489	-	-
Trade creditors	3,391,030	1,823,322	18,089	-
Corporation tax	-	-	-	-
Other taxes and social security	204,387	155,353	22,205	35,266
Government Grants	15,277	15,277	-	-
Accruals and deferred income	327,042	64,855	142,873	4,073
	<u>5,257,493</u>	<u>3,238,783</u>	<u>183,167</u>	<u>39,339</u>

Notes (continued)

13 Creditors: amounts falling due after more than one year

	Group 2015 £	Group 2014 £	Company 2015 £	Company 2014 £
Bank loans	195,038	269,668	-	-
Loan notes and interest	4,035,633	3,725,450	4,035,633	3,725,450
Hire purchase contracts	138,132	182,138	-	-
Government Grants	34,876	50,152	-	-
	<u>4,403,679</u>	<u>4,227,408</u>	<u>4,035,633</u>	<u>3,725,450</u>
Obligations due on finance leases			2015 £	2014 £
Within one year			117,958	89,489
Two to five years			138,132	182,138
			<u>256,090</u>	<u>271,627</u>
Obligations due on loans and overdraft			2015 £	2014 £
Within one year			1,201,799	1,090,487
Two to five years			4,230,671	269,668
Over five Years			-	-
			<u>5,432,470</u>	<u>1,360,155</u>

The Group's and Company's bank indebtedness is secured by fixed and floating charges over the Group's and Company's assets. The bank borrowings are secured against all of the assets of the Group.

The loan notes from Key Capital Partners are secured as a second ranking debenture against all of the assets of the Group.

Terms and loan notes repayment schedule:

	Currency	Nominal interest rate	Year of maturity	Carrying amount including accrued interest 2015 £
Key Capital Partners	£	10%	2018	<u>4,035,633</u>

Key Capital Partners loan notes have a capital repayment schedule of £501,763 every 6 months commencing March 2016 with a final payment due in September 2018. Interest accrues at 10% per annum, compounding on a quarterly basis, and there is a 20% redemption premium due on the principal amount (excluding rolled-up interest). Interest is payable from May 2015 or earlier at the discretion of management and as cash flow permits.

Notes (continued)

14 Provision for liabilities

	Group £	Company £
Balance at 28 February 2014 & 1 March 2014	33,498	33,498
Utilised	(33,498)	(33,498)
Balance at 28 February 2015	<u>-</u>	<u>-</u>

On 16 September 2013 Red Submarine Limited entered into a new lease on new premises in Clifton Moor, York and as a consequence the property containing the former showroom and offices became surplus to requirements, and was vacated in May 2014. This lease was surrendered in October 2014 and the property provision utilised.

15 Deferred Tax

The elements of deferred taxation are as follows:

	Group 2015 £	Group 2014 £	Company 2015 £	Company 2014 £
Difference between accumulated depreciation and amortisation and capital allowances	(91,069)	(59,478)	-	-
Unutilised tax losses	132,592	77,975	132,592	77,975
Deferred tax asset	<u>41,523</u>	<u>18,497</u>	<u>132,592</u>	<u>77,975</u>

The movement in deferred tax provisions in the year are as follows:

	Group 2015 £	Group 2014 £	Company 2015 £	Company 2014 £
On acquisition	-	-	-	-
Credit/(Debit) to the profit and loss account	23,026	(18,775)	54,617	(33,583)
At end of year	<u>23,026</u>	<u>(18,775)</u>	<u>54,617</u>	<u>(33,583)</u>

16 Called up share capital

	2015 Number	2015 £	2014 Number	2014 £
Allotted, called up and fully paid				
389,423 Ordinary 'A' shares of £1 each	389,423	389,423	389,423	389,423
843,750 Ordinary 'B' shares of £1 each	843,750	843,750	843,750	843,750
32,452 Ordinary 'C' shares of £1 each	32,452	32,452	32,452	32,452
	<u>1,265,625</u>	<u>1,265,625</u>	<u>1,265,625</u>	<u>1,265,625</u>

Notes (continued)

17 Profit and loss account

	£
Group	
At 28 February 2014	(505,578)
Loss for the period	(446,586)
At 28 February 2015	(952,164)
	£
Company	
At 28 February 2014	(664,169)
Loss for the period	(823,588)
At 28 February 2015	(1,487,757)

18 Commitments

	2015 £
Group	
Capital commitments at the end of the financial year, for which no provision has been made, are as follows:	
Contracted	458,100

Annual commitments under non-cancellable operating leases are as follows:

	2015 Land and buildings £	2015 Other £	2014 Land and buildings £	2014 Other £
Operating leases which expire:				
Within one year	-	-	27,504	2,765
In the second to fifth years inclusive	-	11,019	67,000	648
Five years and over	120,000	-	54,667	-
	120,000	11,019	149,171	3,413

The Company has no capital/operating lease commitments

Notes (continued)

19 Reconciliation of operating profit to operating cash flows

	Year ended 28 February 2015 £	Year ended 28 February 2014 £
Operating profit	250,912	83,775
Depreciation and amortisation	641,991	463,377
Increase in debtors	(60,626)	73,040
Increase in creditors	1,863,654	724,389
Increase in stock	(1,104,502)	(611,159)
Profit on sale of fixed assets	(8,710)	(2,500)
(Decrease)/Increase in provisions	(33,498)	33,498
	<u>1,549,221</u>	<u>764,420</u>
Net cash inflow/(outflow) from operating activities		

20 Analysis of net debt

	28 February 2014 £	Cash £	Other Movement £	28 February 2015 £
Cash at bank and in hand	707,911	207,669	-	915,580
	<u>707,911</u>	<u>207,669</u>	<u>-</u>	<u>915,580</u>
Debt due after one year	(3,995,118)	(968,666)	729,113	(4,234,671)
Debt due within one year	(1,090,487)	1,090,487	(1,201,799)	(1,201,799)
Hire purchase	(271,627)	73,652	(58,115)	(256,090)
	<u>(5,357,232)</u>	<u>195,473</u>	<u>(530,801)</u>	<u>(5,692,560)</u>
Total	<u>(4,649,321)</u>	<u>403,142</u>	<u>(530,801)</u>	<u>(4,776,980)</u>

21 Related party transactions

Transactions with key management personnel

On 17 February 2015, an amount of £225,000 was repaid by Gear4Music (Holdings) Limited to Mr A Wass, a director and principal shareholder of Gear4Music (Holdings) Limited. Interest had been charged on the loan at a rate of 6%. Interest charged on the loan during the year amounted to £12,388 and £nil remained unpaid at the year end.

At 28 February 2015, an amount of £3,010,577 (being the principal loan excluding interest) was owed by Gear4Music (Holdings) Limited to Key Capital Partners, a shareholder and who control one director on the board of Gear4Music (Holdings) Limited. Interest is charged on the loan at a rate of 10%. Interest charged on the loan during the year amounted to £363,359 of which £100,000 was repaid prior to the year end and £753,231 remained unpaid at the year end and is included within loan notes and interest. Additionally, an expense of £271,825 in respect of the redemption premium which is payable on repayment of the loan notes has been accrued in the year and remains unpaid at the year end. Key Capital Partners loan notes have a capital repayment schedule of £501,763 every 6 months commencing March 2016 with final payment due September 2018. Interest is payable from May 2015 or earlier at the discretion of management as cash-flow permits.

During the year, Key Capital Partners charged Gear4Music (Holdings) Limited £36,000 in respect of on-going investment monitoring and management charges. At the balance sheet date Gear4Music (Holdings) Limited owed Key Capital Partners £nil in respect of these charges.

Notes *(continued)*

22 Ultimate controlling party

Mr A Wass owns 843,750 'B' ordinary shares, which is 65 % of the issued share capital, giving him ultimate control.