

Gear4music (Holdings) plc

Annual Report and Accounts 2016

POSITIONED FOR GROWTH



Gear4music

is the largest
UK-based online
retailer of musical
instruments and
music equipment.

Operating from an office, showroom and distribution centre in York, the Group sells own-brand musical instruments and music equipment alongside premium third-party brands including Fender, Yamaha and Gibson, to customers ranging from beginners to musical enthusiasts and professionals, in the UK and, more recently, into Europe.

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www.gear4music.com

www.gear4musicplc.com

Highlights

Sales

Profitability

Websites

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Operational highlights

- IPO on AIM on 3rd June 2015 raising £10.3m
- Strong sales growth into core UK market (+39%) and excellent progress into European markets (+73%)
- Over 10 million visitors to the website during the year
- Fastest growing retailer of musical instruments and equipment in the world (source: Music Trades)
- Plan to open smaller satellite distribution centres in mainland Europe

At a Glance

Gear4music currently retails over 33,000 SKUs across all major categories of musical instruments and music equipment. The products are sourced from over 670 manufacturers, and range from kazoos costing less than £1, to digital pianos, drum kits and guitars costing thousands of pounds.

Guitars

We sell electric, acoustic and bass guitars

32%
of total product sales

Drums

Electric and acoustic, as well as other percussion instruments

14%
of total product sales

Keys

Acoustic, digital keyboards, grand and stage pianos

18%
of total product sales

Orchestral

Choose from strings, brass, woodwind and percussion

9%
of total product sales

Studio

Huge range of essential studio equipment

11%
of total product sales

Live & PA

We supply live sound and PA equipment

15%
of total product sales

817,000
Total number of customers

226,000
Number of active customers

19
Number of websites

15
Languages

Chairman's Statement

This is our first year-end report since listing in June 2015 and I am pleased to be able to report good progress against the Group's strategic priorities, and that this has resulted in increased sales and improving profitability.

On behalf of the Board I would like to begin by thanking the shareholders who supported the Group on its Initial Public Offering on AIM in June 2015 raising £10.3m, and also to welcome new shareholders who have subsequently acquired shares. Like myself, you will have recognised Gear4music's potential to become a leading online retailer in a large but fragmented market.

I am very pleased to report that during our first year as a public company, we achieved many of the objectives we set ourselves, and in many ways performed ahead of our expectations. Overall sales growth was 46% including 73% growth in our European markets, and we delivered a £519,000 improvement in underlying operating profit whilst gearing up for continued expansion. This was a particularly impressive achievement given the efforts required to complete a successful IPO, and is a reflection of the commitment, drive and ambition of our Board and Senior Management team.

During the year we recruited new talent into our team, in HR, marketing, purchasing, and multilingual customer services, and we have further new members starting soon to help us focus our drive into European markets. A number of these recruits have been Senior Management appointments to support the Executive team.

We remain committed to improving our customer proposition, through investment in software development to accelerate the release of new website systems and functionality, and expanding our product ranges to provide more choice for our customers, as well as incorporating new delivery options.

We are confident we have laid the foundations for long-term, sustainable, profitable growth, and in light of our anticipated strengthening position, the Board commits to review its dividend policy in the financial year ending 28th February 2017.

On behalf of the whole Board, I would like to take this opportunity to extend my thanks and appreciation to all Gear4music's employees for their commitment and hard work which has made our first year as a public company such a success.



Ken Ford
Chairman

Business Model

Gear4music is all about making quality music gear more accessible and affordable for musicians, from beginners and enthusiasts through to professionals. Our mission is to become a leading musical instrument and equipment retailer in Europe.

We believe we can achieve this by leveraging technology to deliver an industry-leading customer experience, providing the products our customers want delivered to them quickly and efficiently.

Our specialist market knowledge has already helped us to become the largest UK-based retailer, and we are now making fast progress into European markets.

- Well-known brands purchased direct from manufacturers and distributors
- Own-brand products sourced and developed with Far East manufacturers
- 15 strong specialist buying team

- Over 33,000 SKUs (at June 2016)
- 19 websites, 15 languages
- Original website content written by in-house content team
- In-house photography studio, including 360° images
- 'Broadcast standard' in-house video studio and team

Our Products **Branded Products**

Gear4music has developed long-term partnerships with many well-recognised brands within the music products industry, who appreciate the specialist product knowledge of Gear4music's staff, the high standard of customer service that Gear4music provides, and the high standard of presentation both online and at the showroom in York.

Own-brand Products

The ongoing development of Gear4music's own-brand product range has been a focus since Gear4music.com was launched in 2003, and now covers a wide range of over 1,600 products sold under nine different brands.

Our Team

Gear4music currently employs over 150 people, and most have first-hand musical instrument and music equipment knowledge, playing in bands and producing their own music. Ongoing product training is routinely undertaken to ensure staff have relevant and up-to-date knowledge in order to advise customers correctly.

Multilingual support for overseas customers in non-English speaking countries continues to be a key focus.

A bespoke e-commerce platform allows us to efficiently operate 19 websites, in 15 languages and eight currencies, and as we develop this platform further, widen our product ranges and increase our marketing reach, we believe we can continue to grow our share of the £4.3bn European market.

- Targeted online marketing
- Personalised remarketing platform
- Competitive pricing in eight currencies
- 150+ payment options
- UK Consumer Finance
- Multilingual customer advice and support team
- Extended warranties
- VIP loyalty scheme

International payments platform

- Local payment options across Europe
- Range of payment types accepted has been significantly increased
- Assisted in higher European conversion

Personalisation platform

- Rich and responsive transactional emails for registrations, orders and review requests
- Timeline-based analysis of historical sales data provides weighted purchase predictions and personalised recommendations by email

- 135,000 sq ft premises in York
- Efficient in-house logistics with courier integration
- Wide range of domestic delivery options including Saturday and Sunday
- Click and collect
- European delivery by road or air
- Planning to open European dispatch hubs

Fulfilment and logistics

- Weekend dispatch and 7-day delivery
- Traffic shaping for increased capacity
- Courier specific dispatch cut-off times
- Click and collect services from over 2,500 locations

Market Overview

The top ten European retail markets for musical instruments and music equipment (including the UK) are worth approximately £4.3 billion, and are undergoing a profound shift towards online retail. An estimated £178 million (24%) of the UK market is already online.

Top European Markets

Country	Estimated Market Size (£m)*
Germany	1,194
France	863
UK	749
Italy	578
Netherlands	202
Austria	181
Spain	166
Switzerland	142
Sweden	107
Norway	83
Total Size	4,265

* = Management estimate

UK Competitive Landscape

The UK musical instruments and music equipment market is highly fragmented with no dominant retailer, presenting a consolidation opportunity. The top six companies account for an estimated 16% of the UK market, with a long tail of small independent shops, pure play online retailers, general merchandisers and department stores.

European Competitive Landscape

The company with the highest published turnover serving the European musical instruments and related equipment and accessories market is Thomann.de based in Germany, with a 2015 reported turnover of approximately \$787m. Other competitors in overseas markets include 4Sound (Sweden), Bax Shop (Netherlands), Musicstore.de (Germany), and Woodbrass (France).

Our Customers

Gear4music's customer base is primarily (over 95%) made up of private individuals, from beginners and parents buying musical instruments and music equipment for their children, through to professional musicians. Customers tend to be the end-users of our products. In addition, the Company supplies schools and other educational establishments, with Gear4music being the preferred supplier of the Crescent Purchasing Consortium which specialises in educational sales and service.

We had 992,000 people registered on our database on the 29th February 2016, of which 226,000 are active customers (being customers who have purchased from Gear4music during the last 12 months). During FY16, over 190,000 new customers chose Gear4music for their instrument and equipment requirements, and the average order value was £116, up from £109 in FY15.

The chart on the right provides an analysis of growth in total registered numbers on our database, from 1st March 2011 to 29th February 2016.

Strategy

Gear4music's strategy is built around the following pillars of growth:

Our strategic priorities

Overview

- 1. International Expansion**

We plan to build on the 'localisation' of our current international websites to further drive traffic and improve conversion rates, and expand our multilingual customer service and marketing teams. We plan to open smaller localised distribution hubs to ensure top performing products can be delivered as quickly and as competitively as possible.
- 2. Accelerated Development of our Bespoke E-commerce Platform**

Further investment in platform development is expected to grow revenues and profitability by driving website traffic, increasing conversion rates and maximising operational efficiencies and reliability.

Examples of recently completed projects include online consumer finance, a European payments platform, weekend delivery and dispatch, and 'on-page' customer comments.
- 3. Intelligent Marketing**

We plan to accelerate our international marketing initiatives, extending our reach and penetration into existing and new international territories. New website content is being constantly added, including a wide range of broadcast quality product demonstration videos created in Gear4music's in-house studio facilities.

A new digital personalisation platform has been developed, which will be deployed during FY17 to ensure customers receive relevant information and offers through all communication channels.
- 4. Product Range Extension**

We will continue to extend the number of products available to our customers, including those for next day delivery, and to continue the expansion of our own-brand product ranges with new and exclusive products.

Key Strengths

Gear4music possesses a number of competitive strengths that underpin its business model and should help in delivering the strategic, commercial and financial ambitions of the Group.

Track record of success – long-term sales and market share growth

- Revenues have increased every year since launch in 2003
- Momentum stepped up following additional investment in 2012, and again in 2015
- 46% LFL sales growth in FY16, building on 37% LFL sales growth in FY15
- Strong European growth validates website roll-out strategy
- Database of 992,000 registered users, with active customers increasing by 34%

Bespoke and proprietary e-commerce platform delivers competitive advantage

- End-to-end solution encompassing all aspects of trading operations
- Intellectual Property owned by Gear4music
- Ability to rapidly respond to changing customer behaviours and expectations
- Capability to expand into new markets
- Capacity to handle significantly increased volumes and website traffic
- Additional functionality in development

Specialist knowledge facilitates strong relationships with customers and suppliers

- Strong, committed and experienced management team
- Employees with in-depth specialist knowledge
- Expertise means Gear4music is trusted by major musical instrument and music equipment brands
- Offers a wide range of choice to customers and provides specialist advice during and after the sales process

Well-developed product ranges

- Currently over 33,000 products from over 670 manufacturers
- Reputation for quality and value for money
- Over 1,600 own-brand SKUs, developed over a 13 year period
- Provide enhanced margin opportunities as volumes increase

Efficient logistics systems

- Operates from a modern 135,000 sq ft building on the outskirts of York
- The most appropriate courier delivery services are automatically selected from more than 1,100 permutations depending on the weight, size, value and destination of the goods being purchased

Key Performance Indicators

We measure ourselves against a number of KPIs that reflect the key trading trends and are linked to the strategic pillars of growth.

Financial

Commercial

Customer

Chief Executive's Statement

During the last year we took some significant strides forward in our mission to become a leading musical instrument and equipment retailer in Europe.

Following the Referendum outcome, we are confident that we are well configured to continue growing our business regardless of how the EU negotiations unwind during the coming months and years, and we are looking forward to implementing our exciting plans for FY17.

Our IPO in June 2015 put us in a strong financial position, enabling us to repay historic private equity debt in full and providing the financial resource necessary to continue to build a scalable, market leading business.

Our unique mix of a highly competitive own-brand range, products from the *biggest names in the industry*, and our bespoke online retail and distribution platform has helped us to achieve revenue growth of over 46% during the year, which was ahead of market expectations.

Our business is about making great music gear accessible and affordable to all musicians, from beginners and enthusiasts to professionals, and I am very proud of what our specialist and talented staff have achieved so far.

However, we want to achieve much, much more, and we will continue to accelerate the development of our systems, websites, logistics, people and product ranges to ensure a continually improving customer experience, as part of our mission to be the best.

Business Review

We have made solid progress on both our Financial and Commercial KPIs in our first year as a listed business:

Financial KPIs	FY16	FY15
Total Revenue	£35.5m	£24.2m (+46%)
European Revenue	£9.5m	£5.5m (+73%)
Adjusted EBITDA	£1.7m	£0.8m (+97%)
Underlying operating profit	£0.9m	£0.4m (+138%)
Adjusted PBT	£0.6m	(£0.6m)
Cash at year end	£3.5m	£0.9m
Commercial KPIs	FY16	FY15
Website visitors	10.1m	8.1m
Conversion rate	2.28%	1.96%
Average order value	£116	£109
Active customers	226,000	169,000
Products listed at year end	31,500	27,200

These results have been delivered by the continued execution of the Group's strategy, and beginning to invest the growth capital raised on IPO in our platform, people and operations.

Exceptional costs relating to the IPO totalled £606,000 in the year, and adjusting the results to remove these one-off costs shows a marked improvement in adjusted EBITDA and PBT.

Strategy update

This time last year we outlined our strategy based on five growth pillars, with the overall objective of improving our customer proposition and increasing our market share. Our team has worked very hard to implement this strategy, and as a result we are making excellent progress in achieving our objectives. At the same time, we continuously reassess and refine our strategic aims to ensure we capitalise on our core strengths, without taking undue risks.

Platform development

Our bespoke platform has the capability to scale significantly. We have successfully deployed numerous new features during the last year, including online consumer finance, a European payments platform, weekend delivery and dispatch, and on-page customer comments, in addition to hundreds of smaller design and functionality upgrades.

As we expand our development team during the next 12 months, we will focus on projects to increase operational efficiencies, and further improve customer convenience, engagement and loyalty.

Intelligent marketing

We used the IPO proceeds to increase investment in this area, a key driver of growth in the business. At the same time we have improved our return on investment in marketing significantly during the last year, with spend as a proportion of revenue falling from 10.0% in FY15 to 8.7% in FY16, as a result of higher website conversion and ever more effective targeting of our online marketing.

In June 2015 we completed our in-house video production facility, which has already created over 500 high quality product demonstration videos, adding a new dimension to our platform and own-brand proposition, driving customer engagement and conversion.

As planned we have developed a new digital personalisation platform that will be deployed during the current financial year and FY18 to ensure customers receive relevant information and offers through all our communication channels.

Product range extension

The IPO proceeds allowed us to increase the breadth and depth of our product range during the last year and we plan to accelerate that growth during the next 12 months to further improve stock availability.

We were very pleased with own-brand revenue growth of 33% during the year, with growth accelerating during the second half of the year as new product lines arrived, including our SDP-2 stage piano, our range of SubZero studio microphones, and a range of Gear4music stage lighting. Our own-brand product pipeline continues to look very positive in the current year.

We were also delighted with strong other-brand growth of 52% during the year, although this has created a temporary sales mix effect, impacting on gross margins.

Chief Executive's Statement continued

International expansion

European sales growth of 73% clearly demonstrates the progress we are making internationally, but with an estimated annual value of £4.3bn for the market we are still at the beginning of this journey.

We have continued to invest in our multilingual teams, marketing, website localisation and fulfilment systems to deliver growth. On the back of these successes we will turn our attention to reducing product delivery timescales into mainland Europe, potentially by opening a number of small satellite distribution hubs. This will allow our European customers to enjoy a similar level of service to our UK customers across a much broader product range, whilst at the same time reducing our European delivery costs.

London showroom

Whilst it remains a strategic ambition, soaring central London property prices during the last two years have resulted in a commercially viable deal remaining elusive. Whilst we have come close to agreeing terms on a number of occasions, we have not been prepared to make a long-term lease commitment that does not make complete financial sense, and at this time we see better value for shareholders in focusing on our European expansion.

Operations

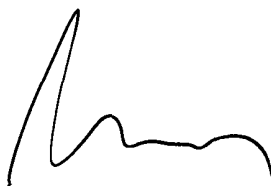
I am pleased to report that our systems and infrastructure demonstrated their reliability and flexibility throughout the year. Our websites served more than 10 million unique visitors generating nearly 300,000 orders, with Black Friday 2015 being the busiest day in our history.

To adapt to customers' evolving expectations we introduced weekend dispatch and delivery in December 2015, which now covers more than 90% of our in-stock product range. We are fortunate to have a supportive and committed logistics workforce who embraced the required change in working hours to make this a reality.

As stated at the time of IPO, our existing York HQ has the capacity for revenues of £50m, and as such we are already considering our future requirements and options in anticipation of continued strong growth.

Trading and outlook

We have seen strong sales momentum during the first two months of the new financial year, both in the UK and internationally, and we therefore remain confident for the year ahead. We look forward to the business going from strength to strength, building on our successes to date and delivering value for our customers, staff and shareholders.



Andrew Wass

Chief Executive Officer

Case study

Product range expansion

All instruments

Guitars, Amps, Mixers,
Speakers & Audio electronicsWoodwind Instruments: Clarinets,
Flutes, Oboes & PiccolosString Instruments: Violins,
Cellos, Violas & Double Bass

Digital Pianos

Brass Instruments:
Trumpets, Trombones,
Tubas & French Horns

Bass Guitar Amps & Pedals

Drum Kits

Lightweight Instruments

Our Own-brands

Own-brand product development and range expansion has been a key driver of Gear4music's growth and profitability. It has taken 13 years to build a range of high quality, great value products, and we are now quickly expanding our in-house development team to build on this success, working with over 30 manufacturing partners to grow and enhance our own-brand offering.

Our own-brand range has increased from 1,400 to 1,600 products, with the addition of new brands, ranges, and products including:

- A range of Gear4music stage lighting;
- Gear4music 'playLITE' – a range of lightweight instruments including Trumpets and Trombones that are ideal for children learning to play;
- SubZero studio microphones – high quality, stylish studio microphones at competitive price points;
- The SDP-2 and SDP-4 Gear4music stage pianos;
- An extended range of children's pianos including new colours; and
- Several new Gear4music digital drum kits.

Case study

Customer proposition

We believe that achieving a very high degree of customer satisfaction is fundamental to sustained long-term growth, and we are committed to continually improving the service experienced by our customers.

We leverage our technology and empower our specialist staff to ensure key touch points deliver a market leading experience, and monitor our progress carefully using independent sources such as Trustpilot.

Financial Review

The Group has delivered another strong financial performance, with underlying operating profit up by 138% to £895,000 from the £376,000 achieved last year.

The Group completed its IPO on 3rd June 2015 and used the growth capital raised to invest in its people, operations and software platform. Year-end cash of £3.5m provides significant resources to invest in projects to deliver continuing growth in the current year and beyond.

Revenue

	FY16 £000	FY15 £000	Change %
UK Revenue	26,016	18,763	39%
European Revenue	9,473	5,477	73%
Total Revenue	35,489	24,240	46%

Revenue increased by £11.2m (46%) on FY15, and that was further to growth of 37% and 44% in the previous two years. Growth in the UK of 39% was strong (FY15: 27%) but was out-stripped by our European performance which saw 73% growth on the back of last year's 87%. As a result Europe contributed 27% of Group revenues in the year (FY15: 23%).

Sales growth was 43% in the first half of the year, but accelerated to 49% in the second half as the business started to invest the IPO proceeds.

	FY16 £000	FY15 £000	Change %
Other-brand product sales	24,842	16,323	52%
Own-brand product sales	9,164	6,901	33%
Other revenue	1,483	1,016	46%
Total Revenue	35,489	24,240	46%

We are particularly pleased with the good progress made in our own-brand operation, reflected in sales increasing by 33%, building on 27% growth in FY15. However, post-IPO a significant investment into other-branded stock enabled sales of those products to out-pace own-brand growth. As a result, the proportion of total sales that came from own-brand products was 25.8% (FY15: 28.5%).

Other revenue comprises carriage income, warranty sales, and commissions earned on facilitating point-of-sales credit for retail customers.

Gross profit

	FY16	FY15	Change
Gross profit (£000)	9,186	6,757	+36%
Gross margin (%)	25.9%	27.9%	-2.0ppts

The strong sales performance led to gross profit increasing by £2.4m on last year, with the gross margin decreasing from 27.9% to 25.9%, due to a combination of particularly competitive pricing in the run up to Christmas, a higher proportion of sales of lower margin other-branded products, and the rapid expansion into Europe that comes with associated increased unit delivery costs.

Various initiatives are underway to focus on improving gross margin where possible, and we are confident that this shift can start to be reversed as own-brand sales growth catches up and increased buying economies boost product margins.

Administrative expenses and Operating profit

	FY16 £000	FY15 £000	Change %
Recurring Administrative expenses	(8,291)	(6,381)	(30%)
Exceptional Administrative expenses	(606)	(165)	(267%)
Reported Operating profit	289	211	37%
Underlying Operating profit	895	376	138%

Increases in recurring administrative expenses were kept to 30% compared to the 46% increase in sales due to improved marketing returns, tight cost control, and the impact of certain costs (including rent and rates annual charge of £538,000) being fixed.

In FY16, marketing and labour costs totalled £5.8m (FY15: £4.5m), and accounted for 70% (FY15: 71%) of total recurring administrative expenses. Increases in marketing expenses and labour costs were kept to 27% and 30% in the year respectively, taking these costs as a percentage of total sales down from 10.0% and 8.6% to 8.7% and 7.6% respectively.

Exceptional administrative expenses totalled £606,000 in FY16 and £165,000 in FY15, and all relate to costs incurred in relation to the IPO.

PBT performance improved by £803,000 to a £6,000 profit, of which £571,000 related to lower finance charges relating to the Key Capital loan notes (FY16: £233,000; FY15: £804,000). These loan notes were settled in full on IPO and as such there will be no related finance costs in the current year or beyond.

Cash flow and Net debt

The cash flow statement for the financial year reflects the Group raising £4.4m of net cash on IPO, and how this has been subsequently invested.

	FY16 £000	FY15 £000
Opening cash	916	708
Loss post exceptional expenses	(43)	(686)
Movement in working capital	(1,416)	1,046
Depreciation and amortisation	786	466
Financial expense	280	878
Other operating adjustments	58	(154)
Net cash from operating activities	(335)	1,550
Net cash from investing activities	(1,509)	(953)
Net cash from financing activities	4,476	(389)
Increase in cash in the year	2,632	208
Closing cash	3,548	916

These figures reflect movements in year-end positions and as such 'Net cash from operating activities' reflects, in particular, the Group's active investment in stock to support sales growth, and continuing to take all early-payment discounts on offer at a time when interest rates on bank deposits are negligible. In FY15, management of the stock and creditor position generated £1.1m of working capital where as in FY16, post-receipt of IPO proceeds, there has been an £890,000 net investment in stock and creditors within working capital to support the growth during the year.

Net cash from investing activities includes £932,000 of investment in the Group's software platform that forms the cornerstone of the business, and £578,000 of capital expenditure on warehouse assets and improvements, and building of an in-house video studio. Finance leases were drawn against £252,000 of this capital expenditure.

On 3rd June 2015, the Group successfully listed on the Alternative Investment Market (AIM) of the London Stock Exchange, generating £10.3m of gross proceeds and £9.0m of net proceeds after expenses and seller sales, of which £4.5m was used to repay Key Capital Partners debt in full, thereby removing the associated expensive interest costs and deleveraging the Group's balance sheet. Net cash into the business (included in 'Net cash from financing activities' in the table above) was £4.4m which, in the absence of any meaningful return on cash held on deposit, has been applied to the repayment of bank loans, and funding stock purchases instead of drawing trade finance loans.

Balance sheet and Net assets

The Group had a strong year-end balance sheet, with net assets of £9.36m (FY15: £0.29m net liabilities), and £3.5m cash (FY15: £0.9m).

	FY16 £000	FY15 £000
Software platform	2,483	1,952
Other intangible assets	755	812
Property, plant and equipment	1,239	991
Total non-current assets	4,477	3,755
Stock	6,906	5,326
Cash	3,548	916
Other current assets	740	216
Total current assets	11,194	6,458
Trade payables	(3,718)	(3,231)
Other current liabilities	(2,304)	(2,611)
Total current liabilities	(6,022)	(5,842)
Total non-current liabilities	(290)	(4,660)
Net assets/(liabilities)	9,359	(289)

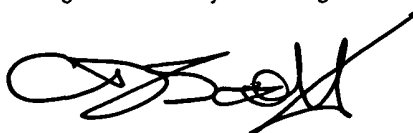
The IPO fundamentally changed the capital structure of the business – introducing £4.4m of growth capital and settling £4.5m of loan notes in full, thereby deleveraging the balance sheet. The Group has net cash of £2.6m compared to net debt of £5.0m at the last financial year end.

The software platform remains at the centre of everything the business does, and £932,000 was invested in the year to further develop its functionality and resilience. This takes total cumulative spend on the platform to the end of the year to £3,367,000.

Year-end stock was just 30% higher than at the previous year end and the Board is comfortable with the range and composition.

Dividends

The Board is of the view that the ongoing development of the business is currently best served by retaining cash reserves to support continued growth, and as such does not recommend the payment of a dividend. Reflecting the increasingly cash generative nature of our operations, the Board intends to revisit the shareholder distribution policy during the financial year ending 28th February 2017.



Chris Scott

Chief Financial Officer and Company Secretary

Principal Risks

The Board recognise that certain risks and uncertainties can have significant rewards for the prospects of the business, and as such require careful identification, evaluation, and management.

The Board takes overall responsibility for risk management, with a focus on evaluating the nature and extent of significant risks, and formulating mitigations around the risks required to be taken in order to deliver the strategic objectives.

The Audit Committee has responsibility for overseeing the effectiveness of appropriate risk management processes and internal control systems. More detail of these processes are set out in the Governance section.

The purpose of this section is to focus on the principal risks and uncertainties to our business model that could impact on our achieving our strategic objectives, and our future performance. A more comprehensive list was published in our Admission document that is available on our investor website.

Operations

Risk	Description	Mitigation
Rapid growth	The Group's business has grown rapidly. Operations and practices adopted at earlier stages of the Group's development may be inappropriate for a business of an increased size and scale. The Group may need to expand and enhance its infrastructure and technology, and improve its operational and financial systems and procedures and controls in order to be able to match its anticipated growth. The Group may face challenges in matching the pace of its expansion with corresponding improvements and enhancements in its systems, controls and procedures. The Group will also need to expand, train and manage its growing employee base.	As detailed in the governance section on pages 24 to 27, the Executive team and the Board actively monitor and respond, so as to maintain systems and practices that are appropriate for the operations and scale of the Group. As communicated on IPO, the Group has allocated funds to expand its management team with relevant skills and experience to deliver continuing growth.
New jurisdictions	The Group's expansion into new jurisdictions may not be successful. Further expansion into markets outside the UK would expose the Group to a variety of risks, including different regulatory requirements, complications with staffing and managing foreign operations, variations in consumer behaviour, fluctuations in currency exchange rates, potential political and economic instability, potential difficulties in enforcing contracts and intellectual property rights, the potential for higher rates of fraud and adverse tax consequences. The Directors have limited experience of the legal and regulatory regimes of jurisdictions outside the UK and their consequences for the Group's business. In addition, the Group will likely have to compete in new jurisdictions with companies already operating in the relevant market, which may understand the local market better than the Group. To the extent that the Group overestimates the potential of a new geographic market, incorrectly judges the timing of the development of a new geographic market or fails to anticipate the differences between a new geographic market and the UK, the Group's attempt to expand into new geographic markets may be unsuccessful.	The Board will direct Management to seek professional input into any major developments. Advances into Europe will be in a measured and capital efficient manner.

Risk	Description	Mitigation
Technological changes	Unless the Group is able to respond to technological advances, e.g. through adapting and optimising Gear4music's websites, on a cost-effective and timely basis, it may not be able to effectively build and/or maintain a competitive advantage.	The Group continues to allocate a significant ongoing annual development budget.
Distribution centre	The Group's business depends entirely on a single distribution centre and warehouse located in York. This holds the Group's stock for delivery directly to customers. Any disruption to the distribution centre's efficient operation may therefore have an effect on the Group's business. The distribution centre may suffer prolonged power or equipment failures, failures in its information technology systems or networks or damage from fires, floods, other disasters or other unforeseen events which may not be covered by or may exceed the Group's insurance coverage.	The Group, in conjunction with its insurance broker, ensures sufficient and appropriate cover is in place. This includes business interruption cover. The Group has a formal disaster recovery plan in place that details actions in specific situations.
Warehousing, onward distribution to customers and logistics	The supply of product to customers in a timely manner is critical to the success of the Group. The Group therefore operates its own warehouse, run by senior management that have many years of experience in the sector. Any rapid increase in sales may require further expansion of current warehouse space. There is a risk that the Group may experience interruptions to the operation of these logistics and distribution networks that could prevent the timely or proper delivery of products, which could damage the Group's reputation, deter customers, prospective customers, suppliers and/or prospective suppliers.	There is a continuous monitoring of capacity at the warehouse and there is a step plan in place that the Board believes should allow the Group to fulfil an increasing number of orders from the existing site. The Group has multiple delivery service providers to reduce the dependency on any single provider, and tracks service level agreements on an ongoing basis. This provides system flexibility to switch providers within a matter of days if required.
Change to search engines' algorithms	Changes to search engines algorithms or terms of service could cause the Group's websites to be excluded from or ranked lower in natural search results. Search engines frequently modify their algorithms and ranking criteria to prevent their natural listings from being manipulated, which could impair the Group's 'Search Engine Optimisation' ('SEO') activities. If the Group is unable to recognise and adapt quickly to such modifications in search engine algorithms, the Group could suffer a significant decrease in traffic and revenue.	The Group will continue to operate SEO activities that adhere to search engine guidelines.
Data security and IT reliability	The Company relies heavily on its IT infrastructure and e-commerce system, and in particular its websites. If any one or more of its websites were to fail or be damaged this could impact the Group's ability to trade. If the Group's IT and data security systems do not function properly there could be website slowdown or unavailability, loss of data, a failure by the Group to protect the confidential information of its customers from security breaches, delays in transaction processing, the inability to accept and fulfil customer orders which could affect the Group's business.	The Group seeks to mitigate this risk by investing significant sums in IT infrastructure including robust backup systems. The Group has a disaster recovery plan in place which has been designed to minimise the impact of data loss or corruption from hardware failure, human error, hacking or malware.

Principal Risks continued

Brand and Proposition

Risk	Description	Mitigation
Market recognition	Developing and maintaining the reputation of, and value associated with, the Group's brands is of central importance to the success of the Group. Brand identity is a critical factor in retaining existing and attracting new customers. The Group is reliant on its natural search result rankings and paid advertising as it seeks to build market share and attract new customers. Any failure by the Group to offer high quality products across a range of instruments, manufacturers and price points, excellent customer service, and efficient and reliable delivery could damage its reputation and brands, and could result in the loss of customer confidence and a reduction in purchases. Unfavourable publicity concerning the Group could also damage the Group's brands and its business. If the Group fails to maintain its brands or if excessive expenses are incurred in this effort, the Group's business may be affected.	Rigorous monitoring of customer feedback helps ensure issues are identified and rectified on a timely basis.
Competition in its target market	The UK and European retail market for musical instruments and music equipment is competitive. A number of competitors may have financial resources greater than those of the Group. Both Amazon and eBay sell musical instruments and music equipment.	The Group has a track record of successfully competing on a wide range of factors including quality and range of products, price, product availability, product information, convenience, delivery options and service.

Resources and Relationships

Risk	Description	Mitigation
Supply and sale of third-party branded products	The Group purchases products from a number of large global musical instrument and music equipment brand owners, and the Group's business depends on its ability to source a range of products from well-recognised brands on commercially reasonable terms. The relationships between the Group and the third-party brand owners are generally based on annual contracts that the Group seeks to renew each year. The third-party brand owners may cease selling products to the Group on terms acceptable to it, fail to deliver sufficient quantities of products in a timely manner, terminate their relationship with the Group and enter into agreements with the Group's competitors or experience raw material or labour shortages or increases in raw material or labour costs. Any disruption to the availability or supply of products to the Group or any deterioration to the terms on which products are supplied to the Group could affect its business.	Whilst sales of third-party branded products accounted for approximately 71% of the Group's turnover in FY16, the Directors do not consider that the Group is significantly reliant on any one or more major brand/brand owner. The Directors believe that the relative size of the Group, its purchase volumes and the strength of its relationship with the brand owners, built over a prolonged period in many cases, make it unlikely that any such arrangements would be terminated.
Reliance on subcontract manufacturers	The Group subcontracts manufacture of its own-brand musical instruments and equipment to independent third-party businesses in South-East Asia. Any disruption to supply or issues such as poor product quality could have an adverse impact on the Group's reputation. The impact of any issues arising with subcontractors products is exacerbated by the long lead times involved (12-14 weeks).	The Group has been successfully importing for over 13 years and has relationships with over 30 manufacturers providing resourcing options. The Board believes that the Group has established robust take-on and ongoing monitoring procedures covering areas such as quality control and delivery performance for new and existing subcontract manufacturers that the Group seeks to adhere to rigidly.
Dependence on key personnel	The Group has a relatively small senior management team and the loss of any key individual or the inability to attract appropriate personnel could impact upon the Group's future performance. Should the Group fail to retain or attract suitably qualified and experienced personnel, it may not be able to compete successfully.	The senior management team is compensated through a combination of market-rate salary and longer-term share-based incentives to align key people's remuneration with the continued success of the Group.

Corporate Governance Report

The UK Corporate Governance Code

Whilst the Group is listed on AIM, it is not required to adopt the provisions of the UK Corporate Governance Code ('the Code'). The Board, however, recognises the value and importance of high standards of corporate governance, and has adopted many aspects of the Code so far as the Board considers them appropriate and practical for a group of Gear4music's size.

The Board of Directors and Committees of the Board of Directors

The Board, which is headed by the Chairman, comprises six Directors of which three are executive and three are non-executive, providing a broad range of relevant skills and experiences. The Board considers Ken Ford and Dean Murray to be 'independent' non-executives under the criteria identified in the code. Directors' profiles are detailed on pages 28–29.

The Board met regularly throughout the year, with further ad hoc meetings held when required.

The Role of the Board

The role of the Board is to provide leadership to the Group and to ensure the obligations of being a public company are adhered to. The Board bears collective responsibility for delivering ongoing success through the development of appropriate strategies that are aligned to the Group's objectives, and deliverable with due consideration of risk and the resources available. The Board is also responsible for ensuring that a framework of effective controls is in place.

The division of responsibilities between the Chairman and the Chief Executive Officer is clearly defined. The Chairman is responsible for ensuring the effectiveness of the Board and setting its agenda. The Chairman has no involvement in the day-to-day running of the business. The Chief Executive Officer has direct charge of the Group on a day-to-day basis, and the Executive team has collective responsibility for the implementation of the Group's strategies, and is accountable to the Board for the financial and operational performance of the Group.

There are certain matters that are reserved for the Board's consideration and these include, but are not limited to matters of strategy, key commercial developments, risk management, the consideration and approval of budgets, significant capital expenditure and recruitment, acquisitions and disposals, and the approval of financial statements.

The formal Board agenda includes reports from the CEO, CCO and CFO detailing the operational, commercial and financial performance of the Group. Further to formal Board meetings, the Board receives weekly key trend information covering all trading aspects of the business.

The Board determines the fees paid to Non-Executive Directors.

The performance of the Board is evaluated informally on an ongoing basis with reference to all aspects of its operation including but not limited to, the appropriateness of its skill level, the way its meetings are conducted and administered (including the content of those meetings), the effectiveness of the various Committees, whether corporate governance issues are handled in a satisfactory manner, and whether there is a clear strategy and objectives.

A new Director, on appointment, is briefed on the activities of the Group. Professional induction training is also given as appropriate. The Chairman briefs Non-Executive Directors on issues arising at Board meetings if required, and Non-Executive Directors have access to the Chairman at any time. Ongoing training is provided as needed. Directors are continually updated on the Group's business, insurance and on issues covering pensions, social, ethical, environmental, and health and safety by means of Board presentations.

In the furtherance of his duties or in relation to acts carried out by the Board or the Group, each Director has been informed that he is entitled to seek independent professional advice at the expense of the Group. The Group maintains cover under a Directors and Officers insurance policy in the event of legal action being taken against any Director.

Each Director is appraised through the normal appraisal process. The Chief Executive Officer is appraised by the Chairman, the executive Board members by the Chief Executive Officer, and the Non-Executive Board members by the Chairman. Each Director has access to the services of the Company Secretary if required.

The Non-Executive Directors are considered by the Board to be independent of management and are free to exercise independence of judgement. They receive no other remuneration from the Group other than the directors' fees.

The Board is supported by and receives recommendations from two Committees – an Audit Committee and a Remuneration Committee.

It is recognised that the Code does not treat the Chairman as independent after appointment and it is considered best practice that he should not sit on the Audit or Remuneration Committees. The Board, however, takes the view that as the number of Non-Executive Directors is only three, including the Chairman, his participation will continue as the Committees gain the benefit of his external expertise and experience in areas which the Group considers important.

The table below shows the number of Board and Audit Committee and Remuneration Committee meetings held in the period since IPO and the formation of the Committees, and the date of approval of the Annual Report & Accounts. The table also show the attendance of each Director:

Director	Role	Board meetings	Audit Committee meetings	Remuneration Committee meetings
Ken Ford	Non-Executive Chairman	9/9	3/3	2/2
Andrew Wass	CEO	9/9		
Chris Scott	CFO	9/9		
Gareth Bevan	CCO	9/9		
Dean Murray	NED	9/9	3/3	2/2
Peter Armitage	NED	8/9		

Re-election

At each Annual General Meeting one-third (or whole number less than one third) of the directors will retire by rotation. In addition, Directors are subject to re-election at the Annual General Meeting following their appointment.

Shareholder communications

The Chairman, Chief Executive Officer and Chief Financial Officer regularly meet with institutional shareholders to foster a mutual understanding of objectives. The Directors encourage the participation of all shareholders, including private investors, at the Annual General Meeting and as a matter of policy the level of proxy votes (for, against and vote withheld) lodged on each resolution is declared at the meeting.

The Annual Report and Accounts is published on the Company's investor website and can be accessed by shareholders.

Internal controls

The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness. Such a system 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 misstatement or loss.

The Group highlights potential financial and non-financial risks which may impact on the business as part of the monthly management reporting procedures. The Board receives these monthly management reports and monitors the position at Board meetings.

The Board confirms that there are ongoing processes for identifying, evaluating and mitigating the significant risks faced by the Group. The processes have been in place from the date of admission to AIM up to the date of approval of the Annual Report & Accounts, and is consistent with the guidance for Directors on internal control issued by the Turnbull Committee.

The Group's internal financial control and monitoring procedures include:

- clear responsibility on the part of line and financial management for the maintenance of good financial controls and the production of accurate and timely financial management information;
- the control of key financial risks through appropriate authorisation levels and segregation of accounting duties;
- detailed monthly budgeting and reporting of trading results, balance sheets and cash flows, with regular review by management of variances from budget;
- reporting on any non-compliance with internal financial controls and procedures; and
- review of reports issued by the external auditor.

The Audit Committee on behalf of the Board reviews reports from the external auditor together with management's response regarding proposed actions. In this manner they have reviewed the effectiveness of the system of internal controls for the period covered by the accounts.

Corporate Governance Report continued

Audit Committee Report

Overview

The Audit Committee is established by and is responsible to the Board. It has formally delegated duties and responsibilities, and has written terms of reference. Its main responsibilities are:

- to monitor and be satisfied with the truth and fairness of the Group's financial statements before submission to the Board for approval, ensuring their compliance with the appropriate accounting standards, the law, and the AIM Rules;
- to monitor and review the effectiveness of the Group's system of internal control;
- to make recommendations to the Board in relation to the appointment of the external auditor and their remuneration, following appointment by the shareholders in general meeting, and to review and be satisfied with the auditor's independence, objectivity and effectiveness on an ongoing basis; and
- to implement the policy relating to any non-audit services performed by the external auditor.

Membership of the Audit Committee

Dean Murray is the Chairperson of the Committee and the other member is Ken Ford, both of whom are Non-Executive Directors and have wide experience in regulatory and risk issues.

Role and Operation of the Audit Committee

The Committee is authorised by the Board to seek and obtain any information it requires from any officer or employee of the Group, and to obtain external legal or other independent professional advice as is deemed necessary by it.

Meetings of the Committee are held at least twice per year and the auditor is invited to these meetings. The Committee meets once (usually during January) to discuss and agree the scope for the forthcoming external audit, and again (usually during May) to review the findings of the external audit in relation to internal control and the financial statements. At this meeting, the Committee carries out a full review of the year-end financial statements and of the audit, using as a basis an Audit Committee Report prepared by the external auditor and taking into account any significant accounting policies, any changes to them and any significant estimates or judgements. Questions are asked of management of any significant or unusual transactions where the accounting treatment could be open to different interpretations.

The Committee receives reports from management on the effectiveness of the system of internal controls. It also receives from the external auditor a report of matters arising during the course of the audit which the auditor deems to be of significance for the Committee's attention. The statement on internal controls and the management of risk, which is included in the Annual Report, is approved by the Committee.

The 1998 Public Interest Disclosure Act ('the Act') aims to promote greater openness in the workplace and ensures 'whistle blowers' are protected. The Group maintains a policy in accordance with the Act which allows employees to raise concerns on a confidential basis if they have reasonable grounds in believing that there is serious malpractice within the Group. The policy is designed to deal with concerns, which must be raised without malice and in good faith, in relation to specific issues which are in the public interest and which fall outside the scope of other Group policies and procedures. There is a specific complaints procedure laid down and action will be taken in those cases where the complaint is shown to be justified. The individual making the disclosure will be informed of what action is to be taken and a formal written record will be kept of each stage of the procedure.

The external auditor is required to give the Committee information about policies and processes for maintaining their independence and compliance regarding the rotation of audit partners and staff. The Committee considers all relationships between the external auditor and the Group to ensure that they do not compromise the auditor's judgement or independence particularly with the provision of non-audit services.

External auditor and non-audit services

Fees in relation to services provided by the external auditor in FY15 and FY16 were:

	FY16 £000	FY15 £000
Audit fee	28	25
IPO-related fees	137	115
Tax fees	3	3
Total fees	168	143

Given the one-off nature of the IPO fees, the Committee is satisfied that the external auditor did not have a self-interest threat.

Remuneration Committee Report

As an AIM listed Company, Gear4music (Holdings) plc is not required to comply with Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. The content of this report is unaudited unless stated.

Membership of the Remuneration Committee

During the year, the Remuneration Committee comprised Ken Ford and Dean Murray. They have no personal financial interest in the Group except for fees in relation to their holding of office and their shareholding as disclosed, with no potential conflict of interests and no day-to-day involvement of the Group.

The Remuneration Committee reviews the performance of the Executive Directors and makes recommendations to the Board on matters relating to remuneration, terms of service, granting of share options and other equity incentives.

The Remuneration Committee meets at least twice a year.

Remuneration policy

The remuneration policy is designed to attract, retain and motivate high calibre executives to ensure the Group is managed successfully to the benefit of shareholders.

Share ownership is encouraged and all the executives are interested in the share capital.

In setting remuneration levels the Committee takes into consideration remuneration levels and practices in other companies of a similar size and in similar sectors.

Non-Executive Directors

Remuneration of the Non-Executive Directors is determined by the Executive Directors. Non-Executive Directors are not entitled to pensions, annual bonuses or employee benefits, nor are they entitled to participate in share option arrangements relating to the Company's shares.

Each of the Non-Executive Directors has a letter of appointment stating his annual fee and that his appointment is initially for a term of three years. Their appointment may be terminated with one month's notice, except for Peter Armitage whose appointment may only be terminated after Key Capital Partners shareholding in the Company falls to below 3% of the entire issued share capital.

Their fees are reviewed annually and set in line with prevailing market conditions and at a level which will attract and retain individuals with the necessary experience and expertise to make a significant contribution to the Group's affairs.

Directors' remuneration

The normal remuneration arrangements for Executive Directors consist of basic salary. The CEO is also entitled to a car allowance, a pension allowance, and private medical insurance. Four Directors including the CEO are enrolled in the Group workplace pension scheme.

All Executive Directors have service agreements terminable by the Company with six months' notice.

Directors' interests

Details of the Directors' shareholdings are included in the Directors' Report on page 30.

Directors' share options

There is a Directors EMI share incentive plan in place to reward Executives for delivering success to the mutual benefit of shareholders, and specifically promote continuing earnings growth. There have been no awards made before 29th February 2016. The first awards are eligible to be made within 42 days following the announcement of the Company's FY16 annual trading results.

Share option awards are made at the discretion of the Remuneration Committee and are subject to performance conditions in a two-year vest period from the date of award.

A discretionary cash bonus plan is in place to incentivise major shareholding directors on a comparable basis.

Share awards will be made following the announcement of the FY16 results.

Total remuneration

The remuneration of each of the Directors of the Group for the year ended 29th February 2016 is set out below. These values are included within the audited accounts:

	Basic salary £000	Fees £000	Benefits £000	Pensions £000	Total FY16 £000	Total FY15 £000
Executive						
Andrew Wass	175	–	2	2	179	157
Chris Scott	126	–	–	1	127	98
Gareth Bevan	94	–	–	1	95	76
Non-Executive						
Ken Ford (appointed 3rd June 2015)	24	–	–	–	24	–
Dean Murray	30	–	–	–	30	30
Peter Armitage ¹ (appointed 30th April 2015)	–	23	–	–	23	–
Mark Buttler ¹ (resigned 30th April 2015)	–	9	–	–	9	36
Total	449	32	2	4	487	397

¹ Mark Buttler was KCP's appointed Investment Director and was replaced on 30th April 2015 by Peter Armitage

Board of Directors

The Directors of Gear4music (Holdings) plc are responsible for preparing the financial information on the basis of preparation and in accordance with International Financial Reporting Standards as adopted by the European Union.

Eric (Ken) Ford

Chairman and Non-Executive Director
(age 66)

Andrew Wass

Chief Executive Officer
(age 45)

Christopher (Chris) Scott

Chief Financial Officer and
Company Secretary
(age 40)

Ken is Chairperson of the Remuneration Committee and a member of the Audit Committee.

Ken was previously Chief Executive of Teather & Greenwood, the investment bank, becoming Deputy Chairman and Chairman of Corporate Finance. Ken brings a strong understanding of shareholder value, strategic planning and corporate transactions. Ken is a former Chairman of the Quoted Companies Alliance ('QCA') and member of the EU Advisory Committee to the Corporation of London. Ken's previous directorships include Aberdeen Asset Management and Morgan Grenfell. Ken is currently Chairman of AIM-quoted companies BrainJuicer Group PLC, Nakama Group plc and Scientific Digital Imaging plc. Ken is a Fellow of the Chartered Securities Institute.

Andrew has over 20 years' business management experience, having founded Gear4music Limited (then called Soundpro Limited) in 1995. In 1998 he began selling IT systems for the audio recording market before launching 'Gear4music' in 2003. Since then Andrew has retained overall responsibility for driving the Group's growth.

Between 1992 and 1998, Andrew set up and ran his own recording studio business, having studied Popular Music and Sound Recording at the University of Salford. Andrew is a keen pianist.

Before joining Gear4music in October 2012, Chris was the Finance Director at Officers Club, overseeing the sale of the business to Blue Inc.

Chris joined the audit team of KPMG LLP in Leeds in 1997, qualified as a Chartered Accountant in 2000 and went on to spend nine further years in their advisory practice including a year on secondment at Barclays Bank. He holds an Executive Masters of Business Administration.

Gareth Bevan
Chief Commercial Officer
(age 38)

Dean Murray
Non-Executive Director
(age 53)

Peter Armitage
Non-Executive Director
(age 59)

Dean is Chairperson of the Audit Committee and a member of the Remuneration Committee.

Gareth joined Gear4music in July 2012. He was previously at DV247, a £36m turnover musical equipment retailer, where he was responsible for purchasing, sales and marketing. He has 17 years' experience in musical equipment retail.

Dean joined the Board of Gear4music in March 2012 as a Non-Executive Director and originally as Chairman. Dean is a Chartered Accountant, former Chief Financial Officer and Chief Operating Officer of Myriad Childrenswear Group, and is currently a Non-Executive Director of French Connection, and Chairman of Neville Johnson Limited and Yumi International Limited.

Peter is a Chartered Accountant, qualifying with Price Waterhouse (now part of PricewaterhouseCoopers LLP) and has an MBA from the Manchester Business School. He has spent most of his career in private equity, initially with NatWest Ventures (now Bridgepoint) and subsequently as a Partner with Apax Partners and Director of YFM Ventures Limited. He is a Founding Partner of Key Capital Partners.

Directors' Report

The Directors present their report and the audited financial statements for the year ended 29th February 2016.

Principal activity

The principal activity of the Group is the retail 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 and future developments

An overview of the Group's operation is included in the Strategic Report section of the Annual Report and Accounts on pages 1–23. This report includes sections on strategy and markets, and considers key risks and key performance indicators.

A review of the Group's current operations and future developments is covered in the Chief Executive Officer's Statement and the Financial Review.

Financial results

Details of the Group's financial results and position are set out in the Consolidated Statement of Profit and Loss and Comprehensive Income, other primary statements and notes to the accounts on pages 34–57.

Dividends

The Directors do not recommend the payment of a dividend (FY15: nil).

Going concern

After making enquiries, the Directors have confidence that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the annual report and accounts. This is described in more detail in note 1 on page 38.

Directors

The six Directors who served on the Board and on Board Committees during the year are set out on pages 28–29. One-third of the Directors are required to retire at the Annual General Meeting and can offer themselves for re-election.

There is a £1m keyperson insurance policy in place pertaining to Andrew Wass.

Information on Directors' remuneration and share option rights is given in the Remuneration Committee report on pages 26–27.

Significant shareholders

The Company is informed that at 10th May 2016, individual registered shareholdings of more than 3% of the Company's issued share capital were as follows:

	Number of shares	% of issued share capital
Andrew Wass	8,286,593	41.1
Key Capital Partners	4,829,482	24.0
Octopus Investments	1,027,456	5.1
Artemis Investment Mgt	935,252	4.6
Seneca Investment Mgrs	899,463	4.5
Panmure Gordon & Co	765,074	3.8
City Financial	665,467	3.3

Directors' shareholdings

The beneficial interests of the Directors in the share capital of the Company at 29th February 2016 were as follows:

	Number of shares	% of issued share capital
Executive Directors		
Andrew Wass	8,286,593	41.1%
Gareth Bevan	134,382	0.7%
Chris Scott	120,462	0.6%
Non-Executive Directors		
Dean Murray	324,520	1.6%
Ken Ford	35,971	0.2%

Peter Armitage as a Partner in Key Capital Partners, indirectly has a beneficial interest in their 24.0%.

No Director holds any share options but the Director EMI plan is outlined in the Remuneration Committee Report on pages 26–27.

The middle market price of the Company's Ordinary shares on 29th February 2016 was 131.5 pence and the range since IPO was 131.5 pence to 147.0 pence, with an average price of 142.0 pence.

Research and development

The Group capitalised £932,000 during the year (FY15: £551,000) of software development costs relating to the in-house e-commerce software platform.

Financial instruments

The Group's policy and exposure to financial instruments is set out in note 17.

Qualifying third-party indemnity

The Company has provided an indemnity for the benefit of its current Directors which is a qualifying third-party indemnity provision for the purpose of the Companies Act 2006.

Employee involvement

It is the Group's policy to involve employees in its progress, development and performance. Applications for employment by disabled persons are fully considered, bearing in mind the respective aptitudes and abilities of the applicants concerned. The Group is a committed equal opportunities employer and has engaged employees with broad backgrounds and skills. It is the policy of the Group that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who is fortunate enough not to suffer from a disability. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues.

Donations

During the year ended 29th February 2016 the Group made donations of £nil (FY15: £nil).

Supplier payment policy and practice

The Group does not operate a standard code in respect of payments to suppliers. The Group agrees terms of payment with suppliers at the start of business and then makes payments in accordance with contractual and other legal obligations.

The number of creditor days outstanding at 29th February 2016 was 30 days (FY15: 33 days). This is a weighted average by invoice value, with reference to actual invoice and payment dates.

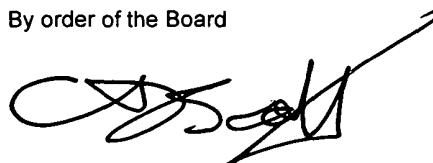
Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are 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 or she ought to have taken to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

A resolution for the reappointment of KPMG LLP as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board



Chris Scott

Chief Financial Officer
5th July 2016

Statement of Directors' Responsibilities

Statement of Directors' Responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements.

The directors are responsible for preparing the Strategic Report, the Directors' Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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;
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report to the Members of Gear4music

We have audited the financial statements of Gear4music (Holdings) plc for the year ended 29th February 2016 set out on pages 34 to 67. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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 32, 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 Auditor.

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 29th February 2016 and of the Group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

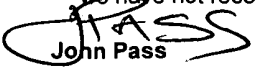
Opinion on other matter prescribed by the Companies Act 2006

In our opinion 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.



John Pass

(Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

5th July 2016

Consolidated Statement of Profit and Loss and Comprehensive Income
For the year ended 29th February 2016

	Note	Year ended 29 February 2016 £000	Year ended 28 February 2015 £000
Revenue		35,489	24,240
Cost of sales		(26,303)	(17,483)
Gross profit		9,186	6,757
Administrative expenses before exceptional items	3,4	(8,291)	(6,381)
Administrative expenses – exceptional items	3,4	(606)	(165)
Administrative expenses	3,4	(8,897)	(6,546)
Operating profit	3	289	211
Financial expenses	6	(283)	(1,008)
Profit/(loss) before tax		6	(797)
Taxation	7	(49)	111
Loss and other comprehensive income for the year		(43)	(686)
Basic and diluted loss per share	5	(0.2p)	(5.4p)

The Group has no recognised gains or losses other than those included in the profit and loss account above.

The accompanying notes form an integral part of the financial statements.

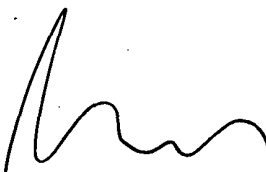
Consolidated Statement of Financial Position

As at 29th February 2016

	Note	Year ended 29 February 2016 £000	Year ended 28 February 2015 £000
Non-current assets			
Property, Plant and Equipment	8	1,239	991
Intangible assets	9	3,238	2,764
		4,477	3,755
Current assets			
Inventories	12	6,906	5,326
Trade and other receivables	13	740	216
Cash and cash equivalents	14	3,548	916
		11,194	6,458
Total assets		15,671	10,213
Current liabilities			
Other interest-bearing loans and borrowings	15	(834)	(1,320)
Trade and other payables	16	(5,188)	(4,522)
		(6,022)	(5,842)
Non-current liabilities			
Other interest-bearing loans and borrowings	15	(127)	(4,570)
Other payables	16	(59)	(35)
Deferred tax liability	11	(104)	(55)
		(290)	(4,660)
Total liabilities		(6,312)	(10,502)
Net assets/(liabilities)		9,359	(289)
Equity			
Share capital	18	2,016	1,266
Share premium	18	8,933	–
Retained earnings	18	(1,590)	(1,555)
Total equity		9,359	(289)

The notes 1 to 22 form part of these financial statements.

These financial statements were approved by the Board of Directors on 5th July 2016 and were signed on its behalf by:


Andrew Wass 5th July 2016
 Director


Chris Scott 5th July 2016
 Director

Company registered number: 07786708

Consolidated Statement of Changes in Equity
For the year ended 29th February 2016

	Note	Year ended 29 February 2016 £000	Year ended 28 February 2015 £000
Share capital			
Opening		1,266	1,266
Issue of share capital		750	–
At 29 February 2016	18	2,016	1,266
Share premium			
Opening		–	–
Issue of shares		9,255	–
Share issue costs		(322)	–
At 29 February 2016	18	8,933	–
Retained earnings			
Previous periods		(1,555)	(869)
Share based payment charge		8	–
Loss for the year		(43)	(686)
At 29 February 2016	18	(1,590)	(1,555)
Total equity	18	9,359	(289)

Consolidated Statement of Cash Flows

For the year ended 29th February 2016

	Note	Year ended 29 February 2016 £000	Year ended 28 February 2015 £000
Cash flows from operating activities			
Loss for the year		(43)	(686)
Adjustments for:			
Depreciation and amortisation	3,8,9	786	466
Financial expense	6	280	878
Loss/(profit) on sales of property, plant and equipment	3	1	(9)
Taxation	7	49	(111)
		1,073	538
Increase in trade and other receivables		(524)	(59)
Increase in inventories		(1,581)	(1,104)
Increase in trade and other payables		689	2,209
Decrease in provisions		—	(34)
Share-based payment charge		8	—
		(335)	1,550
Tax paid		—	—
Net cash from operating activities		(335)	1,550
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		1	10
Acquisition of property, plant and equipment		(578)	(412)
Capitalised development expenditure		(932)	(551)
Net cash from investing activities		(1,509)	(953)
Cash flows from financing activities			
Proceeds from pre-IPO issue of shares		32	—
Net proceeds from IPO		8,351	—
Proceeds from new borrowings	17	253	213
Interest paid		(130)	(185)
Repayment of redemption premium on loan notes		(602)	—
Repayment of loan notes		(2,484)	—
Repayment of other borrowings		(755)	(300)
Payment of finance lease liabilities		(189)	(117)
Net cash from financing activities		4,476	(389)
Net increase in cash and cash equivalents		2,632	208
Cash and cash equivalents at beginning of year		916	708
Cash and cash equivalents at end of year	14	3,548	916

Notes (Forming Part of the Financial Statements) For the year ended 29th February 2016

General information

Gear4music (Holdings) plc is a public limited company, is incorporated and domiciled in the United Kingdom, and is listed on the Alternative Investment Market ('AIM') of the London Stock Exchange.

The Group financial statements consolidate those of the Company and its subsidiary (together referred to as the 'Group'). The parent company financial statements present information about the Company as a separate entity and not about its group.

The principal activity of the Group is the retail of musical instruments and equipment. The registered office of the Company and all subsidiaries is Kettlestring Lane, Clifton Moor, York, YO30 4XF. The registered number of the Company is 07786708.

1 Accounting policies

1.1 Basis of preparation

The financial statements have been prepared in accordance with the AIM rules for Companies, and apply the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs'), and make amendments where necessary in order to comply with Companies Act 2006. The Company has elected to prepare its parent company financial statements in accordance with FRS 102; these are presented on pages 58 to 67.

The Group's accounting policies are set out below and have, unless otherwise stated, been applied consistently in the consolidated financial statements. Subjective judgements made by the Directors in the application of these accounting policies that have significant effect on the financial statements are considered in note 22.

Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as presented in the Admission document which is available on the Group's investor website.

Accounting period

The financial statements presented cover the years ended 29th February 2016 and 28th February 2015.

Measurement convention

The financial statements have been prepared on the historical cost basis.

1.2 Adoption of new and revised standards

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

- IFRS 9 Financial Instruments (effective for periods beginning on or after 1st January 2018, not yet endorsed by the EU);
- IFRS 15 Revenue from Contracts with Customers (effective date 31st December 2017, not yet endorsed by the EU). Management are currently assessing the impact of the standard in relation to commission income;
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38) (effective date 31st December 2016);
- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11) (effective date 31st December 2016);
- IFRS 14 Regulatory Deferral Accounts (effective date 31st December 2016); and
- IFRS 16 changes fundamentally the accounting for leases by lessees. It eliminates the current IAS 17 dual accounting model, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases and, instead, introduces a single, on-balance sheet accounting model that is similar to current finance lease accounting. Operating leases disclosed in note 20 are expected to come on balance sheet once this standard is adopted.

Transition to FRS 102

The Board considers that it's in the best interests of the Group to adopt FRS 102, the financial reporting standard applicable in the UK and Ireland, in the Company financial statements for its financial year commencing 1st March 2015.

1.3 Going concern

The Group's business activities and position in the market are described in the Strategic Report. The Directors believe that given the Group has significant financial resources, and has demonstrated good growth in revenue and underlying profitability from operating activities, the Group is well placed to manage its business risks. Having duly considered these factors and having reviewed the forecasts for the coming year, the Directors have a reasonable expectation that the Group has adequate resources to continue trading for the foreseeable future, and as such continue to adopt the going concern basis of accounting in preparing the financial statements. Further relevant details are contained in the Strategic Report on pages 1 to 23.

1 Accounting policies continued

1.4 Basis of consolidation

Subsidiaries

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

Transactions eliminated on consolidation

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

1.5 Foreign currency

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

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

Functional currency

The consolidated financial statements are presented in Sterling which is the Group's functional currency.

1.6 Classification of financial instruments issued by the Group

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

- (a) they include no contractual obligations upon the Company (or Group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company (or Group); and
- (b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

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

1.7 Non-derivative financial instruments

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

Trade and other receivables

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

Trade and other payables

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

Cash and cash equivalents

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

Interest-bearing borrowings

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

Notes (Forming Part of the Financial Statements) continued
For the year ended 29th February 2016

1 Accounting policies continued

1.8 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

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

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

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

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Lease payments are accounted for as described below in 1.16.

1.9 Business combinations

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

The Group measures goodwill at the acquisition date as:

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

Costs related to the acquisition are expensed as incurred.

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

Goodwill impairment testing

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

1.10 Intangible assets

Software platform

Costs that are directly attributable to the creation of identifiable software, which meet the development asset recognition criteria as laid out in IAS 38 'Intangible Assets' are recognised as intangible assets.

Direct costs include consultancy and development costs, and exclude maintenance costs that are recognised as an expense as incurred.

Software development assets are held at historic cost less accumulated amortisation and impairment, and are amortised over their useful economic life.

Other intangible assets

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

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

1 Accounting policies continued

1.10 Intangible assets continued

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets from the date they are available for use. The estimated useful lives are as follows:

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

1.11 Inventories

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

A provision is made in respect of inventories as follows:

- 100% against returns stock found to be faulty that is retained to be used for spare parts on the basis there is no direct NRV value; and
- a provision for the expected product loss on dealing with returns stock.

1.12 Impairment excluding inventories and deferred tax assets

Financial assets (including receivables)

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

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

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For Goodwill, the recoverable amount is estimated each year at the same time.

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

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

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

1.13 Employee benefits

Defined contribution plans

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

Notes (Forming Part of the Financial Statements) continued

For the year ended 29th February 2016

1 Accounting policies continued

1.13 Employee benefits continued

Share-based payments

The Group operates share option plans for qualifying employees of the Group. The fair value of these shares is determined using the Black-Scholes option pricing model and is expensed in the Statement of Profit and Loss and Comprehensive Income as an employee expense on a straight-line basis over the vesting period after allowing for an estimate of the number of shares that are expected to vest with a corresponding increase in equity. The level of vesting is reviewed annually and the expense adjusted to reflect any changes in estimates.

1.14 Provisions

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

1.15 Revenue

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

In the year ended 29th February 2016 the Group started to offer retail point of sale credit on orders over £250, through an agreement with an external credit provider. The Group does not retain any credit risk and commissions are recognised on recognition of the credit sale. In the year ended 29th February 2016 this income totalled £37,900.

1.16 Expenses

Operating lease payments

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

Finance lease payments

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

Exceptional items

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

Government and other forms of grant

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

Financing income and expenses

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

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

1 Accounting policies continued

1.17 Taxation

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

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

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

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

1.18 Segmental Reporting

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

2 Segmental reporting

The Group's revenue and profit was derived from its principal activity which is the sale of musical instruments and equipment. The Group operates from a single location in York, all sales and marketing activities and warehouse and distribution activities occur here. Sales made outside the UK are dispatched from a single warehouse.

In accordance with IFRS 8 'Operating segments', the Group has made the following considerations to arrive at the disclosure made in these financial statements. IFRS 8 requires consideration of the 'Chief Operating Decision Maker ('CODM') within the Group. Operating segments have been identified based on the internal reporting information and management structures with the Group. Based on this information it has been noted that the CODM reviews the business as one segment, and receives internal information on this basis. Therefore, it has been concluded that there is only one reportable segment.

Revenue by Geography

	Year ended 29 February 2016 £000	Year ended 28 February 2015 £000
UK	26,016	18,763
Europe	9,473	5,477
	35,489	24,240

Revenue by Product category

	Year ended 29 February 2016 £000	Year ended 28 February 2015 £000
Other-brand products	24,842	16,323
Own-brand products	9,164	6,901
Other	1,483	1,106
	35,489	24,240

Notes (Forming Part of the Financial Statements) continued
For the year ended 29th February 2016

3 Expenses

Included in profit/loss are the following:

	Year ended 29 February 2016 £000	Year ended 28 February 2015 £000
Depreciation of tangible fixed assets	328	222
Amortisation of intangible assets	458	244
Amortisation of government grants	35	15
Loss/(profit) on disposal of property, plant and equipment	1	(9)
Rentals under operating leases – land and buildings	262	291
Rentals under operating leases – plant and machinery	16	18
Auditor remuneration – audit of financial statements	28	16
Auditor remuneration – other	140	119
<i>Exceptional items:</i>		
Exceptional deal costs	606	165

Exceptional costs in both years relate to professional fees incurred in relation to the Group's admission to the Alternative Investment Market ('AIM') on 3rd June 2015.

Reconciliation of operating profit to adjusted earnings before interest, taxation, depreciation and amortisation ('EBITDA') and adjusted profit before tax:

	Year ended 29 February 2016 £000	Year ended 28 February 2015 £000
Operating profit	289	211
Adjusted for: Exceptional costs within operating expenses	606	165
Underlying Operating profit	895	376
Adjusted for: Amortisation and depreciation	786	466
Adjusted EBITDA	1,681	842
Adjusted for:		
Amortisation and depreciation	(786)	(466)
Finance expenses	(283)	(1,008)
Adjusted PBT	612	(632)

4 Staff numbers and costs

The average number of persons employed (full time equivalents) by the Group (including Directors) during the period, analysed by category, was as follows:

	Year ended 29 February 2016 Number	Year ended 28 February 2015 Number
Administration	59	42
Selling and Distribution	79	61
	138	103

The aggregate payroll costs of these persons were as follows:

	Year ended 29 February 2016 £000	Year ended 28 February 2015 £000
Wages and salaries	2,546	1,969
Share-based payments (see note 19)	8	–
Social security costs	198	161
Contributions to defined contribution plans	13	2
Amounts paid to third parties in respect of Director's service	32	–
	2,797	2,132

4 Staff numbers and costs continued

Directors' remuneration

	Year ended 29 February 2016 £000	Year ended 28 February 2015 £000
Directors remuneration	451	395
Company contributions to money purchase pension schemes	4	2
Amounts paid to third parties in respect of Directors' service	32	–
	487	397

There are four directors (2015: 1) for whom retirement benefits are accruing under a money purchase pension scheme.

The aggregate remuneration of the highest paid director was £179,000 (2015: £157,000), including Company pension contributions of £1,680 (2015: £1,680) were made to a money purchase scheme on their behalf.

5 Earnings per share

Diluted loss per share is calculated by dividing the net profit for the period attributable to Ordinary shareholders by the weighted average number of Ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on the conversion of all dilutive potential Ordinary shares into Ordinary shares.

	Year ended 29 February 2016	Year ended 28 February 2015
Loss attributable to equity shareholders of the parent (£000)	(43)	(686)
Basic weighted average number of shares	18,236,293	12,656,250
Dilutive potential Ordinary shares	25,226	25,960
Diluted weighted average number of shares	18,261,519	12,682,210
Basic loss per share	(0.2p)	(5.4p)
Diluted loss per share	(0.2p)	(5.4p)

6 Finance expense

	Year ended 29 February 2016 £000	Year ended 28 February 2015 £000
Finance expense		
Bank interest	26	52
Loan note interest measured at amortised cost	233	804
Finance leases	21	21
Net foreign exchange loss	3	131
Total finance expense	283	1,008

Loan note interest comprised £233,000 (2015: £792,000) due to Key Capital Partners, the Company's private equity investor, and in 2015 included £12,000 due to Andrew Wass on loan notes that were later repaid in full in that financial year.

On 8th June 2015 the Group paid £4,469,477 to Key Capital Partners, of which £3,169,477 was settled in cash and £1,300,000 in equity, in full and final settlement of the loan notes and accumulated interest due. The fair value of the equity is considered to be equal to the value of the loan and therefore no gain or loss arose on this transaction.

Notes (Forming Part of the Financial Statements) continued
For the year ended 29th February 2016

7 Taxation

Recognised in the income statement

	Year ended 29 February 2016 £000	Year ended 28 February 2015 £000
Current tax expense		
UK corporation tax	–	–
Adjustments for prior periods	–	–
Current tax expense/(credit)	–	–
Deferred tax expense		
Origination and reversal of temporary differences	188	(124)
Deferred tax rate change impact	(13)	6
Adjustments for prior periods	(126)	7
Deferred tax expense/(credit)	49	(111)
Total tax expense/(credit)	49	(111)

The corporation tax rate applicable to the Company was 20% in the years ending 29th February 2016 and 28th February 2015. Reductions in the UK corporation tax rate from 23% to 21% (effective from 1st April 2014) and 20% (effective from 1st April 2015) were substantively enacted on 2nd July 2013. Further reductions to 19% (effective from 1st April 2017) and to 18% (effective 1st April 2020) were substantively enacted on 26th October 2015. This will reduce the Company's future current tax charge accordingly. The deferred tax asset at 29th February 2016 has been calculated based on these rates.

Reconciliation of effective tax rate

	Year ended 29 February 2016 £000	Year ended 28 February 2015 £000
Loss for the period	(43)	(686)
Total tax (charge)/credit	(49)	111
Profit/(loss) excluding taxation	6	(797)
Current tax at 20.00% (2015: 21.17%)		
Tax using the UK corporation tax rate for the relevant period:	1	(168)
Non-deductible expenses	115	44
Rate change	59	6
Adjustments relating to prior year – deferred tax	(126)	7
Total tax charge/(credit)	49	(111)

8 Property, plant and equipment

	Plant and equipment £000	Fixtures and fittings £000	Motor vehicles £000	Computer equipment £000	Total £000
Cost					
At 1 March 2014	205	886	8	202	1,301
Additions	8	366	–	37	411
Disposals	(20)	–	(8)	–	(28)
Balance at 28 February 2015 and 1 March 2015	193	1,252	–	239	1,684
Additions	270	218	–	90	578
Disposals	–	(6)	–	–	(6)
Balance at 29 February 2016	463	1,464	–	329	2,256
Depreciation and impairment					
At 1 March 2014	64	282	7	145	498
Depreciation charge for the year	38	155	–	29	222
Disposals	(20)	–	(7)	–	(27)
Balance at 28 February 2015 and 1 March 2015	82	437	–	174	693
Depreciation charge for the period	98	185	–	45	328
Disposals	–	(4)	–	–	(4)
Balance at 29 February 2016	180	618	–	219	1,017
Net book value as at 29 February 2016	283	846	–	110	1,239
Net book value as at 28 February 2015	111	815	–	65	991

Leased assets

At 29th February 2016 the net carrying amount of leased tangible fixed assets was £423,000 (2015: £269,000), and the accumulated depreciation against leased assets was £284,000 (2015: £172,000).

Security

The Group's bank borrowings are secured by fixed and floating charges over the Group's assets.

9 Intangible assets

	Goodwill £000	Software platform £000	Brand £000	Total £000
Cost				
At 1 March 2014	417	1,884	564	2,865
Additions	–	551	–	551
Balance at 28 February 2015 and 1 March 2015	417	2,435	564	3,416
Additions	–	932	–	932
Balance at 29 February 2016	417	3,367	564	4,348
Amortisation				
At 1 March 2014	–	295	113	408
Amortisation for the year	–	188	56	244
Balance at 28 February 2015 and 1 March 2015	–	483	169	652
Amortisation for the year	–	401	57	458
Balance at 29 February 2016	–	884	226	1,110
Net book value as at 29 February 2016	417	2,483	338	3,238
Net book value as at 28 February 2015	417	1,952	395	2,764

The amortisation charge is recognised in Administrative expenses in the profit and loss account.

Notes (Forming Part of the Financial Statements) continued
For the year ended 29th February 2016

9 Intangible assets continued

Impairment testing

Goodwill arose on the acquisition of the entire share capital of Gear4music Limited (formerly known as Red Submarine Limited) on 19th March 2012. The Goodwill balance is denominated in Sterling:

	Year ended 29 February 2016 £000	Year ended 28 February 2015 £000
Gear4music Limited (formerly known as Red Submarine Limited)	417	417

Other intangible assets comprise the Gear4music brand name, and the proprietary software platform.

A CGU is defined as the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups thereof. The Group is deemed to have a single CGU to which the goodwill, the software platform and the brand are allocated. An impairment review has been performed on this CGU. The recoverable amount of this CGU has been determined based on value-in-use calculations. In assessing value in use, a four-year forecast to 29th February 2020 was used to provide cash-flow projections that have been discounted at a pre-tax discount rate of 15%. The cash flow projections are subject to key assumptions in respect of sales growth, gross margin performance and overhead expenditure. Management has reviewed and approved the assumptions inherent in the model:

- Sales forecasts based on growth by geographical market, at a range of growth levels based on trends, in-house projects under way, and Management's expectation, achieving overall growth comparable to the previous years.
- Product costs are assumed to nominally decrease and gross margins are forecast to nominally increase, from their 2016 level over the four-year management forecast period.
- Wage increases are a function of recruitment and a person-by-person review of current staff, with a range of % increases. The return on marketing costs is expected to improve year on year.

No impairment loss was identified in the current year (2015: £nil). The valuations indicate significant headroom such that a terminal growth rate assumption has not been applied, and that any reasonably possible change in other key assumptions, including the discount rate, would not result in an impairment of the related goodwill or other intangible assets.

10 Investments in subsidiaries

The Company has the following investments in subsidiaries which are included in the consolidated results of the Group:

Subsidiaries	Country of incorporation	Registered number	Year-end	Class of shares held	Ownership
Gear4music Limited (formerly known as Red Submarine Limited)	UK	03113256	28 February	Ordinary	100%
Cagney Limited (formerly known as Gear4music Limited)	UK	04493300	28 February	Ordinary	100% via G4M Limited

Cagney Limited is a dormant company.

11 Deferred tax assets and liabilities

Movement in deferred tax during the year

	At 1 March 2015 £000	Recognised in income £000	At 29 February 2016 £000
Property, Plant and Equipment	(345)	(5)	(350)
Short-term timing differences	290	(44)	246
	(55)	(49)	(104)

Movement in deferred tax during the prior year

	At 1 March 2014 £000	Recognised in income £000	At 28 February 2015 £000
Property, Plant and Equipment	(300)	(45)	(345)
Short-term timing differences	134	156	290
	(166)	111	(55)

12 Inventories

	Year ended 29 February 2016 £000	Year ended 28 February 2015 £000
Finished goods	6,906	5,326

The cost of inventories recognised as an expense and included in cost of sales in the period amounted to £24.7m (£16.4m in the year ended 28th February 2015).

Management has included a provision of £15,000 (28th February 2015: £8,200), representing a 100% provision against returns stock subsequently found to be faulty, that is retained to be used for spare parts on the basis there is no direct NRV value, and a provision based on the expected product loss on dealing with returns stock.

13 Trade and other receivables

	Year ended 29 February 2016 £000	Year ended 28 February 2015 £000
Trade receivables	581	84
Prepayments	159	132
	740	216

Trade receivables includes cash lodged with payment providers and UK and international education and trade accounts. Standard terms are 30 days and over 90% of the ledger is within terms.

14 Cash and cash equivalents

	Year ended 29 February 2016 £000	Year ended 28 February 2015 £000
Cash and cash equivalents per balance sheet	3,548	916
Cash and cash equivalents per cash flow statements	3,548	916

15 Other interest-bearing loans and borrowings

This note contains information about the Group's interest-bearing loans and borrowing which are carried at amortised cost.

	Year ended 29 February 2016 £000	Year ended 28 February 2015 £000
Non-current liabilities		
Bank loans	–	195
Finance lease liabilities	127	138
Loan notes	–	4,237
	127	4,570
Current liabilities		
Bank loans	642	1,202
Finance lease liabilities	192	118
	834	1,320
Total liabilities		
Bank loans	642	1,397
Finance lease liabilities	319	256
Loan notes	–	4,237
	961	5,890

Notes (Forming Part of the Financial Statements) continued
For the year ended 29th February 2016

15 Other interest-bearing loans and borrowings continued

Bank loans comprise a Trade Finance facility provided by the Group's bankers, HSBC, and are secured by fixed and floating charges over the Group's assets. The interest rate on import loans drawn under the Trade Finance agreement is 2.45% per annum over HSBC's Sterling base rate, and on an overdraft if and when drawn, is 3.25% over base. Interest on import loans is paid at the maturity of the relevant loan. Interest on an overdraft would be paid monthly in arrears. The Trade Finance facilities are due for review and renewal on or before 18th July 2016.

In the year ended 28th February 2015 'bank loans' included a term loan made under the Enterprise Finance Guarantee Scheme ('EFG'). This loan was settled in full in June 2015.

On 8th June 2015 the Group paid £4,469,477 to KCP the Group's private equity investor, of which £3,169,477 was settled in cash and £1,300,000 in equity, in full and final settlement of the loan notes and accumulated interest due.

All borrowings are denominated in Sterling.

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments at 29 February 2016 £000	Interest at 29 February 2016 £000	Principal at 29 February 2016 £000
Less than one year	205	13	192
Between one and five years	132	5	127
	337	18	319
	Minimum lease payments at 28 February 2015 £000	Interest at 28 February 2015 £000	Principal at 28 February 2015 £000
Less than one year	122	4	118
Between one and five years	145	7	138
	267	11	256

Finance leases relate to assets located at the Head Office site in York, with net book values of £423,000 (2015: £262,000).

16 Trade and other payables

	Year ended 29 February 2016 £000	Year ended 28 February 2015 £000
Current		
Trade payables	3,718	3,231
Accruals and deferred income	956	1,072
Government grants	28	15
Other taxation and social security	486	204
	5,188	4,522
Non-current		
Government grants	59	35

Accruals at 29th February 2016 include £672,000 (2015: £585,000) of rent accrued but not payable as per the commercial agreement reached with the landlord and the legal form of the property lease. This accrual will unwind in future financial years, with £37,000 unwinding within one year as the cash paid begins to exceed the expense, and £635,000 will unwind in subsequent years to the end of the lease in June 2020.

Government grants being spread over the useful economic life of the associated asset, relate to Regional Growth Fund Grants towards the acquisition of various capital items. Grant conditions exist linked to job creation, and these criteria have been satisfied.

The Directors consider the carrying amount of trade and other payables approximates their fair value.

17 Financial instruments

Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's policies on the management of liquidity, credit, interest rate and foreign currency risks are set out below.

The main purpose of the Group's financial instruments which comprise of term loans, hire purchase, finance leases, cash and liquid resources, and various items arising directly from its operations, such as trade receivables and trade payables, is to finance the Group's operations.

Risk management framework

Regular reviews of strategic risks are performed by the Board.

Exposure to foreign currency exchange rates is considered during the budgeting and forecasting processes, and throughout the year.

General commercial risk is considered at an annual insurance review in conjunction with an independent broker, and the appropriate insurance policies put in place.

(a) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group's policy is to ensure that it has sufficient facilities to cover its future funding requirements. Short-term flexibility is available through the existing trade and overdraft facilities and, at certain times of the year, the netting off of surplus funds. The carrying amounts are the amounts due if settled at the period end date. The contractual undiscounted cash flows include estimated interest payments over the life of these facilities.

At 29th February 2016 the Group had £3.5m of cash and bank balances.

	Effective Interest rate %	Face value and Carrying amount	Total	Contractual cash flows			
		Year ended	Year ended	Within	1-2 years	2-5 years	Over 5 years
		29 February 2016 £000	29 February 2016 £000	1 year £000	£000	£000	£000
Secured loans	3.0	642	645	645	—	—	—
Trade payables	—	3,718	3,718	3,718	—	—	—
	—	4,360	4,363	4,363	—	—	—

	Effective interest rate %	Face value and Carrying amount	Total	Contractual cash-flows			
		Year ended	Year ended	Within	1-2 years	2-5 years	Over 5 years
		28 February 2015 £000	28 February 2015 £000	1 year £000	£000	£000	£000
Secured loans	4.5	1,397	1,425	1,218	82	125	—
Trade payables	—	3,231	3,231	3,231	—	—	—
Loan notes	6-20	4,237	5,357	5,357	—	—	—
	—	8,865	10,013	9,806	82	125	—

Notes (Forming Part of the Financial Statements) continued
For the year ended 29th February 2016

17 Financial instruments continued

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The Group faces low credit risk as customers typically pay for their orders in full on shipment of the product. There are a small number of education accounts with schools and colleges that have 30-day terms (less than 2.3% of 2016 sales), and trade accounts (0.9% of 2016 sales).

Trade debtors, including funds lodged with Amazon, PayPal and Digital River, totalled £175,000 on 29th February 2016 (28th February 2015: £84,000).

Credit risk in relation to cash held with financial institutions is considered low risk, given the credit rating of these organisations.

(c) Interest rate risk

The Group's borrowings incur interest at variable rates of between 2.45% and 4.00% above base which exposes the Group to interest rate risk. Loans are with UK-based institutions, denominated in Sterling, and linked to the UK base rate.

At 29th February 2016 the Group had cash reserves of £3.5m and could utilise these funds to settle debts and mitigate any associated interest risk.

The Group's policy, with regard to interest rate risk, is to monitor actual and anticipated changes in base rates, and if deemed appropriate seek out alternative financing proposals to ensure retaining a competitive rate.

Profile

At the balance sheet date, the interest rate profile of the Group's interest-bearing financial instruments was:

	Year ended 29 February 2016 £000	Year ended 28 February 2015 £000
Variable rate instruments		
Cash	(3,548)	(916)
Bank loans	642	1,397
	(2,906)	481
Fixed rate instruments		
Loan note payable	–	4,237
Finance leases	319	256
	319	4,493
Total net financial (assets)/liabilities	(2,587)	4,974

Sensitivity analysis

The calculations below assume that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date. This analysis assumes that all other variables, in particular foreign currency rates, remains constant and considers the effect of financial instruments with variable interest rates.

	Year ended 29 February 2016 £000	Year ended 28 February 2015 £000
	Impact on Closing Equity/Profit and Loss	Impact on Closing Equity/Profit and Loss
Increase of 0.5 basis points	(1)	(3)
Decrease of 0.5 basis points	1	3

17 Financial instruments continued**(d) Foreign exchange risk**

All borrowings are denominated in Sterling.

The Group sells into Europe in eight currencies including Sterling and Euros. In the year ended 29th February 2016, 26% (2015: 21%) of total sales were in non-Sterling currencies, of which 60% (2015: 68%) were in Euros. Where costs (including local tax liabilities) are incurred in these respective currencies, currency balances are retained and payments made in these currencies, thereby mitigating any associated currency loss. Surplus foreign currency holdings are reviewed on a daily basis and balances in excess of known liabilities are converted into Sterling, restricting the period between the transaction and the point of conversion, thereby reducing the transactional risk.

The Group purchases own-branded instruments and equipment from the Far East, transacting in US Dollars. The lead time from committed order to receipt of stock is typically 12–14 weeks, during which time the Group bears currency risk. The Group also trades with one supplier (2015: two suppliers) on a trade credit basis with terms of 60 days. The Group has the trading platform ability and sufficient price flexibility to be able to pass on some adverse currency variances, and the Group generates enhanced margins on these products such that a proportion of these losses can be absorbed. The Group does not currently enter into forward contracts but reviews the situation, and would consider committing to such a position should it make commercial sense to do so.

	Year ended 29 February 2016 £000	Year ended 28 February 2015 £000
Trade and Other Receivables		
Sterling	211	71
Euro	125	13
Other European currencies	245	–
	581	84
Cash and Cash Equivalents		
Sterling	3,511	899
Euro	34	8
Other European currencies	3	9
	3,548	916
Trade Payables		
Sterling	3,454	2,595
Euro	66	–
US Dollar	198	636
	3,718	3,231
Local sales tax		
Sterling	126	31
Euro	221	117
Other European currencies	70	10
	417	158

The Group's cash and cash equivalents are not sensitive to foreign exchange variations as currencies held are held to the extent they are required to settle a liability in that currency, or they are converted into Sterling.

Non-Sterling trade receivables include cash lodged with payment providers that is promptly settled. International trade debtors represent an immaterial amount such that the Group is not sensitive to associated foreign exchange variations.

Euro funds are retained to settle Euro denominated payables. US Dollar denominated trade payables are not currently bought forward against, but only represent a small exposure that can be otherwise managed.

Notes (Forming Part of the Financial Statements) continued
For the year ended 29th February 2016

17 Financial instruments continued

(e) Debt and Capital Management

The Group's objective when managing capital, which is deemed to be share capital, is to maximise the return on net invested capital while maintaining its ongoing ability to operate and guarantee adequate returns for shareholders and benefits for other stakeholders, within a sustainable financial structure.

The Group monitors its gearing ratio on a regular basis and makes appropriate decisions in light of the current economic conditions and strategic objectives of the Group.

There were no changes in the Group's approach to capital management during the period. The Group does not have any externally imposed capital requirements. The funding requirements of the Group are met by cash raised on IPO and the utilisation of external borrowings.

Fair values and carrying values of financial instruments

A comparison by category of the book values and fair values of the financial assets and liabilities of the Group at 29th February 2016 and 28th February 2015:

	29 February 2016		28 February 2015	
	Book value £000	Fair value £000	Book value £000	Fair value £000
Trade and other receivables	740	740	216	216
Cash and cash equivalents	3,548	3,548	916	916
Bank loans	(642)	(642)	(1,397)	(1,397)
Finance lease liabilities	(319)	(337)	(256)	(267)
Trade and other payables	(5,246)	(5,246)	(4,557)	(4,557)
Loan notes	–	–	(4,237)	(4,237)
	(1,919)	(1,937)	(9,315)	(9,326)

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

Trade and other payables and receivables

The fair value of these items are considered to be their carrying value as the impact of discounting future cash flows has been assessed as not material.

Cash and cash equivalents

The fair value of cash and cash equivalents is estimated as its carrying amount where the cash is repayable on demand. The fair value of short-term deposits is considered to be the carrying value as the balances are held in floating rate accounts where the interest rate is reset to market rates.

Long-term and short-term borrowings

The fair value of bank loans are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method.

The fair value of the loan notes is calculated based on the expected future principal and interest cash flows discounted at the market rate of interest at the balance sheet date.

Derivative financial instruments

The Group does not routinely enter into Forward exchange contracts. The Fair Value of any material forward exchange contracts held would be calculated by Management based on external valuations received from the Group's bankers.

17 Financial instruments continued**Fair value hierarchy**

The table below analyses financial instruments, measured at fair value, into a fair value hierarchy based on the valuation techniques used to determine fair value.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 £000	Level 2 £000	Level 3 £000
29 February 2016			
Bank loans	–	(642)	–
	–	(642)	–
28 February 2015			
Bank loans	–	(1,397)	–
Loan notes	–	(4,237)	–
	–	(5,634)	–

18 Share capital and reserves

	Year ended 29 February 2016 Number	Year ended 28 February 2015 Number
Share capital		
Authorised, called up and fully paid:		
Ordinary shares of 10 pence each	20,156,339	–
'A' Ordinary shares of £1 each	–	389,423
'B' Ordinary shares of £1 each	–	843,750
'C' Ordinary shares of £1 each	–	32,452
	20,156,339	1,265,625

On 27th May 2015 and pursuant to the investor agreement between the Company and Key Capital Partners and shareholder resolution, the Company allotted and issued £32,452 'C' Ordinary shares in the capital of the Company, of which £12,980 were awarded to both Chris Scott and Gareth Bevan, and £6,492 to Andrew Wass. This took the total number of shares in issue at the time to 1,298,077.

On 3rd June 2015, immediately following the Company's admission to AIM, the 'A', 'B', and 'C' Ordinary shares of £1 were each subdivided into one class of Ordinary shares of 10 pence each, and 7,175,569 new 10 pence shares were issued, taking the total number of shares to 20,156,339.

The Company has one class of Ordinary share and each share carries one vote and ranks equally with the other Ordinary shares in all respects including as to dividends and other distributions.

	Year ended 29 February 2016 £000	Year ended 28 February 2015 £000
Share premium		
Opening at 1 March	–	–
Issue of shares	9,255	–
Share issue costs	(322)	–
Closing at 29/28 February	8,933	–

Notes (Forming Part of the Financial Statements) continued
For the year ended 29th February 2016

18 Share capital and reserves continued

	Year ended 29 February 2016 £000	Year ended 28 February 2015 £000
Accumulated losses		
Opening at 1 March	(1,555)	(869)
Share-based payment charge	8	–
Loss for the year	(43)	(686)
Closing at 29/28 February	(1,590)	(1,555)

Reserve	Description and purpose
Accumulated losses	Cumulative net losses recognised in the consolidated income statement.

19 Share-based payments

The Group operates a share option plans for qualifying employees of the Group. Options in the plans are settled in equity in the Company and are subject to vesting conditions. On 3rd June 2015 on Admission of the Company to AIM, an initial award of a total of 23,381 shares was made to eight key employees. On 17th February 2016 an option over a further 1,845 shares was awarded. These shares have an exercise price equal to the nominal value of the shares (10 pence) that the Company will subsidise by way of a bonus provided there are sufficient distributable reserves, and subject to certain conditions will be automatically exercised on the third anniversary of the date of grant.

The fair value of the share option at grant date is determined based on the Black-Scholes model.

The model inputs were the share price of 139 pence on 3rd June 2015 and 135 pence on 17th February 2016, the exercise price of 10 pence, expected volatility of 1%, no expected dividends, a term of 3 years and a risk free rate of 0.7%.

The fair value of the liability is re-measured at each balance sheet date and settlement date.

The total expenses recognised for the year and the total liabilities recognised at the end of the year arising from share-based payments was £8,125.

20 Commitments

Capital commitment

As at 29th February 2016 a contractual minimum spend arrangement was in place for £458,000 (2015: £458,000), in relation to a contract for development services of the e-commerce platform.

Operating lease commitment

Non-cancellable operating lease rentals are payable as follows:

	Year ended 29 February 2016 £000	Year ended 28 February 2015 £000
Less than one year	283	163
Between one and five years	1,603	1,627
More than five years	–	167
	1,886	1,957

The operating lease commitment relates to the property lease of the Head Office site at Clifton Moor, York.

21 Related parties

Immediately prior to admission to AIM, Chris Scott (CFO) and Gareth Bevan (CCO) were allotted an aggregate of 259,600 10 pence shares further to their exercise of pre-existing options, and Andrew Wass was allotted 64,920 10 pence shares in accordance with the investor agreement with Key Capital Partners. These shares had a market value of £451,083 on IPO.

Immediately following admission eight key employees were awarded options to an aggregate of 23,381 shares that, subject to performance criteria, will vest on the third anniversary of their award. On 17th February 2016 an option over a further 1,845 shares was awarded to an additional key employee, subject to the same conditions.

On 8th June 2015 the Group paid £4,469,477 to KCP the Group's private equity investor, of which £3,169,477 was settled in cash and £1,300,000 in equity, in full and final settlement of the loan notes and accumulated interest due. Key Capital Partners reinvestment took their shareholding to 4,829,482 (23.96%).

On 17th February 2015, an amount of £225,000 was repaid by Gear4music (Holdings) plc to Mr A Wass. Interest had been charged on the loan at a rate of 6% and repaid on a quarterly basis. Interest charged on the loan during 2015 amounted to £12,000.

Transactions with key management personnel

The compensation of key management personnel is as follows:

	Year ended 29 February 2016 £000	Year ended 28 February 2015 £000
Key management emoluments including social security costs	421	393
Company contributions to money purchase pension plans	4	2
	425	395

Key management personnel comprise the Chairman, CEO, CFO and CCO.

Four Directors are accruing retirement benefits under a money purchase scheme (2015: 1).

22 Accounting estimates and judgements

The preparation of consolidated financial information in conformity with IFRSs requires management to make judgements, estimates and assumptions concerning the future, that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. These judgements are based on historical experience and management's best knowledge at the time and the actual results may ultimately differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis and revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The estimates and assumptions that have significant risk of causing a material adjustment to the carrying value of assets and liabilities are discussed below:

- The basis for stock provision and by association the carrying value – given the nature of the products sold, product margins earned, and trading terms with suppliers, Management currently provide for faulty returns retained for spare parts, and an estimate of the product loss to deal with returns stock. There are no other provisions made.
- An accrual has been made at 29th February 2016 for the profit element on products returned in the 30-day money back guarantee period.
- Assumptions inherent in the goodwill impairment review – four year approved management forecast and a 15% discount rate (see note 9).
- The UEL of tangible and intangible fixed assets – Management selected depreciation and amortisation periods appropriate to the assets held, and consistent with industry and accounting norm. Amortisation periods were independently reviewed as part of an intangible asset valuation exercise.

Company Balance Sheet
As at 29th February 2016

		2016		2015	
	Notes	£000	£000	£000	£000
Fixed assets					
Investments	5		3,006		2,811
Current assets					
Cash In Hand and at bank	8	11		21	
Debtors (including £7.21m (2015: £1.20m) due after more than one year)	6,7	7,216		1,238	
		7,227		1,259	
Creditors: amounts falling due within one year	9	(40)		(183)	
Net current assets			7,187		1,076
Total assets less current liabilities			10,193		3,887
Creditors: amounts falling due after more than one year	10		–		(4,237)
Net assets/(liabilities)			10,193		(350)
Capital and reserves					
Called up share capital	11		2,016		1,266
Share premium account	11		8,933		–
Profit and loss account	11		(756)		(1,616)
Shareholders' funds			10,193		(350)

The notes on pages 62 to 69 form part of these financial statements.

These financial statements were approved by the Board of Directors on 5th July 2016 and were signed on its behalf by:


Andrew Wass 5th July 2016
Director


Chris Scott 5th July 2016
Director

Company registered number: 07786708

Company Statement of Changes in Equity

For the year ended 29th February 2016

	Note	Year ended 29 February 2016 £000	Year ended 28 February 2015 £000
Share capital			
Opening		1,266	1,266
Issue of share capital		750	–
At 29 February 2016	11	2,016	1,266
Share premium			
Opening		–	–
Issue of shares		9,255	–
Share issue costs		(322)	–
At 29 February 2016	11	8,933	–
Retained earnings			
Previous periods		(1,616)	(699)
Shared-based payments		(8)	–
Profit/(loss) for the year		868	(917)
At 29 February 2016	11	(756)	(1,616)
Total equity	11	10,193	(350)

Notes to the Company Financial Statements
(Forming Part of the Financial Statements)
For the year ended 29th February 2016

1 Accounting policies

The Company's principal activity is to act as the holding company for the Group, whose principal activity is as a retailer of musical instruments and equipment.

1.1 Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ('FRS 102') as issued in August 2014. The amendments to FRS 102 issued in July 2015 and effective immediately have been applied. The presentation currency of these financial statements is Sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

Under section s408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

In the transition to FRS 102 from old UK GAAP, the Company has made measurement and recognition adjustments. An explanation of how the transition to FRS 102 has affected financial position and financial performance of the Company is provided in note 13.

FRS 102 grants certain first-time adoption exemptions from the full requirements of FRS 102. The following exemptions have been taken in these financial statements:

- 35.10 (r): If a parent becomes a first-time adopter for its separate financial statements earlier or later than for its consolidated financial statements, it shall measure its assets and liabilities at the same amounts in both financial statements, except for consolidation adjustments.

In these financial statements, the Company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

As the consolidated financial statements of the Company include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the following disclosures:

- Certain disclosures required by FRS 102.26 *Share Based Payments*; and,
- The disclosures required by FRS 102.11 *Basic Financial Instruments* and FRS 102.12 *Other Financial Instrument Issues* in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The Company proposed to continue to adopt the reduced disclosure framework FRS 102 in future periods.

Accounting period

The financial statements presented cover the years ended 29th February 2016 and 28th February 2015.

Measurement convention

The financial statements have been prepared on the historical cost basis.

Functional currency

The financial statements are presented in Sterling which is the Company's functional currency.

1.2 Going concern

These financial statements are prepared on a going concern basis as explained on page 38.

1.3 Investment in subsidiaries

Investments in subsidiaries are stated at cost less any provision for impairment.

1 Accounting policies continued

1.4 Classification of financial instruments issued by the Company

In accordance with FRS 102.22, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- (b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

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

1.5 Basic financial instruments

Basic financial instruments comprise investments other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Trade and other debtors

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

Trade and other creditors

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Interest-bearing borrowings

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

1.6 Impairment

Financial assets (including debtors)

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

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

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

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

Notes to the Company Financial Statements
(Forming Part of the Financial Statements) continued
For the year ended 29th February 2016

1 Accounting policies continued

1.6 Impairment continued

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the 'cash-generating unit').

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

1.7 Provisions

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

1.8 Financial income and expenses

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

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

Dividend income is recognised in profit and loss on the date the Company's right to receive payment is established.

1.9 Taxation

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

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

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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

2 Expenses

Included in profit/loss are the following:

	Year ended 29 February 2016 £000	Year ended 28 February 2015 £000
Auditor remuneration – audit of financial statements	28	16
Auditor remuneration – other	140	119
<i>Exceptional items:</i>		
Exceptional deal costs	606	165

Exceptional costs relate to professional fees incurred in relation to the Company's admission to the Alternative Investment Market ('AIM') on 3rd June 2015. 'Auditor remuneration – other' includes £137,000 (2015: £115,000) of IPO-related fees and as such are of a one-off nature.

3 Directors' remuneration

	Year ended 29 February 2016 £000	Year ended 28 February 2015 £000
Directors' remuneration	451	395
Company contributions to money purchase pension schemes	4	2
Amounts paid to third parties in respect of Directors' service	32	–
	487	397

There are four directors (2015: 1) for whom retirement benefits are accruing under a money purchase pension scheme.

The aggregate remuneration of the highest paid director was £179,000 (2015: £157,000), including Company pension contributions of £1,680 (2015: £1,680) were made to a money purchase scheme on their behalf.

4 Finance income and expense

	Year ended 29 February 2016 £000	Year ended 28 February 2015 £000
Finance income		
Dividend income	1,821	–
Interest income	30	41
Total finance income	1,851	41

On 22nd May 2015 Gear4music Limited, a 100% owned subsidiary of Gear4music (Holdings) plc, paid a dividend of £1,821,145 to Gear4music (Holdings) plc.

	Year ended 29 February 2016 £000	Year ended 28 February 2015 £000
Finance expense		
Loan note interest	233	692
Total finance expense	233	692

Loan note interest was due principally to Key Capital Partners, the Company's private equity investor. In 2015 £12,000 was due to and paid to Andrew Wass in relation to loan notes that were settled in that financial year.

On 8th June 2015 the Group paid £4,469,477 to Key Capital Partners, of which £3,169,477 was settled in cash and £1,300,000 in equity, in full and final settlement of the loan notes and accumulated interest due.

5 Fixed asset investments

	Subsidiary undertakings £000
Cost	
At 28 February 2015	2,811
Capital contribution	195
At 29 February 2016	3,006

Notes to the Company Financial Statements
(Forming Part of the Financial Statements) continued
For the year ended 29th February 2016

5 Fixed asset investments continued

Investments in subsidiary undertakings are included in the balance sheet at cost less any provision for diminution in value. The Company has the following investments in subsidiaries:

Subsidiaries	Country of incorporation	Registered number	Year-end	Class of shares held	Ownership
Gear4music Limited (formerly known as Red Submarine Limited)	UK	03113256	28 February	Ordinary	100%
Cagney Limited (formerly known as Gear4music Limited)	UK	04493300	28 February	Ordinary	100% via G4M Limited

Cagney Limited is a dormant company.

6 Deferred tax assets

Movement in deferred tax during the year

	At 1 March 2015 £000	Recognised in income statement £000	At 29 February 2016 £000
Unused tax losses	(161)	33	(128)
	(161)	33	(128)

7 Debtors

Due within one year:

	Year ended 29 February 2016 £000	Year ended 28 February 2015 £000
Other debtors	5	2
	5	2

Due after more than one year:

	Year ended 29 February 2016 £000	Year ended 28 February 2015 £000
Amounts owed by Group undertakings	7,083	1,075
Deferred tax asset (see note 6)	128	161
	7,211	1,236

The loan to Group undertakings is repayable in 12 months and one day from the year end. No interest is charged on the balance.

8 Cash and cash equivalents

	Year ended 29 February 2016 £000	Year ended 28 February 2015 £000
Cash and cash equivalents per balance sheet	11	21
Cash and cash equivalents per cash flow statements	11	21

Significant non-cash transactions in the year included the Group paying £1.3m in equity to Key Capital Partners as part of the full settlement of their loan notes and accumulated interest.

9 Creditors: amounts falling due within one year

	Year ended 29 February 2016 £000	Year ended 28 February 2015 £000
Trade creditors	27	18
Accruals and deferred income	15	22
Other taxation and social security	(2)	143
	40	183

10 Interest-bearing loans and borrowings

This note contains information about the Company's interest-bearing loans and borrowing which are carried at amortised cost.

	Year ended 29 February 2016 £000	Year ended 28 February 2015 £000
Non-current liabilities		
Loan notes	–	4,237
	–	4,237
Total liabilities		
Loan notes	–	4,237
	–	4,237

On 8th June 2015 the Company paid £4,469,477 to KCP the Company's private equity investor, of which £3,169,477 was settled in cash and £1,300,000 in equity, in full and final settlement of the loan notes and accumulated interest due.

Interest accrued on these loan notes at 10% per annum compounding on a quarterly basis. A redemption premium of 20% was payable on the principle amount on repayment of the loan.

11 Share capital and reserves

	Year ended 29 February 2016 Number	Year ended 28 February 2015 Number
Authorised, called up and fully paid:		
Ordinary shares of 10 pence each	20,156,339	–
'A' Ordinary shares of £1 each	–	389,423
'B' Ordinary shares of £1 each	–	843,750
'C' Ordinary shares of £1 each	–	32,452
	20,156,339	1,265,625

On 27th May 2015 and pursuant to the investor agreement between the Company and Key Capital Partners and shareholder resolution, the Company allotted and issued £32,452 'C' Ordinary shares in the capital of the Company, of which £12,980 were awarded to both Chris Scott and Gareth Bevan, and £6,492 to Andrew Wass. This took the total number of shares in issue at the time to 1,298,077.

On 3rd June 2015, immediately following the Company's admission to AIM, the 'A', 'B', and 'C' Ordinary shares of £1 were each subdivided into one class of Ordinary shares of 10 pence each, and 7,175,569 new shares were issued, taking the total number of shares to 20,156,339.

The Company has one class of Ordinary share and each share carries one vote and ranks equally with the other Ordinary shares in all respects including as to dividends and other distributions.

Notes to the Company Financial Statements
(Forming Part of the Financial Statements) continued
For the year ended 29th February 2015

11 Share capital and reserves continued

	Year ended 29 February 2016 £000	Year ended 28 February 2015 £000
Share premium		
Opening at 1 March	–	–
Issue of shares	9,255	–
Share issue costs	(322)	–
Closing at 29/28 February	8,933	–
	Year ended 29 February 2016 £000	Year ended 28 February 2015 £000
Retained earnings		
Opening at 1 March	(1,616)	(699)
Share-based payment charge	(8)	–
Profit/(loss) for the year	868	(917)
Closing at 29/28 February	(756)	(1,616)

12 Related parties

Immediately prior to admission to AIM, Chris Scott (CFO) and Gareth Bevan (CCO) were allotted an aggregate of 259,600 10 pence shares further to their exercise of pre-existing options, and Andrew Wass was allotted 64,920 10 pence shares in accordance with the investor agreement with Key Capital Partners.

On 8th June 2015 the Company paid £4,469,477 to KCP the Group's private equity investor, of which £3,169,477 was settled in cash and £1,300,000 in equity, in full and final settlement of the loan notes and accumulated interest due. Key Capital Partners re-investment took their shareholding to 4,829,482 (23.96%).

13 Explanation of transition to FRS 102 from old UK GAAP

As stated in note 1, these are the Company's first financial statements prepared in accordance with FRS 102. The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 29th February 2016 and the comparative information presented in these financial statements for the year ended 28th February 2015.

In preparing its FRS 102 balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to FRS 102 has affected the Company's financial position and performance is set out on the opposite page.

13 Explanation of transition to FRS 102 from old UK GAAP continued**Reconciliation of equity**

	1 March 2014			28 February 2015		
	Adopted UK GAAP £000	Effect of transition to FRS 102 £000	FRS 102 £000	Adopted UK GAAP £000	Effect of transition to FRS 102 £000	FRS 102 £000
Fixed assets						
Investments	2,740	41	2,781	2,740	71	2,811
Current assets						
Debtors	1,626	10	1,636	1,236	2	1,238
Cash at bank and in hand	–	–	–	21	–	21
	1,626	10	1,636	1,257	2	1,259
Creditors: amounts due within one year	(39)	–	(39)	(183)	–	(183)
Net current assets	1,587	10	1,597	1,074	2	1,076
Creditors: amounts falling due after more than one year	(3,725)	(86)	(3,811)	(4,036)	(201)	(4,237)
Net assets/(liabilities)	602	(35)	567	(222)	(128)	(350)
Capital and reserves						
Called up share capital	1,266	–	1,266	1,266	–	1,266
Profit and loss account	(664)	(35)	(699)	(1,488)	(128)	(1,616)
Shareholders' equity	602	(35)	567	(222)	(128)	(350)

Notes to the reconciliation of equity and income statement:

Previously under UK GAAP long-term assets and liabilities were measured at cost, less any impairment losses.

Under FRS 102 these assets and liabilities are measured initially at fair value and subsequently under amortised cost.

Remeasurement of the Company's long-term intercompany loan due from Gear4music Limited to fair value gave rise to a reduction in the fair value of the loan of £41,000 on transition to FRS 102 at 1st March 2014 and a further £30,000 reduction at the comparative balance sheet date. These adjustments have been recognised as capital contributions as a debit to investments, reflecting the fact that the loan is made at a non-commercial rate of interest. The effective interest charge has been unwound over the repayment term.

Restatement of the Company's KCP loan notes under the amortised cost model gave rise to an adjustment to the carrying value of the loan at 1st March 2014 recognised through brought forward retained earnings (£45,000) and the amount recognised through financial expenses for the year to 28th February 2015 (£156,000). This re-statement reflects the recognition of the full amount of the redemption premium spread to the date of IPO (June 2015). In the adopted UK GAAP accounts this premium had been treated as being spread to the date of the loan note redemption (September 2018). A corresponding deferred tax asset measured at 20% has also been recognised in relation to these adjustments.

Notes

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