



Gear4music (Holdings) plc
Annual Report and Accounts 2019

Clarity

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Operating in a £4.9bn European market, Gear4music is the UK's largest retailer of musical instruments and music equipment, having grown revenues from £24m in 2015 to £110m in the 12 months to 28 February 2019.

Leveraging a market-leading bespoke e-commerce technology platform, a wide range of products including a unique own-brand offering, and a low-cost European logistics infrastructure, our objective is to deliver value to customers and shareholders through long-term profitable growth.

Highlights

Revenue £m

£118.2m
+48%

Gross margin %

22.8%
-260 bps

EBITDA £m

£2.3m
-34%

Cash at year end £m

£5.3m
+51%

Website visitors m

27.1m
+60%

Conversion rate %

3.40%
+15 bps

1 13-month period.
2 12-month period.

Operational highlights

- Growth strategy continues to deliver results with 37% revenue growth on a 12-month to 28 February 2019 basis (FY18: 43%).
- Website statistics improved for a fourth consecutive period – over 27m visitors and conversion improving to 3.4%.
- Restricted profitability reflects Commercial and Operational challenges. Management have taken quick and decisive action to improve profitability in FY20.
- Over £5m cash at 31 March 2019 to support the business in delivering its objectives.

At a glance

The Group

Gear4music is an e-commerce retailer selling over 51,500 SKUs across all major categories of musical instruments and music equipment. Products are sourced from over 880 manufacturers, and range from kazoos costing less than £1, to digital pianos, drum kits and guitars costing thousands of pounds.

Our numbers

Number of active customers

727,000

SKUs listed

51,572

Number of websites

20

Number of languages

15

Number of currencies

9

Our product range

GuitarsElectric, acoustic and
bass guitars, and
related accessories**27%**
of product sales**Keys**Acoustic and digital
pianos, keyboards
and synthesisers**21%**
of product sales**Live and PA**PA equipment,
speakers, stands and
microphones**21%**
of product sales**Drums**Electric and acoustic,
and other percussion
instruments**11%**
of product sales**Studio**Mixers, headphones,
microphones,
monitors and
interfaces**12%**
of product sales**Orchestral**Strings, brass,
woodwind
and
accessories**7%**
of product sales

Excludes departments where <1% share.

Leading brands

Other brands

Chairman's statement

Performance

Operating in a fragmented niche market, our customer proposition continues to be fundamental to our success, and it is pleasing to note the significant uplift in overall website visits, customer conversion and high levels of satisfaction.

Ken Ford | Chairman

We announced in September 2018 that we were changing our financial year-end from 28 February to 31 March and this has resulted in us reporting on a 13-month accounting period ended 31 March 2019 ('FY19') and, as such, unless otherwise stated, numbers may not be directly comparable.

With continuing strong growth taking revenue to £118m in FY19 (FY18: £80m, up 48%), the Group continues to rapidly gain market share, although, overall, it proved to be a challenging year. Despite another year of strong revenue growth and further expansion of our customer base, it was disappointing to announce that the Group's profits for the period would be materially below previous expectations.

It has been reassuring, however, to see the Executive Directors and management team reacting swiftly, and taking the decisions and actions necessary, as outlined in our Chief Executive Officer Andrew Wass's report, to ensure the challenges arising during FY19 are appropriately addressed.

Since Gear4music listed on AIM in 2015, annual revenues have grown from £24m to £110m in the 12 months to 28 February 2019 and £118m in FY19. We have achieved this growth by implementing our core strategy of best-in-class customer service, e-commerce excellence, bespoke platform development, international expansion and supply chain evolution. Like any rapidly growing business, the challenges faced in

FY19 have provided the Executive team and Board an opportunity to review all aspects of the business to ensure that we are correctly positioned to achieve our next leg of growth and rebuild shareholder value.

Operating in a fragmented niche market, our customer proposition continues to be fundamental to our success, and it is pleasing to note the significant uplift in overall website visits, customer conversion and high levels of satisfaction evidenced on review sites such as Trustpilot.com.

This high level of customer satisfaction, and the implementation of our growth strategy, have only been possible because of the passion and dedication of our staff, and on behalf of the Board I would like to thank all of our employees for their continued energy and commitment. We continue to look forward to the future with confidence.

Corporate governance

It is the Board's responsibility to ensure that the Group has a corporate governance framework that is effective whilst dynamic, as a foundation for a sustainable growth strategy, and identifying, evaluating and managing risks and opportunities that will underpin long-term value creation.

I am therefore pleased to confirm that, in compliance with the AIM Rules for Companies, the Board formally adopted the 2018 QCA Corporate Governance Code with effect from 26 September 2018. Enhanced disclosures in this regard are included in the various sections of this year's Annual Report, and available on the Group's website.

Outlook

The Board has taken decisive action to address the underlying causes of the profitability challenges in FY19. Pleasingly, many of the issues faced are within our grasp to resolve and we are already starting to see the benefits of a more rigorous focus on margin. In parallel with these initiatives, we continue to see a significant opportunity to continue to win market share in the UK and across Europe.

With over £5m cash on hand at 31 March 2019, the Directors remain confident that the Group has the financial resources required to achieve its business objectives during the next financial period.

I believe the Group will emerge from this period as a stronger and leaner business, well prepared and better placed for the next phase of our exciting growth journey.

Ken Ford
Chairman
2 August 2019



Investment case

Competitive advantages and Barriers to entry

Gear4music is well positioned to capitalise on the opportunities available within its markets, due to barriers to entry and our unique competitive advantages:

- We are an agile, online retailer, and have an increasingly well-recognised brand
- We are the UK's largest retailer of musical instruments and music equipment
- 'Gear4music' is the number one search term driving traffic in the category 'Music Shops' (source: Hitwise)
- Our bespoke e-commerce platform provides a high degree of operational flexibility and scalability which the Directors believe cannot easily be replicated
- A strong own-brand offering has been developed over 16 years, and has established a reputation for 'good' and 'better' quality products at affordable prices, whilst providing enhanced margin opportunities
- We have developed long-term relationships with the major branded musical instrument and music equipment manufacturers, placing us in a strong position during a period of retailer consolidation
- Significant scalable distribution capabilities
- The Directors and senior management have an intimate knowledge of the musical instrument and music equipment market

Key strength

Bespoke and proprietary e-commerce platform delivers competitive advantage

- End-to-end solution encompassing all aspects of trading operations
- 49 in-house software developers providing cost-effective development
- Currently supports 20 websites in 15 languages and 9 currencies
- 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 continuous development

Key strength

Well-developed product ranges

- Enhanced margin opportunities as volumes increase
- Over 51,500 products from over 880 brands
- Reputation for quality and value for money
- Over 3,200 own-brand SKUs, developed over a 16-year period

Key strength

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

- Revenues have increased every year since launch in 2003
- 36% revenue growth in FY19 (13-month basis), building on 43% revenue growth in FY18, and 58% in FY17
- Strong European growth validates website roll-out strategy
- Database of 2.81m registered users, with active customers increasing by 53%

Key strength

Specialist knowledge facilitates strong relationships with customers/suppliers

- Strong, committed and experienced management team
- Large team 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

Key strength

Efficient logistics systems

- Operates from three modern facilities with a combined 284,000 square feet footprint
- The most appropriate courier delivery services are automatically selected from more than 5,600 permutations depending on the weight, size, value and destination of the goods being purchased

Market overview

Volume

In December 2017 Music Trades estimated the global music products markets in 2015 to be \$15.9bn.

The top ten European retail markets for musical instruments and music equipment (including the UK) are worth an estimated £4.9bn and undergoing a profound shift towards online retail.

Retail markets worth

£4.9bn

Our Business

Overview

Gear4music is about making quality music gear more accessible and affordable for all musicians. Our mission is to become the best musical instrument and equipment retailer in Europe and 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 retailer in the UK, and we continue to make good progress in Europe. A bespoke e-commerce platform allows us to efficiently operate 20 websites, in 15 languages and 9 currencies, and as we develop this platform further, widen our product ranges and increase our marketing reach and brand recognition, we strongly believe we can continue to grow our share of the £4.9bn European market and expand our reach beyond this.

UK

The Board believes that the current dynamics of the UK competitive landscape, in particular the significant degree of fragmentation with no large or dominant retailers, presents a consolidation opportunity. Whilst acquisitions do not form a core part of the current strategy, opportunities are reviewed on an ad hoc basis.

Website	Country	Currency	Languages
www.gear4music.com	UK	Pound Sterling	English
www.gear4music.ie	Ireland	Euro	English
www.gear4music.fr	France	Euro	French, English
www.gear4music.es	Spain	Euro	Spanish, English
www.gear4music.pt	Portugal	Euro	Portuguese, English
www.gear4music.de	Germany	Euro	German, English
www.gear4music.be	Belgium	Euro	Dutch, French, German, English
www.gear4music.nl	Netherlands	Euro	Dutch, English
www.gear4music.dk	Denmark	Danish Krone	Danish, English
www.gear4music.no	Norway	Norwegian Krone	Norwegian, English
www.gear4music.se	Sweden	Swedish Krona	Swedish, English
www.gear4music.fi	Finland	Euro	Finnish, English
www.gear4music.it	Italy	Euro	Italian, English
www.gear4music.ch	Switzerland	Swiss Franc	German, French, Italian, English
www.gear4music.at	Austria	Euro	German, English
www.gear4music.pl	Poland	New Zloty	Polish, English
www.gear4music.cz	Czech Republic	Czech Crown	Czech, English
www.gear4music.si	Slovenia	Euro	Slovenian, English
www.gear4music.sk	Slovakia	Euro	Slovak, English
www.gear4music.com/us	USA	US Dollar	English, Spanish

Top European Markets

Country	Estimated market size (£m)*
Germany	1,371
France	991
UK	860
Italy	664
Netherlands	232
Austria	208
Spain	191
Switzerland	163
Sweden	123
Norway	95
Total size	4,898

* Management estimate.

Operations | Locations (Revenues)

Gear4Music
York | UK
2019: £110m
2018: £80m
+37%

S&T Audio (PMT)
London | UK
2018: £37m
2017: £33m
+12%

Andertons
Guildford | UK
2018: £33m
2017: £30m
+10%

Woodbrass
Paris | France
2018: £41m
2017: £48m
-13%

Bax Shop
Goes | Netherlands
2018: £100m
2017: £96m
+4%

Musicstore
Cologne | Germany
2018: £123m
2017: £112m
+10%

Thomann
Burgebrach | Germany
2018: £733m
2017: £708m
+4%

Luthman
Stockholm | Sweden
2018: £100m
2017: £93m
+8%

● 1 day road/economy delivery ● 2 days road/economy delivery ● 3+ days road/economy delivery

Chief Executive's statement

Conducting

Financial and Commercial KPIs in our fourth year as a listed business are set out below:

Financial KPIs

	FY19 (13m)	FY18 (12m)	Change
Revenue*	£118.2m	£80.1m	+48%
UK revenue*	£63.7m	£44.3m	+44%
International revenue*	£54.5m	£35.8m	+52%
Gross margin	22.8%	25.4%	-260bps
Total admin expenses*	£26.9m	£18.4m	+46%
European admin expenses*	£2.8m	£1.5m	+87%
EBITDA	£2.3m	£3.5m	-34%
Cash at year end	£5.3m	£3.5m	+51%
Net debt	£7.5m	£5.0m	+50%

Commercial KPIs

	FY19 (13m)	FY18 (12m)	Change
Website visitors	27.1m	16.9m	+60%
Conversion rate	3.40%	3.25%	+15bps
Average order value	£117	£127	-8%
Active customers	727,000	475,000	+53%
Products listed	51,500	44,700	+15%

See page 21 for commercial KPI definitions.

Footnote: Revenue tables bridging from audited periods to non-GAAP accounting periods:

FY18 Revenue reconciliation

	FY18 Audited 12m to 28 Feb 18	March 2018	13m to 31 Mar 18
UK revenue*	£44.3m	£3.7m	£48.0m
International revenue*	£35.8m	£2.9m	£38.7m
Total revenue*	£80.1m	£6.6m	£86.7m

FY19 Revenue reconciliation

	12m to 28 Feb 19	March 2019	FY19 Audited 13m to 31 Mar 19
UK revenue*	£58.9m	£4.8m	£63.7m
International revenue*	£51.0m	£3.5m	£54.5m
Total revenue*	£109.9m	£8.3m	£118.2m

* See Note 2 of the financial statements.

Business review

Gear4music has continued to grow revenue quickly and has gained significant additional market share throughout FY19, although, as previously reported, the Group has been impacted by a number of operational and commercial issues, in what continues to be a challenging retail environment.

In response we have undertaken a thorough review of all aspects of the business, and are confident that the swift strategic and operational changes being made will significantly reduce the risk of these issues reoccurring in the year ahead.

Our core growth strategy of continually improving our customer proposition remains valid and appropriate, but in addition we will focus on margin improvement and distribution efficiency to ensure the business is effectively configured to achieve a sustainable level of profitable growth.

Targeted margin growth

The FY19 gross margin of 22.8% was well below historical averages, and margin recovery is a primary objective for FY20 and beyond. To achieve this, we will focus on more selective inventory investment where we see higher margin potential, alongside accelerating own-brand sales growth relative to other brands. As first reported in April, product margins continue to recover, and we are confident of further progress in the year ahead.

These actions will be supported by a review of our courier relationships and returns policies, alongside more targeted marketing campaigns designed to support greater profitability as well as revenue growth.

The combined effect of the actions that we have taken will likely lead to a lower rate of H1 sales growth than recent years, particularly against FY19 H1 when gaining market share was prioritised over profitability. This will ensure that our margins are realigned ahead of the H2 peak trading period and help us to operate profitably and sustainably within any retail environment.

Distribution efficiency

As previously reported, during our FY19 peak Christmas trading period, our York distribution centre reached maximum capacity within its configuration at that time. This restricted additional revenue growth, and resulted in higher than anticipated labour and distribution costs.

Improving the efficiency and scalability of our distribution and logistics management systems has become a priority for the current year, alongside planning for 24/7 operations during the peak Christmas period, with contingency arrangements in place for outsourced inventory storage if required.

Our strategy of establishing a physical footprint in Europe continues to benefit the Group and provides a solid platform for growth in the future. As our European business continues to grow, we are expecting to fulfil a higher proportion of orders from our European distribution centres located in Sweden and Germany, which have significant spare capacity.

As previously notified, courier costs during FY19 were notably higher, particularly during the peak trading period. We continue to take action to ensure more robust and commercially viable arrangements with our courier partners are in place for the future, for instance through renegotiation of contracts.

A large, stylized handwritten signature in black ink, reading 'Clarity'.

Our FY20 H1 focus is on improving gross margins and ensuring a robust operational infrastructure is in place ahead of our peak H2 trading period.

Andrew Wass | Chief Executive Officer

Chief Executive's statement continued

Producing

We are confident that we have the right strategy, customer proposition, financial resources and focus to overcome the challenges of FY19, and achieve our objectives of maximising customer satisfaction and delivering value to shareholders.

Andrew Wass | Chief Executive Officer

Revenue

£118.2m

EBITDA

£2.3m

Trading outlook

We have taken quick and decisive action to address the operational and commercial issues that impacted profitability in FY19. Whilst early in the current year, we are beginning to see positive trends establishing themselves, which give us confidence in our refocused growth strategy. Alongside this, we will continue to develop our excellent e-commerce platform, expand our customer base in the UK and internationally, extend and refine our product ranges, and deliver the market-leading service and value that has made us a leading European retailer of musical instruments and equipment in such a short space of time.

Whilst the ongoing Brexit uncertainty and its impact on consumer confidence is unhelpful, we remain well positioned to benefit from further consolidation within our market. We believe we are well placed to deliver on our strategic objectives with a solid financial base and a better organised and refocused operational structure, giving us confidence in our trading outlook for the new financial year.

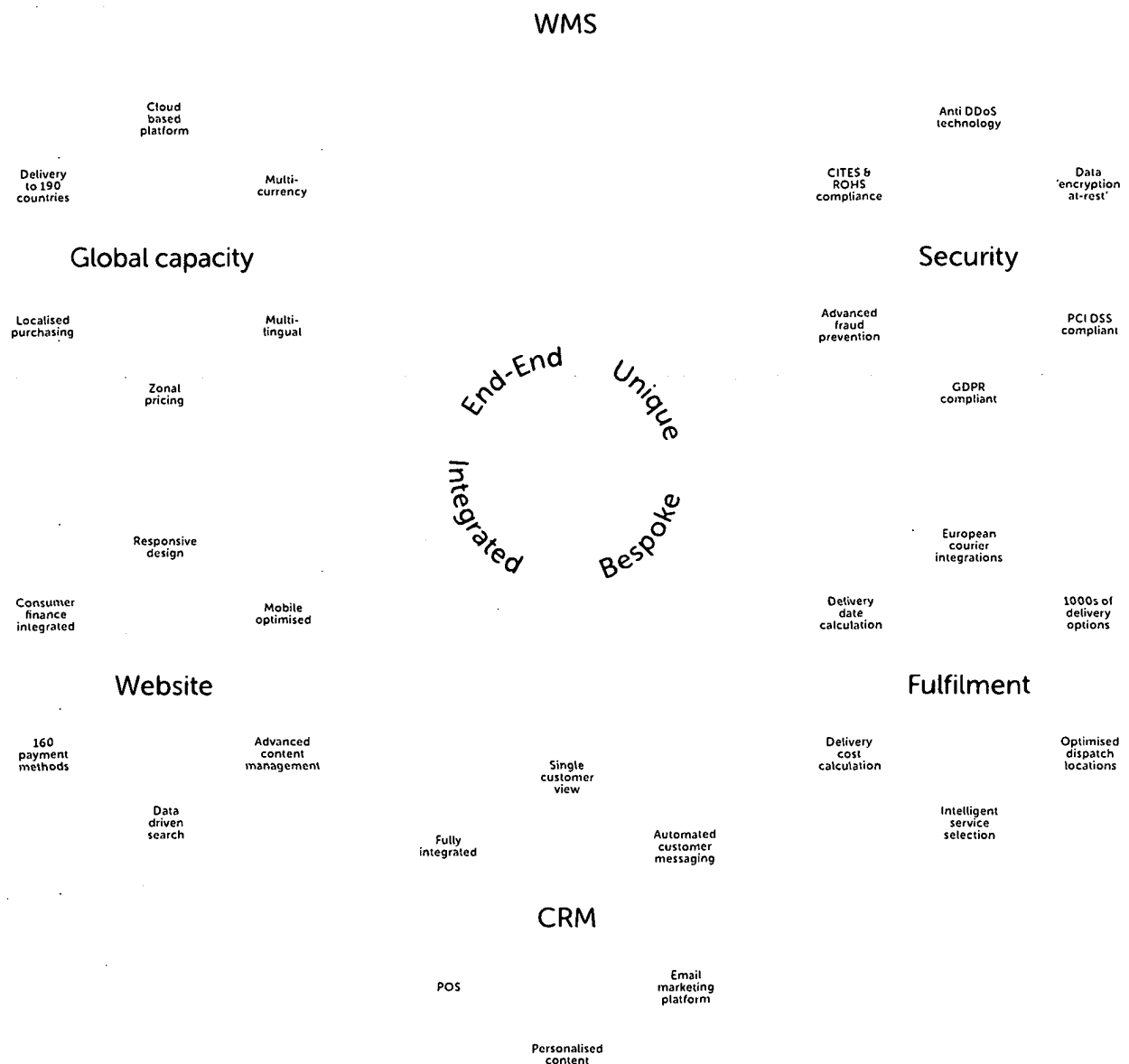
Andrew Wass
Chief Executive Officer
2 August 2019



Platform features

Our bespoke platform provides an end-to-end solution encompassing the whole business. Having software development in-house enables us to quickly and cost-effectively develop new features and functionality.

READ MORE ON
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Business model

Gear4music is an online retailer of musical instruments and music equipment, operating 20 websites in 15 languages and 9 currencies.

Gear4music is about making quality music gear more accessible and affordable for all musicians.

Our products

At the year-end we listed over

51,500

products from over

880

manufacturers

Branded Products

Gear4music has developed long-term partnerships with many well-recognised brands within the music products industry, who rely on 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 Gear4music showrooms.

Own-brand Products

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 and varied range with over 3,200 products listed.

Our service

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 touchpoints deliver a market-leading experience, and monitor our progress carefully using independent sources such as Trustpilot.

Specialist staff

In FY19 we employed 431 people (28 February 2018: 313) across three countries, and many have first-hand musical instrument and 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 to enable them to advise customers.

Multilingual support for overseas customers in non-English speaking countries continues to be a key investment focus, and a pre-requisite for many of the Group's dealership agreements when selling outside the UK.

Our customers

Customer overview

Gear4music's customer base is primarily made up of private individuals (over 96%), from beginners and parents buying musical instruments and music equipment for their children, through to professional musicians.

The Group supplies schools and other educational establishments and a small number of trade accounts.

On 31 March 2019 we had 2.81m people registered on our database (28 February 2018: 1.89m), of which 727,000 are active customers (being customers who have purchased from Gear4music during the previous 12 months).

As the Group continues to increase its European business, it acquired a further 674,000 new customers in the period (FY18: 408,500), and 154,900 customers came back to us to place at least one follow-up order. Average order value in FY19 was £117, down from £127 in FY18, having been £124 in FY17 and £116 in FY16.

Own-brand product range

3,200

products listed

Total number of employees

431

across three countries

On 31 March 2019 we had

2.81m

people registered on our database

How we work

We believe a successful e-commerce business requires a unique combination of talented staff, excellent products, efficient systems, robust physical operations and reliable delivery partners.

Staff

We have a strong, committed and experienced management team, working alongside passionate staff with in-depth knowledge of their specialist area of focus.

Products

Our own-brand product ranges have taken over 16 years to develop, working with some of the best manufacturers from around the world to ensure we build on our reputation for great quality at affordable prices. In addition, we have built strong relationships with the industry's biggest brand names, including Yamaha, Roland, Fender and many more.

Premises

The Group currently operates from 284,000 square feet of operational space – 135,000 square feet in York, 77,000 square feet in Sweden, and 72,000 square feet in Germany.

The 50,000 square feet freehold Head Office acquired in FY18 provides back-office facilities sufficient to support the business into the long term.

Systems

Our bespoke and proprietary e-commerce platform is an end-to-end solution covering all aspects of retail operations, including website content, inventory management, multi-currency pricing, logistics and dispatch, CRM, automated marketing, purchasing, customer receipts and management reporting.

We believe this platform is a cornerstone of our business and source of competitive advantage, delivering reliability, scalability and unique functionality, and we have an in-house team of dedicated programmers constantly improving our systems with new features and functionality.

Delivery

Reliable delivery with competitive pricing is fundamental to our proposition and success. Our e-commerce platform is configured to select the most cost-effective delivery options from 17 different delivery service providers, to provide our customers with a class-leading range of delivery options.

READ MORE ON
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The Group currently operates from

284,000 sq ft
of operational space

Strategy and our progress

Our Strategy

Gear4music's strategy is built around four pillars of growth:

Our strategic priorities

Overview

E-commerce Excellence

We continue to invest in international marketing initiatives, extending our reach and penetration into existing and new international territories. New website content is constantly being added, including broadcast-quality product demonstration videos created in Gear4music's in-house studio facilities. A digital personalisation

platform continues to be developed and refined to ensure customers receive relevant information and offers through all communication channels.

Jonathan Meager
E-commerce Director

- Market-leading websites
- Informative and engaging content
- Intelligent digital marketing
- Evolving customer experience

Bespoke Platform Development

STRATEGY IN ACTION
PAGES 16-17

Our websites are driven by a bespoke and proprietary e-commerce platform, designed to maximise opportunities and deliver competitive advantage. It has the capacity to handle significantly increased volumes, and the capability to expand into new markets. Having software development in-house helps deliver the cost-effective investment in platform development required to grow

revenues and profitability. Investment enables us to respond to changing customer behaviours and expectations, by rapidly developing new features and functionality to drive website traffic, increase conversion rates and maximise operational efficiencies and reliability.

Tom Walder
Chief Technical Officer

- Grow in-house development team
- Accelerate innovation
- Increase efficiency, traffic and conversion
- Reduce operational costs

International Expansion

We continue to develop and improve our customer proposition in each of the territories we operate. We'll achieve this by localising our websites to drive traffic and improve conversion, expanding our multilingual customer service and marketing teams, and,

where the business case supports it, by opening distribution centres to improve delivery options and cut delivery times.

Robert Newport
Operations Director

- Territory-specific websites
- Multilingual, multicurrency experience
- Localised payment and delivery options
- Local distribution where viable

STRATEGY IN ACTION
PAGES 18-19

Supply Chain Evolution

We continue to widen our supply chain reach and purchase inventory in different countries and currencies, whilst at the same time consolidating where possible and dealing directly with factories and manufacturers.

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.

Gareth Bevan
Chief Commercial Officer

- Continuous product range expansion
- Factory direct where possible
- Expand multicurrency sourcing options
- Automate repetitive processes

Progress

Website visitors:

27.1m
+60%

Trustpilot rating:

9.4

With over 27m website visitors in the period, conversion rates improving by 15 bps, active customer numbers increasing to more than 727,000, and 47% growth in repeat customers, our e-commerce strategy continues to prove highly effective.

required to build customer trust and loyalty. We will continue to learn from our customers, and use our significant technical resource to design the new solutions required to satisfy an evolving market.

Our 9.4 Trustpilot rating from over 50,000 reviews is a reflection of our 'customer first' approach, the incredible efforts our team makes, and the attention to detail that is

Development team:

49

Updates and upgrades:

1,149

Our bespoke e-commerce platform is the cornerstone of our success and a major competitor differentiator, and our development team, now totalling 49, have worked tirelessly to design and deploy over 1,100 updates and upgrades during the period.

SEE PAGE 11

International sales:

£54.5m
+52%

With international sales increasing to £54.5m during the period in what is a \$16bn market, expanding internationally continues to be a key area of opportunity and focus for the Group. Localising our websites and customer experience is at the core of our growth strategy, and during the period we have expanded our multilingual customer service team, invested further into translation and marketing, and improved our local delivery and payment options.

In March 2018 we opened our German showroom, which in addition to physically showcasing our products and building our brand in the locality, has created buying opportunities from German distributors in Euros.

In October 2018 we relocated our Swedish operation, providing significant additional capacity to service the Scandinavian and Northern European markets.

SKUs listed:

51,572
+15%

Own-brand revenue:

£31.3m
+49%

At the year-end we listed over 51,500 products, which is up by 15% in 13 months, and we know there are opportunities to grow this significantly.

Whilst only representing 6% of listed SKUs, own-brand product sales accounted for 27% of revenue.

Own-brand sales continue to grow impressively to £31m in the period, building on 45% growth in FY18 and 58% in FY17.

Strategy in action

Bespoke Platform Development

We have invested £9.2m over 13 years in developing a bespoke end-to-end e-commerce platform designed to meet our exact requirements. The 'front-end' websites are market-leading localised sites that have responsive design and are multilingual and multicurrency, supported by robust, flexible, fully integrated back-office systems. Having software development in-house enables us to quickly and cost-effectively develop new features and functionality.

SEE DIAGRAM ON
PAGE 11

We have 49 software developers in our team working on a pipeline of exciting new developments and features.

Tom Walder | Chief Technical Officer

Number of deployments in the period:

1,149

Producing

Strategy in action continued

International expansion

During the period we successfully relocated our Swedish distribution centre into a significantly larger facility on the same logistics park north of Stockholm. Our showroom moved simultaneously and now has a purpose-built home adjoining the warehouse. By selecting a new-build property owned by the same landlord, we were able to plan the timing of our move to manage the transfer without pausing operations and with tight cost control.

Recognising the relatively high cost base from operating in Sweden, we have invested in labour-saving operating systems and space-efficient equipment to enable us to accelerate our productivity growth from our Rosersberg site. The new facility enabled us to deliver a seasonal peak performance this year that was markedly greater than 2017 whilst still retaining significant spare capacity to deliver future growth, supporting our ambition to become the leading Scandinavian music equipment retailer.

Our strategy of establishing a physical footprint in Europe continues to benefit the Group and provides a solid platform for growth in the future.

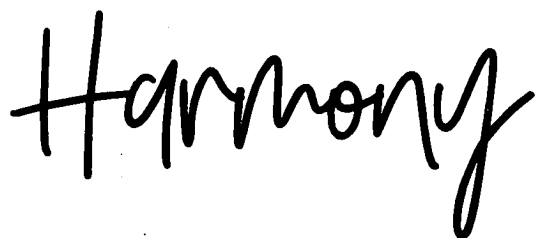
Robert Newport | Operations Director

International sales in the 13-month period:

£54.5m

Volume

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

Revenue £m

£118.2m
+48%

Gross margin %

22.8%
-260 bps

Cash £m

£5.3m
+51%

Commercial

Marketing return as % of revenue

8.2%
-0.1 ppts

Unique visitors m

27.1m
+60%

Conversion %

3.40%
+15 bps

Average Order Value ('AOV')

£117.39
-8%

SKUs listed

51,572
+15%

Customer

Customer experience Trustpilot rank

9.4

Proportion of repeat customers %

21.3%

-80 bps

Total database size m

2.81m

+49%

Definitions

Unique Visitors: A distinct person who visits a G4M site during a given period

Conversion: Total number of online orders divided by the total number of unique visitors

Average Order Value: Total revenue (gross of credit notes) divided by the total number of orders

Total database size: Number of people whose details are held on the G4M database

Proportion of repeat customer: Number of customers in the period who have placed more than one order

Financial review

Tempo

In FY19 the Group delivered continued strong revenue growth but, as Andrew has detailed in his CEO's report, profitability has been adversely impacted, primarily by a highly competitive market contributing to lower gross margins as well as operational issues now being addressed.

Chris Scott | Chief Financial Officer

Revenue

	FY19 (13m) £000	FY18 (12m) £000
UK revenue	63,672	44,258
International revenue	54,483	35,842
Revenue	118,155	80,100

Revenue increased by £29.8m (37%) over comparable 12-month periods to the end of February 2019, and £31.5m (36%) on comparable 13-month periods to the end of March 2019. This builds on growth of 43% in FY18 and 58% in FY17.

UK revenue growth was 33% on both a 12-month and 13-month basis, taking Gear4music's UK market share to an estimated 6.9% (FY18: 5.9%).

European growth continues to represent a significant opportunity and international revenue growth of 42% on a 12-month basis/41% on a 13-month basis followed 69% growth in FY18 and 124% growth in FY17. Revenues from sales outside of Europe accounted for 1.3% of total revenue (FY18: 1.0%).

	FY19 (13m) £000	FY18 (12m) £000
Other-brand product revenue	82,125	56,075
Own-brand product revenue	31,289	20,947
Other revenue	4,741	3,078
Revenue	118,155	80,100

We continue to make good progress in our own-brand business with revenue growth again over-delivering on the Group's ambition of keeping pace with the growth in other-brands.

In FY19 own-brand revenue accounted for 26.5% of total revenue compared to 26.2% in FY18 and 25.7% in FY17, with these sales generated from just 3,218 SKUs, representing 6% of the total range (FY18: 2,629 SKUs; FY17: 2,411 SKUs).

Other revenue comprises carriage income, warranty revenue, and commissions earned on facilitating point-of-sale credit for retail customers. These revenues accounted for 4.0% of total revenue in the period (FY18: 3.8%).

Gross profit

	FY19 (13m)	FY18 (12m)	Change
Product sales (£000)	113,414	77,022	
Product profit (£000)	31,558	23,197	
Product margin	27.8%	30.1%	-2.3ppts
Carriage costs (£000)	9,078	5,835	
Carriage costs as % of sales	7.7%	7.3%	-0.4ppts
Gross profit (£000)	26,916	20,319	
Gross margin	22.8%	25.4%	-2.6ppts

Continued strong revenue growth led to a £6.6m increase in gross profit in the 13-month period compared to last year, but gross margin fell from 25.4% to 22.8% due to competitive pressures in the market for other-brand products.

We have been referencing the highly competitive nature of the market for other-branded products since our AGM statement in July 2018, and these pressures have led to low other-brand product margins that are the main contributor to the margin shift in the period. As communicated, our short-term response was to invest in our customer proposition in terms of competitive pricing and delivery options to drive market share gains, but our ability to achieve this was limited in November and December by UK distribution challenges. In FY20 we are refocusing on restoring gross margin and we continue to take action to address this.

Medium-term stock intake price prospects are improving with increasing scale and the Group's ability to source other-branded products in Swedish Krona and Euros.

The Group purchases its own-brand products in US Dollars and, as such, gross margin can be impacted by exchange rate fluctuations. This led to cost push inflation in FY18 which was partly mitigated through negotiation with suppliers and passing on through price increases to consumers where it made commercial sense. In FY19 own-brand margins have not been subject to the same pressures and remained stable.

We include our costs of delivery within our cost of sales figure, which is a different accounting treatment to some other e-commerce retailers. Delivery costs increased to £9.1m in the period and represented 7.7% of total revenue (FY18: 7.3%).

Administrative expenses and Operating profit

	FY19 (13m) £000	FY18 (12m) £000
UK administrative expenses	(24,113)	(16,823)
European administrative expenses	(2,814)	(1,535)
Total administrative expenses	(26,927)	(18,358)
Operating (loss)/profit	(11)	1,961

Total administrative expenses increased 47% in the 13-month period relative to FY18, compared to a 48% increase in sales. This includes an 83% increase in European administrative expenses, reflecting the continued scaling-up of the Group's European distribution centres.

Marketing and labour costs in the 13-month period were £9.8m (FY18 12m: £6.7m) and £9.5m (FY18 12m: £6.3m) respectively, and represented 72% of total administrative expenses (FY18: 71%).

Marketing activities continue to be heavily data-driven and focused on return on investment, and costs accounted for 8.3% of revenue in both FY19 and FY18.

Labour costs in FY19 accounted for 8.1% of revenue compared to 7.9% in FY18, reflecting an increase of 118 (38%) in average headcount, and includes the aforementioned distribution inefficiencies in November and December.

Administrative expenses include a £421,000 credit relating to the release of a rent accrual for the difference between cash paid and the average rent charge as expensed in relation to the leasehold distribution centre in York. The signing of a new lease in March 2018 triggered this release.

FY19 EBITDA of £2.3m is £1.2m lower than last year, representing an EBITDA margin of 1.9% compared to 4.3% last year and 6.4% in FY17. The Group is refocusing on returning profitability towards historical levels by improving gross margins and cost base management.

Net financial expenses of £598,000 (FY18: £461,000) include £352,000 interest (FY18: £178,000) relating to property loans, increased utilisation of the Import Loan facility, and a £249,000 net foreign exchange loss (FY18: £265,000 loss).

The Group is reporting a loss before tax of £0.6m compared to a £1.5m profit last year.

The net loss for the period of £0.2m (FY18 net profit: £1.4m) translates into an EPS loss of 0.8p (FY18: +6.7p).

Cash flow and net debt

The cash flow statement for the financial year reflects the Group continuing to deploy growth capital to generate returns, by investing in stock and the e-commerce platform to improve the customer proposition and drive revenue growth.

	FY19 (13m) £000	FY18 (12m) £000
Opening cash	3,540	3,001
(Loss)/profit for the year	(163)	1,386
Movement in working capital	(62)	(3,123)
Depreciation and amortisation	2,293	1,497
Financial expense	349	196
Other operating adjustments	159	199
Net cash from operating activities	2,576	155
Net cash from investing activities	(4,888)	(9,517)
Net cash from financing activities	4,085	9,899
Increase in cash in the year	1,773	537
Foreign exchange	(9)	2
Closing cash	5,304	3,540

Investment in working capital was £0.1m compared to £3.1m in FY18 and £3.5m in FY17, and demonstrates the Group's ability to manage working capital to generate cash should it be required.

Period-end stock increased by £1.6m (9%), reflecting lower stock holdings of brands where the current product margins do not

justify the working capital investment, and a clean-up of overstocked items resulting from under-delivering on peak revenue and of slower-moving inventory.

Net cash from investing activities of £4.9m includes £2.7m of software development (FY18: £1.7m) and £1.8m of tangible fixed additions comprising £1.0m in the UK which was part funded by the drawing of £0.5m of finance leases, and £0.6m in Sweden relating to the new distribution centre.

Net cash from financing activities of £4.1m includes a £4.5m increase in utilisation of the HSBC Import Loan facility secured against stock. On 31 May 2019 this facility was increased from £8m to £10m, providing further headroom should it be required.

Balance sheet and net assets

The Group has a strong year-end balance sheet, with net assets of £18.7m (FY18: £18.9m), and £5.3m cash (FY18: £3.5m).

	31 March 2019 £000	28 February 2018 £000
Software platform	5,814	4,304
Other intangible assets	2,013	2,074
Property, plant and equipment	10,766	10,054
Total non-current assets	18,593	16,432
Stock	18,661	17,055
Cash	5,304	3,540
Other current assets	1,657	2,704
Total current assets	25,622	23,299
Trade payables	(7,464)	(7,325)
Loans and borrowings	(8,555)	(3,914)
Other current liabilities	(4,069)	(3,591)
Total current liabilities	(20,088)	(14,830)
Loans and borrowings	(4,272)	(4,616)
Other non-current liabilities	(1,148)	(1,400)
Total non-current liabilities	(5,420)	(6,016)
Net assets	18,707	18,885

The investment in our bespoke e-commerce platform in the period was £2.7m (FY18: £1.7m) to develop enhanced functionality and resilience, taking total investment to date to £9.2m, and net book value to £5.8m (28 February 2018: £4.3m).

The Group had net debt of £7.5m at the period end (28 February 2018: £5.0m), including debt of £4.6m that relates to and is secured by the freehold Head Office valued at £7.2m. Period-end net debt is made up of £3.2m of net debt payable under one year and £4.3m is due over one year.

Dividends

The Board remains confident in the cash-generative nature of the business, but in light of the increased level of debt and the importance of retaining cash reserves to support future growth, the Board does not consider it appropriate to declare a dividend at this time, but will continue to review this position on an annual basis.

On behalf of the Board

Chris Scott
Chief Financial Officer
2 August 2019



People and Culture

The Band

We know that the foundations of a successful business are built on the hard work of a team of talented and motivated individuals.

We strongly believe in growing our talent by recruiting only the best people, identifying individual strengths, and providing development opportunities with the scope for career progression as a result.

Our diverse workforce is the best part of Gear4music: different cultures, knowledge and skills makes it a fantastic place to work, and many of our employees are musicians in their spare time.

A business for musicians run by musicians

We are proud of our passionate staff with in-depth knowledge of their specialist area of focus.

We offer staff discounts on musical products and equipment and in FY19 estimate over 75% of our team made a relevant purchase.

Recruitment and Retention

We need to attract talent into our business to support our growth plans and offer competitive salaries and a range of benefits to help attract and retain great people (<https://www.gear4music.com/careers/why-gear>).

As at 31 March 2019, 69 employees are participating in Group share option plans in recognition of their contribution to the continuing success of the business.

In FY19 our average headcount increased by 38% from 313 to 431, and our retention levels are good.

Apprenticeships

We believe it is important to encourage young people into the workplace and provide training and development for the future. Working with recognised training providers, we provide on-the-job training resulting in a professional qualification.

We offer apprenticeships across many parts of the business, including Retail, Warehousing, Graphic Design, Web Content and Marketing.

Gender Pay Gap report

As of April 2018, we are pleased to report that our mean gender pay gap (9.2%) has improved on last year (12.6%), and is better than the national average (17.9%):

- Women's hourly rate is 9.2% lower (mean) and 15.5% higher (median)
- Top salary quartile has 83.6% men and 16.4% women
- Upper middle salary quartile has 59.7% men and 40.3% women
- Lower middle salary quartile has 83.6% men and 16.4% women
- Lower salary quartile has 90.3% men and 9.7% women
- Women's bonus pay is 5.1% higher (mean) and 0% lower (median)
- 9% of men and 1.5% of women received bonus pay

The mean reflects the fact that the top three highest paid employees are male. The median reflects that there are proportionally more females in the upper middle quartile and proportionally less females in the lower quartile.

Executive Board

Andrew Wass
CEO

Chris Scott
CFO

Gareth Bevan
CCO

Operational Board

Tom Walder
Chief Technical Officer
Joined 2017

Jonathan Meager
E-commerce Director
Joined 2007

Robert Newport
Operations Director
Joined 2016

Charlotte Mahon
HR Director
Joined 2015

Senior Management

Swedish Commercial
Manager
Joined 2016

German Commercial
Manager
Joined 2017

Head of UK Buying
Joined 2018

Head of Digital
Marketing
Joined 2015

Swedish Logistics
Manager
Joined 2016

German Logistics
Manager
Joined 2016

UK Logistics Manager
Joined 2005

Head of Customer
Service
Joined 2005

Risks and uncertainties

The Board recognises 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 is set out in the Corporate governance section.

This section focuses on the principal risks and uncertainties to our business model that could impact on our achieving our strategic objectives, and our future performance.

FOR MORE INFORMATION
 VISIT OUR WEBSITE

Operations

Risk

Description

Mitigation

UK's decision to leave the EU/'Brexit'

Uncertainty in the UK and European economies following the UK's EU Referendum vote (Brexit) could potentially impact on consumer confidence and the ability of the Group to maintain sales growth.

Governments could influence cross-border controls, which could make it more difficult for us to move products across borders to customers and/or between our distribution centres.

European competitors may gain an advantage over the Group if higher duties are imposed on UK imports into the EU, or currencies move adversely to the Group.

Controls on the freedom of movement of people may impact the availability of European workers in the UK.

Developments continue to be monitored subsequent to the UK's decision to leave the EU.

The Group would look to minimise cross-border activity with our European operations fulfilling a higher proportion of European demand, and our UK operation focusing on the UK. The Group has trading subsidiaries in Sweden and Germany and, if and when appropriate, operational arrangements could be adapted and these entities become standalone businesses.

The Group has established teams and significant capacity in its Swedish and German sites.

Competitor activity and offerings are reviewed regularly to remain abreast of market developments and identify competitive advantages.

Fluctuating exchange rates are regularly reviewed and operational and financial mitigations considered. Buying products and incurring proportionally more other costs in Euros and Krona partly mitigates the risk.

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 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 Corporate governance section, the PLC and Operations Boards actively monitor and respond, so as to maintain systems and practices that are appropriate for the operations and scale of the Group.

The Group continues to recruit into key management positions.

The Group has again expanded its Finance function, providing greater capacity and better segregation of duties, further improving the control environment.

Operations continued

Risk	Description	Mitigation
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 routinely direct Management to seek professional input into any such major developments. The Group has local subsidiaries in Sweden and Germany and has recruited local management familiar with local laws and regulations. Advances into Europe will continue to be in a measured and capital efficient manner.
Technological changes	Unless the Group is able to respond to technological advances, it may not be able to effectively build and/or maintain a competitive advantage.	The Group continues to allocate a significant annual budget to software development – £2.7m in FY19 – and has plans to increase this spend in FY20. Software development is in-house, enabling the Group to assert greater control and drive cost efficiency to help mitigate such risks.
Distribution centres	The Group operates three distribution centres and as such is not completely reliant on a single site. Any disruption to a distribution centre's efficient operation may have an effect on the Group's business. Distribution centres may suffer prolonged power or equipment failures, failures in their 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 operates from three locations, mitigating the risk of over-dependence on any single location. The Group, in conjunction with its insurance broker, ensures sufficient and appropriate insurance 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 warehouses, run by senior management that have significant experience in the sector. Any rapid increase in revenue 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 are regular reviews of capacity across locations and follow-up plans developed that the Board believes should allow the Group to fulfil an increasing number of orders from the existing sites and identify step-changes for consideration as and when required. The Group operates from three Distribution Centres, each with their own local logistics relationships, thereby reducing the dependency on any single site or local network. The Group maintains 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. In October 2018 the Group relocated its Swedish operation to a larger, new-build unit.

Risks and uncertainties continued

Operations continued

Risk	Description	Mitigation
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 search engine optimisation activities that adhere to search engine guidelines.

Data security and IT reliability

The Group 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, or the inability to accept and fulfil customer orders, which could affect the Group's business.	The Group seeks to mitigate this risk by investing in IT infrastructure including robust cloud-based 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.
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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 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. Own-brand products are carefully selected and rigorously tested prior to initial order.

Competition

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.
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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 70% of the Group's turnover in FY19 (FY18: 70%), 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
sub-contract
manufacturers

The Group sub-contracts 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 sub-contractors' products is exacerbated by the lead times involved (12-16 weeks).

The Group has been successfully importing for over 16 years and has relationships with over 30 manufacturers providing re-sourcing options.

The Board believes that the Group has robust take-on and ongoing monitoring procedures covering areas such as quality control and delivery performance for new and existing manufacturers that the Group seeks to adhere to rigidly.

Dependence on key
personnel

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 their remuneration with the continued success of the Group.

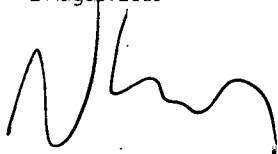
The Board continues to recruit into key management positions as and when positions are identified.

An Operational Board meets on a regular basis to focus on all trading and commercial matters.

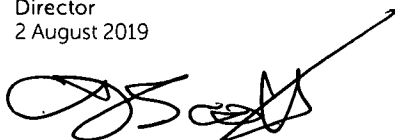
Key man insurance is in place for Andrew Wass, Gareth Bevan and Chris Scott.

The Strategic Report on pages 1-29 is approved by the Board of Directors and signed on behalf of the Board.

Andrew Wass
Director
2 August 2019



Chris Scott
Director
2 August 2019



Corporate governance report

Chairman's introduction

It is the Board's responsibility to ensure that Gear4music is managed for the long-term benefit of all shareholders. A corporate governance framework that is effective whilst dynamic is one of the foundations of a sustainable growth strategy and identifying, evaluating and managing risks and opportunities will underpin long-term value creation.

In the period the Directors chose to apply the Quoted Companies Alliance Corporate Governance Code (the 'QCA Code'), the latest version of which was developed by the QCA in consultation with a working group comprising leading individuals from across the small and mid-size quoted company ecosystem, as a pragmatic and practical corporate governance code relevant to AIM companies. The QCA Code is a proportionate, principles-based approach constructed around ten broad principles with accompanying guidance, and this Statement outlines how the Group operates in each of these key areas.

By following the QCA Code, my Board colleagues and I seek to ensure that the Group operates efficiently and effectively and communicates well, to promote confidence and trust in the Group's Board and management. The Board aims to balance the interests and expectations of the Group's many shareholders and stakeholders by observing a transparent set of rules, practices and processes. I believe that by adhering to this clear set of guidelines, the Group is well placed to deliver medium and long-term success.

Ken Ford
Chairman and Non-Executive Director

The Board of Directors and Committees of the Board of Directors

The Board, which is headed by the Chairman, comprises five Directors, of which three are Executive and two 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 page 34.

The Board met regularly throughout the year with 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 Group is controlled by the Board of Directors. The Board is headed by the Chairman, comprises five Directors, of which three are Executive and two are Non-Executive, meeting the QCA Code's guidance that a Board should have at least two independent Non-Executive Directors ('NEDs'). It is recognised that the CEO, being a major shareholder, risks individual dominance of the Board but the Board's view is that the independent NEDs and committees mitigate this risk.

The Board is satisfied that the five Directors collectively provide a broad range of relevant skills and experiences, and that the composition strikes a good balance between independence and knowledge of the business, to enable it to effectively discharge its duties and responsibilities. At an appropriate stage in the development of the business, the Board commits to appoint another a third Non-Executive Director to match the number of independent Non-Executives to the number of Executives, and gender balance will be a key criterion in this appointment.

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 is not involved 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 an Executive report detailing the commercial, operational 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.

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 and on insurance and on issues covering pensions, social, ethical, environmental and health and safety by means of Board reports.

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 appropriate cover under a Directors and Officers insurance policy in the event of legal action being taken against any Director.

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.

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 and their shareholdings as disclosed.

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

The table below shows the number of Board meetings and Audit Committee and Remuneration Committee meetings held in the period from 1 March 2018 to the date of approval of the Annual Report and Accounts. The table also shows the attendance of each Director.

Re-election

At each Annual General Meeting, one-third (or whole number less than one-third) of the Directors retires by rotation, and in July 2018 this was Andrew Wass and Dean Murray.

In addition, Directors are subject to re-election at the Annual General Meeting following their appointment.

Shareholder communications

The Group seeks to maintain a regular dialogue with both existing and potential investors to ensure that its strategy, business model and performance are clearly understood. Understanding what investors and analysts think, and helping these audiences understand our business, is an important part of taking our business forward.

The Chief Executive Officer and Chief Financial Officer regularly meet with investors and analysts to provide them with updates on the Group's business and to obtain feedback regarding the market's expectations of the Group. The Group's NOMAD and public relations adviser provide written feedback after these presentations and meetings, and this feedback is shared with the Board.

The Group invites all shareholders to attend its Annual General Meeting where they can meet and question the Directors, and express ideas or concerns. The Notice of the Meeting is sent to shareholders at least 21 days before the meeting and the chairs of the Board and all committees, together with all other Directors, routinely attend the AGM and are available to answer questions raised by shareholders.

Where voting decisions are not in line with the Group's expectations, the Board will engage with those shareholders to understand and address any issues.

The Board receives copies of all articles relating to the Group that are published in the financial press, via its public relations advisers.

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.

An Operational Board comprising the three Executive Directors and the three further Directors of the trading subsidiary, meets regularly to analyse and discuss operational and commercial matters, and identifies any material matters to escalate to the Plc Board. The Operational Board met seven times in the period.

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 1 March 2018 to the date of approval of the Annual Report and Accounts and are 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;
- a comprehensive budgeting process completed once a year that is reviewed and approved by the Plc Board;
- detailed monthly reporting of trading results including detailed profit and loss accounts, balance sheets and cash flows, with supporting variance analysis;
- 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.

Director	Role	Board meetings	Audit Committee meetings	Remuneration Committee meetings
Ken Ford	Non-Executive Chairman	13/13	3/3	2/2
Andrew Wass	CEO	13/13		
Chris Scott	CFO	13/13	3/3	2/2
Gareth Bevan	CCO	11/13		
Dean Murray	NED	13/13	3/3	2/2

Corporate governance report continued

Audit Committee report

Overview

The Audit Committee ('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 AIM Rules;
- to monitor and review the effectiveness of the Group's system of internal controls;
- 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 early in the financial period to discuss and agree the scope for the forthcoming external audit, and again 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 period-end financial statements and of the audit, using as a basis the Report to the Audit Committee 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 FY19 and FY18 were:

	FY19 £000	FY18 £000
Audit fee	75	50
Tax fees	–	17
Total fees	75	67

The Committee is satisfied with the independence and objectivity of the auditors, KPMG LLP.

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.

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 in 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 beyond the required statutory minimums, 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 noting their appointment may be terminated with one month's notice.

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' interests

Details of the Directors' shareholdings are included in the Directors' report on page 36.

Directors' remuneration

The normal remuneration arrangements for Executive Directors consist of basic salary and private medical insurance. The CEO is also entitled to a car allowance and a pension allowance. 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.

The remuneration of each of the Directors for the 13-month period ended 31 March 2019 is set out in the table below and includes:

- in accordance with the EMI scheme rules, Chris Scott and Gareth Bevan each received a bonus of £24,553 to cover the income tax, national insurance and exercise price of the EMI option exercise;
- in accordance with the Director cash plan rules, Andrew Wass received an award of £72,041, being equivalent to the value of the awards made to Chris Scott and Gareth Bevan under the EMI scheme, and this was paid as a pension contribution; and

- the initial subscription cost of the new LTIP paid by bonus, with Andrew Wass, Chris Scott and Gareth Bevan receiving bonuses of £7,217, £7,217 and £8,350 respectively.

These values are included within the audited accounts:

	Salary £000	Benefits £000	Pension £000	Total FY19 (13m) £000	Total FY18 (12m) £000
Executive					
Andrew Wass	175	2	75	252	200
Chris Scott	207	1	3	211	151
Gareth Bevan	196	2	3	201	135
Non-Executive					
Ken Ford	38	–	–	38	34
Dean Murray	35	–	–	35	32
Total	651	5	81	737	552

On 1 May 2019, life cover policies were put in place in relation to Gareth Bevan and Chris Scott, with their families as the beneficiaries.

Directors' share options

Executive	Scheme	1 March 2018	Awarded during period	Vested and exercised during the period	31 March 2019	Date granted
Andrew Wass	Director Cash Plan 2016	–	–	Yes	–	May 2016
	Director Cash Plan 2017	–	–	–	–	June 2017
	LTIP	–	45,000	–	45,000	Nov 2018
Chris Scott	EMI	9,978	–	9,978	–	May 2016
	CSOP	3,606	–	–	3,606	June 2017
	LTIP	–	45,000	–	45,000	Nov 2018
Gareth Bevan	EMI	9,978	–	9,978	–	May 2016
	CSOP	3,606	–	–	3,606	June 2017
	LTIP	–	52,500	–	52,500	Nov 2018

EMI and Director Cash Plan

An EMI share incentive plan for Chris Scott and Gareth Bevan, and an equivalent discretionary cash bonus plan for Andrew Wass, vested in full in June 2018.

Chris Scott received a bonus of £24,553 and Gareth Bevan a bonus of £25,443 to cover the income tax, national insurance and exercise price of the award. Chris Scott and Gareth Bevan both received 9,978 shares valued at £71,482 at that time. Andrew Wass exercised his entitlement under the Director Cash Plan to an equivalent award of £72,041, and this was settled in cash.

CSOP

There is a CSOP share incentive plan in place for Chris Scott and Gareth Bevan and equivalent discretionary cash bonus plan for Andrew Wass. Subject to continued employment and meeting performance conditions, these awards are scheduled to vest on 31 May 2020.

LTIP

In FY19 a new long-term incentive plan involving Andrew Wass, Chris Scott and Gareth Bevan was put in place and involved the issue of 210,000 'B' Ordinary shares in Gear4music Limited, a subsidiary of the Company. These 'B' shares vest from 2021-26 and can be exchanged on a one-for-one basis for new Ordinary Company shares subject to meeting specified criteria, including reaching a specified target share price for 80% of the award, and pre-determined revenue and profitability targets for 20%.

The initial subscription cost was covered by way of bonus and Andrew Wass, Chris Scott and Gareth Bevan received bonuses of £7,217, £7,217 and £8,350 respectively.

Board of Directors

Eric (Ken) Ford Chairman and Non-Executive Director Age 69

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. Fellow of the Chartered Securities Institute.

Ken's previous directorships include Aberdeen Asset Management and Morgan Grenfell, and he was recently Chairman of AIM-quoted companies System1 Group plc and Nakama Group plc.

Ken is currently Chairman of AIM-quoted company Scientific Digital Imaging plc.

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

Andrew Wass Chief Executive Officer Age 48

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.

Christopher (Chris) Scott Chief Financial Officer and Company Secretary Age 43

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

Gareth Bevan Chief Commercial Officer Age 41

Gareth joined Gear4music in July 2012. He was previously at DV247, the largest UK-based musical equipment retailer at that time, where he was responsible for purchasing, sales and marketing. He has 20 years' experience in musical equipment retail.

Dean Murray Non-Executive Director Age 56

Dean joined the Board of Gear4music in March 2012 as a Non-Executive Director and originally as Chairman. Dean is a Chartered Accountant.

Dean's previous roles include former Chief Financial Officer and Chief Operating Officer of Myriad Childrenswear Group, and he was recently Chairman of French Connection Group plc and the Neville Johnson Group.

Dean is currently Chairman of BHID Group Limited, Construction Materials Online Limited, Yumi International Limited, and Weird Fish Holdings Limited, and is a Director of M.S. Team Limited.

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

Directors' report

The Directors present their report and the audited financial statements for the 13-month period ended 31 March 2019.

Principal activity

The principal activity of the Group is the retail of musical instruments and equipment, through 20 Gear4music branded websites in 15 languages, and showrooms in York, Sweden and Germany. It retails own and other branded products.

Business review and future developments

An overview of the Group's operations is included in the Strategic report section of the Annual Report and Accounts on pages 1 to 29. 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 report and 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 Other Comprehensive Income, other primary statements and notes to the accounts on pages 45 to 81.

Dividends

The Directors do not recommend the payment of a dividend (FY18: nil).

Going concern

After making appropriate 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.

Directors

The Directors who served on the Board and on Board committees during the year are set out on page 25 and pages 30-34. One-third of the Directors are required to retire at the Annual General Meeting and can offer themselves for re-election.

Information on Directors' remuneration and share option rights is given in the Remuneration Committee report on pages 32-33.

Significant shareholders

The Company is informed that at 25 June 2019, 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	7,161,993	34.2%
AXA Investment Mgrs	2,181,288	10.4%
BlackRock Investment Ltd	1,994,423	9.5%
TB Amati Investment Funds	1,269,789	6.1%
Octopus Investment Ltd	841,039	4.0%
Cannaccord Genuity Group Inc	799,968	3.8%

Directors' shareholdings

The beneficial interests of the Directors in the share capital of the Company at 28 February 2018 and 31 March 2019 were as follows:

	28 February 2018 Number of shares	31 March 2019 Number of shares	31 March 2019 % of issued share capital
Executive Directors			
Andrew Wass	7,161,993	7,161,993	34.2%
Gareth Bevan	100,382	114,760	0.5%
Chris Scott	90,462	104,840	0.5%
Non-Executive Directors			
Dean Murray	199,520	197,520	0.9%
Ken Ford	20,000	40,000	0.2%

In June 2018 both Chris Scott and Gareth Bevan exercised share options over 9,978 shares under the Director EMI plan, and retain options over 2,288 shares each under a CSOP scheme. Andrew Wass exercised his entitlement to a comparable cash-settled award of £72,041, and retains a cash-settled option to an equivalent value of the Director CSOP awards. All options are subject to the same performance conditions, including still being in the employment of the Group.

On 13 November 2018 a new long-term incentive plan was announced involving Andrew Wass, Chris Scott and Gareth Bevan and three Directors of Gear4music Limited. The plan involved the issue of 210,000 'B' Ordinary shares in Gear4music Limited that vest from 2021-26 and can be exchanged on a one-for-one basis for new Ordinary Company shares subject to meeting specified criteria, including reaching a specified target share price for 80% of the award, and pre-determined revenue and profitability targets for 20%.

All share option plans are outlined in the Remuneration Committee report on page 33, and on pages 69-72.

The middle market price of the Company's Ordinary shares on 31 March 2019 was 217.5 pence (28 February 2018: 651.0 pence), and the range in the year was 170.0 pence to 738.0 pence, with an average price of 530.7 pence.

Research and development

During the period the Group capitalised £2.7m (FY18: £1.7m) of software development costs relating to the in-house e-commerce software platform. Amortisation of the software platform totalled £1.2m in the period (FY18: £0.8m).

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 period ended 31 March 2019, the Group made donations totalling £nil (FY18: £250).

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 31 March 2019 was 27 days (28 February 2018: 28 days). This is a weighted average by invoice value, with reference to actual invoice and payment dates.

Disclosure of information to the auditor

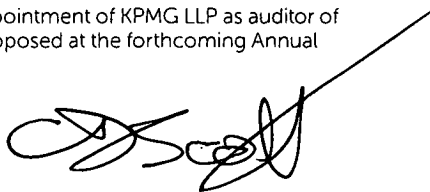
The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware and each Director has taken all the steps that he or she ought to have taken to make himself or herself 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
2 August 2019



Registered office: Holgate Park Drive, York, YO26 4GN

Statement of Directors' responsibilities in respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual 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. Under the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRSs as adopted by the EU') and applicable law and they have elected to prepare the parent Company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including 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, relevant, reliable 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;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic report and a Directors' report that complies with that law and those regulations.

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 (Holdings) plc

1 Our opinion is unmodified

We have audited the financial statements of Gear4music (Holdings) plc ('the Company') for the 13-month period ended 31 March 2019 which comprise the Consolidated Statement of Profit and Loss and Other Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows, Company Balance Sheet, Company Statement of Changes in Equity and the related notes, including the accounting policies in Note 1 to the Group financial statements and Note 1 to the Company 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 31 March 2019 and of the Group's loss for the 13-month period then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Overview

Materiality: Group financial statements as a whole		£82,000 (2018: £104,800) 4.85% of normalised profit before tax (2018: 5%)
Coverage		100% (2018: 100%) of Group profit before tax
Key audit matters		vs 2018
New	The impact of uncertainties due to the UK exiting the European Union on our audit	▲
	Going concern	▲
Recurring risks	Revenue recognition – returns provision	◀▶
	Capitalisation of internal development costs	◀▶
	Recoverability of parent Company's loan to subsidiary	◀▶

Independent Auditor's Report continued

To the members of Gear4music (Holdings) plc

2 Key audit matters: including our assessment of risks of material misstatement

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

	The risk	Our response
The impact of uncertainties due to the UK exiting the European Union on our audit Refer to page 26 (risks and uncertainties).	Unprecedented levels of uncertainty All audits assess and challenge the reasonableness of estimates, in particular as described in the capitalisation of internal development costs, recoverability of parent Company's loan to subsidiary and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see below).	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits.
	All of these depend on assessments of the future economic environment and the Group's future prospects and performance. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	Our procedures included: • Our Brexit knowledge: We considered the Directors' assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the Directors' plans to take action to mitigate the risks. • Sensitivity analysis: When addressing the capitalisation of internal development costs, recoverability of parent Company's loan to subsidiary and other areas that depend on forecasts, we compared the Directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. • Assessing transparency: As well as assessing individual disclosures as part of our procedures on capitalisation of internal development costs and recoverability of parent Company's loan to subsidiary we considered all of the Brexit-related disclosures together, including those in the Strategic report, comparing the overall picture against our understanding of the risks. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

	The risk	Our response
Going concern Note 1.3 on page 50 (financial disclosures).	Disclosure quality The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and the parent Company. That judgement is based on an evaluation of the inherent risks to the Group's and the parent Company's business model and how those risks might affect the Group's and the parent Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements. The risks most likely to adversely affect the Group's and the parent Company's available financial resources over this period were: - the level of financing and the ability of the Group to refinance the facility in 12 months' time; - meeting forecasts and managing the risk presented by Brexit regarding access to products and the risk of a sudden fall in consumer confidence; and - the achievability of mitigating actions the Directors would take to improve the position should these other risks materialise. The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.	Our procedures included: Funding assessment: Assessed the committed level of financing available to the Group for at least the next 12 months through consideration of the facility agreement. We challenged the Directors' assumptions by considering our own expectations based on our knowledge of the entity and experience of the industry in which it operates; Historical comparisons: Considered the Group's historical budgeting accuracy, by assessing actual performance against budget; Sensitivity analysis: Considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively; and Assessing transparency: Assessed the completeness and accuracy of the matters covered in the going concern disclosure by assessing the reasonableness of risks and uncertainties specified by the disclosure against our findings from our evaluation of the Directors' assessment of going concern.
Revenue recognition – returns provision Note 1.15 (accounting policy) and Note 22 (financial disclosures).	Subjective estimate The Group generates revenue through the sale of goods through its websites. Customers have the right to return the goods within 30 days of delivery. Should customers return any goods, the Group will refund the associated revenue relating to the returned goods. There is a risk that judgements made by the Directors in calculating the level of provision recorded at the financial year end for returns could result in a material error in reported revenues and profits. The effect of these matters is that, as part of our risk assessment, we determined that returns provision has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.	Our procedures included: Methodology implementation: Assessed the reasonableness of the methodology used to calculate the returns provision based on our understanding of the business; Historical comparison: Assessed the key assumption driving the calculation above, being historical returns rates, against actual returns as a proportion of sales made during the 2018/19 financial year; Test of detail: Compared the value of actual returns made in the 30-day returns period post financial year end, relating to sales recognised in the financial year against the provision made by the Directors; and Assessing transparency: Considered the adequacy of the Group's disclosures about the degree of subjectivity involved in determining the financial year end returns provision.

Independent Auditor's Report continued

To the members of Gear4music (Holdings) plc

	The risk	Our response
Capitalisation of internal development costs (£2.7m; 2018: £1.7m) Note 1.10 (accounting policy) and Notes 9 and 22 (financial disclosures).	Accounting treatment The Group invests heavily in the software platform and capitalises the associated development costs. The costs that are being capitalised are principally internal staff costs and there is a significant level of judgement involved in assessing whether the criteria set out in accounting standards for the capitalisation of such costs have been met. There is also judgement involved in determining the appropriate useful economic life of the software platform and the costs capitalised. The two risk factors above combine to give a risk over the ongoing carrying amount of the software platform as the amount of the asset continues to increase. The effect of these matters is that, as part of our risk assessment, we determined that carrying amount of the software platform of £5.8m (2018: £4.3m) has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.	Our procedures included: • Accounting analysis: Assessed whether the Group's accounting policies are in line with relevant accounting standards; • Personnel interviews: We corroborated the Directors' judgement that all developers work solely on the development, rather than the maintenance of the platform, through discussions with the Directors outside of the finance function to understand the scope of work performed by the development team; • Testing application: For a sample of internal staff costs capitalised in the financial year, reviewed the individual's job description for evidence that the staff work solely on development of the platform; and • Benchmarking assumptions: We benchmarked the useful economic life of the software platform against other companies in the online industry.
Recoverability of parent Company's loan to subsidiary (£10.5m; 2018: £10.7m) Refer to Note 1.5 (accounting policy) and Note 6 (financial disclosures).	Low risk, high value The carrying amount of the parent Company's loan to its subsidiary represents 73% (2018: 75%) of the parent Company's total assets of £14.3m (2018: £14.3m). The recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent Company financial statements, this is considered to be the area that had the greatest effect on our overall parent Company audit.	Our procedures included: • Test of detail: We compared the carrying amount of the total loan balance with the relevant subsidiaries, comparing the carrying amount of the loan with the expected value of the business based on a suitable multiple of the subsidiaries' forecast profit before tax.

We continue to perform procedures over timing of revenue and associated costs in relation to warranty income. However, following a refinement in the accounting treatment of warranty income to spread over the warranty period by the Directors, we have not assessed this as one of the most significant risks in our current financial year's audit and, therefore, it is not separately identified in our report this financial year.

3 Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £82,000 (2018: £104,800), determined in both financial years with reference to a benchmark of profit before tax (PBT), normalised by averaging over the last three financial years due to fluctuations in the business cycle, of £1.7m (2018: £2.1m). Materiality represents 4.85% of the benchmark (2018: 5%).

Materiality for the parent Company financial statements as a whole was set at £80,000 (2018: £57,200), determined with reference to a benchmark of parent Company total assets of £14.3m (2018: £14.3m) which it represents 0.6% (2018: 0.4%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £4,100 (2018: £7,040) in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's four (2018: four) reporting components, including the parent Company, we subjected two (2018: two) to full scope audits for Group purposes and two (2018: two) to specified risk-focused audit procedures. The latter were not individually significant but were included in the scope of our Group reporting work in order to provide further coverage over the Group's results. All procedures were undertaken by the Group audit team at the Group's Head Office based in York.

The components within the scope of our work accounted for the percentages illustrated opposite.

4 We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the parent Company or the Group or to cease their operations, and as they have concluded that the parent Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ('the going concern period').

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the parent Company will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report). Based on the work described in our response to that key audit matter, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

We have nothing to report in these respects.

Independent Auditor's Report continued

To the members of Gear4music (Holdings) plc

5 We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and Directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the Strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial period is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required 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.

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 38, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

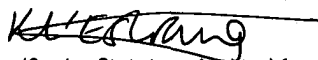
Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

8 The purpose of our audit work and to whom we owe our responsibilities

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.



Katharine L'Estrange (Senior Statutory Auditor) for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square
Leeds
LS1 4DA
2 August 2019

Consolidated Statement of Profit and Loss and Other Comprehensive Income

	Notes	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Revenue		118,155	80,100
Cost of sales		(91,239)	(59,781)
Gross profit		26,916	20,319
Administrative expenses	3,4	(26,927)	(18,358)
Operating (loss)/profit	3	(11)	1,961
Financial expenses	6	(598)	(461)
(Loss)/profit before tax		(609)	1,500
Taxation	7	446	(114)
(Loss)/profit for the period		(163)	1,386
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Revaluation of property, plant and equipment	8	–	1,716
Deferred tax movements	11	(89)	(203)
Items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences – foreign operations		(9)	2
Total comprehensive (loss)/income for the period		(261)	2,901
Basic (loss)/profit per share	5	(0.8p)	6.7p
Diluted (loss)/profit per share	5	(0.8p)	6.7p

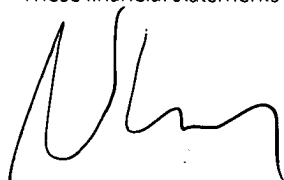
The accompanying notes form an integral part of the financial statements.

Consolidated Statement of Financial Position

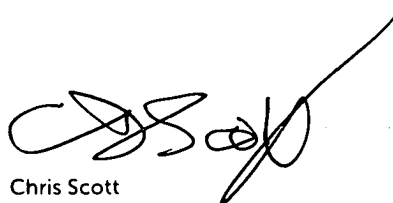
	Note	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Non-current assets			
Property, plant and equipment	8	10,766	10,054
Intangible assets	9	7,827	6,378
		18,593	16,432
Current assets			
Inventories	12	18,661	17,055
Trade and other receivables	13	1,657	2,704
Cash and cash equivalents	14	5,304	3,540
		25,622	23,299
Total assets		44,215	39,731
Current liabilities			
Other interest-bearing loans and borrowings	15	(8,555)	(3,914)
Trade and other payables	16	(11,533)	(10,916)
		(20,088)	(14,830)
Non-current liabilities			
Other interest-bearing loans and borrowings	15	(4,272)	(4,616)
Other payables	16	(263)	(751)
Deferred tax liability	11	(885)	(649)
		(5,420)	(6,016)
Total liabilities		(25,508)	(20,846)
Net assets		18,707	18,885
Equity			
Share capital	18	2,095	2,087
Share premium	18	13,152	13,055
Foreign currency translation reserve	18	3	12
Revaluation reserve	18	1,424	1,424
Retained earnings	18	2,033	2,307
Total equity		18,707	18,885

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

These financial statements were approved by the Board of Directors on 2 August 2019 and were signed on its behalf by:



Andrew Wass
Director
2 August 2019



Chris Scott
Director
2 August 2019

Company registered number: 07786708

Consolidated Statement of Changes in Equity

	Share capital £000	Share premium £000	Foreign currency translation reserve £000	Revaluation reserve £000	Retained earnings £000	Total equity £000
Balance at 1 March 2017	2,016	8,933	10	–	763	11,722
Profit for the year	–	–	–	–	1,386	1,386
Other comprehensive income	–	–	2	–	–	2
Issue of shares net of expenses	71	4,122	–	–	–	4,193
Freehold property revaluation	–	–	–	1,716	–	1,716
Deferred tax impact of revaluation	–	–	–	(292)	–	(292)
Share-based payments charge	–	–	–	–	69	69
Deferred tax adj. re: share-based payments	–	–	–	–	89	89
Balance at 28 February 2018	2,087	13,055	12	1,424	2,307	18,885
Loss for the year	–	–	–	–	(163)	(163)
Other comprehensive income	–	–	(9)	–	–	(9)
Issue of shares net of expenses	8	97	–	–	–	105
Share-based payments charge	–	–	–	–	(22)	(22)
Deferred tax adj. re: share-based payments	–	–	–	–	(89)	(89)
Balance at 31 March 2019	2,095	13,152	3	1,424	2,033	18,707

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

Consolidated Statement of Cash Flows

	Notes	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Cash flows from operating activities			
(Loss)/profit for the period		(163)	1,386
Adjustments for:			
Depreciation and amortisation	3,8,9	2,293	1,497
Financial expense	6	349	196
Loss on sale of property, plant and equipment		34	6
Share-based payment charge		(22)	69
Taxation	7	(446)	114
		2,045	3,268
Decrease/(increase) in trade and other receivables	13	1,047	(1,356)
Increase in inventories	12	(1,606)	(5,369)
Increase in trade and other payables	16	497	3,602
		1,983	145
Tax paid	7	593	10
Net cash from operating activities		2,576	155
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		–	19
Acquisition of property, plant and equipment	8	(1,785)	(7,443)
Capitalised development expenditure	9	(2,703)	(1,693)
Acquisition of a business	9	(400)	(400)
Net cash from investing activities		(4,888)	(9,517)
Cash flows from financing activities			
Cash from share issue		105	4,193
Proceeds from new borrowings	17	5,030	6,349
Interest paid		(352)	(178)
Repayment of borrowings		(593)	(363)
Payment of finance lease liabilities		(105)	(102)
Net cash from financing activities		4,085	9,899
Net increase in cash and cash equivalents		1,773	537
Cash and cash equivalents at beginning of period		3,540	3,001
Foreign exchange (gains)/losses		(9)	2
Cash and cash equivalents at end of period	14	5,304	3,540

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

Notes (forming part of the financial statements)

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 subsidiaries (collectively 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.

In December 2018 the Group changed the registered office of Gear4music (Holdings) plc (company number: 07786708), Gear4music Limited (company number: 03113256) and Cagney Limited (dormant subsidiary; company number: 04493300) to Holgate Park Drive, York, YO26 4GN.

The Group has two trading European subsidiaries: Gear4music Sweden AB and Gear4music GmbH, and one dormant European subsidiary, Gear4music Norway AS. All three are 100% subsidiaries of Gear4music Limited.

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 the Companies Act 2006. The Company has elected to prepare its parent Company financial statements in accordance with FRS 102; these are presented on pages 75 to 81.

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

Accounting period

The financial statements presented cover the period ended 31 March 2019 and the year ended 28 February 2018.

Measurement convention

The financial statements have been prepared on the historical cost basis, except for Land and Buildings that are stated at their fair value.

1.2 Adoption of new and revised standards

The Group has adopted IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from contracts with customers' from 1 March 2018. The Group has adopted these standards using the cumulative effect method, under which the comparative information is not restated.

Neither standard has a material impact on the Group's financial statements:

IFRS 9 'Financial instruments'

IFRS 9 sets out requirements for the classification and measurement of financial assets and financial liabilities, and a basis for recognising provisions based on expected credit losses, and simplified hedge accounting. Management have reviewed the Group's business, its debt structure and absence of hedging and determined the new standard does not have a material impact on the income statement or Balance sheet.

IFRS 15 'Revenue from contracts with customers'

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. Management have determined that, given the industry in which the Group operates, the significant majority of Group revenue comes from products sales made direct to customers at standard prices, and estimates are already made of anticipated returns, the new standard does not have a material impact on the timing or measurement of revenue recognition in comparison to the standard previously applied.

Various new or revised accounting standards have been issued which are not yet effective. The key standard affecting the Group is IFRS 16 Leases effective from 1 January 2019, that is applicable to the Group for the year ending 31 March 2020 and has not been early adopted by the Group.

IFRS 16 'Leases'

The Group has not early adopted IFRS 16 and plans to apply it for the year ending 31 March 2020, using the modified retrospective approach.

IFRS 16 will affect the presentation of the Group consolidated financial statements, introducing a single, on-balance sheet lease accounting model for lessees. There are recognition exemptions available for short-term leases and leases of low-value items, which the Group plans to adopt.

Notes (forming part of the financial statements) continued

1 Accounting policies continued

1.2 Adoption of new and revised standards continued

Lease agreements will give rise to both a right-of-use asset and a lease liability for future lease payables. The right-of-use asset will be depreciated on a straight-line basis over the life of the lease. Interest will be recognised on the lease liability, resulting in a higher interest expense in the earlier years of the lease term. The total expense recognised in the Income Statement over the life of the lease will be unaffected by the new standard. However, IFRS 16 will result in the timing of lease expense recognition being accelerated for leases which would be currently accounted for as operating leases.

There will be no impact on cash flows, although the presentation of the Cash Flow Statement will change significantly, with an increase in cash flows from operating activities being offset by an increase in cash flows from financing activities.

The Group has four leased properties (in York, Manchester, Sweden and Germany). The minimum lease commitments on these at the financial period end are disclosed in Note 20 and these leases will be recognised on balance sheet once this standard is adopted.

The impact on the Group, based on contractual arrangements in place at 31 March 2019, will be the recognition of lease liabilities of between £10-11m along with right-of-use assets with the same value. This liability corresponds to the minimum lease payments under operating leases disclosed in Note 20 to these consolidated financial statements, adjusted for the effect of discounting.

In the Income Statement, operating lease charges will be replaced by depreciation and interest expenses. The estimated impact on the Group in FY20 is expected to be an increase in EBITDA of between £1.3m-£1.45m, offset by an increase in finance costs of £0.35m-£0.5m and additional depreciation of £1.15m-£1.4m.

1.3 Going concern

The Group's business activities and position in the market are described in the Strategic report. The Directors believe that the Group has significant financial resources, has demonstrated continued strong revenue growth, and in FY20 can achieve a good level of profitability from operating activities, and as such the Group is well placed to manage its business risks.

The Group's policy is to ensure that it has sufficient facilities to cover its future funding requirements. Short-term flexibility is available through Import loans and overdraft facilities.

As with any company placing reliance on external funding for financial support, the Directors acknowledge that there can be no certainty that this support will continue, although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

At 31 March 2019 the Group had £5.3m of cash and bank balances (28 February 2018: £3.5m) and on 30 May 2019 the Group's bankers, HSBC, confirmed that the Group's Import loan and overdraft facilities have been renewed at £10m (FY18: £8m) for a further 12 months. The Directors are confident that the facilities will be renewed in 2020 and this has been factored in to their going concern assessment.

Having duly considered all of these factors and having reviewed the forecasts for the coming year, including the investments outlined in the CEO's statement, 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.

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.

1 Accounting policies continued

1.5 Foreign currency continued

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's presentational currency, Sterling, at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions. Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the translation reserve.

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:

- 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
- 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, 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.

1.8 Property, plant and equipment

Certain classes of property, plant and equipment as stated below 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 4-5 years straight line
- 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.

Notes (forming part of the financial statements) continued

1 Accounting policies continued

1.8 Property, plant and equipment continued

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 a 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.

Land and Buildings are stated at fair value.

Revaluation

Revaluations are made with reference to independent, third-party professional inspection of the site. Independent valuations will be sought on a regular basis such that the carrying value does not materially differ from its fair value.

Surpluses which arise from the revaluation exercise are included within other comprehensive income (in the revaluation reserve) unless they are reversing a revaluation adjustment which has been recognised in the income statement previously; in which case an amount equal to a maximum of that recognised in the income statement previously is recognised in income.

Where the revaluation exercise gives rise to a deficit, this is reflected directly within the income statement, unless it is reversing a previous revaluation surplus against the same asset; in which case an amount equal to the maximum of the revaluation surplus is recognised within other comprehensive income (in the revaluation reserve).

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 ('CGUs'). 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

Computer software development costs that generate economic benefits beyond one year and meet the development asset recognition criteria as laid out in IAS 38 'Intangible Assets', are capitalised as Intangible assets.

These costs include the payroll costs of employees directly associated with the development of the software platform, and other direct external material and service costs. Costs are capitalised only where there is an identifiable development that will bring future economic benefit. All other website and maintenance costs are expensed in the statement of comprehensive income.

Capitalised software development costs are amortised over their estimated useful lives and charged to administrative expenses in the statement of comprehensive income.

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
- 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.

Share-based payment transactions

Share-based payment arrangements in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group.

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The fair value of the options granted is measured using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

Notes (forming part of the financial statements) continued

1 Accounting policies continued

1.13 Employee benefits continued

Share-based payment transactions in which the Group receives goods or services by incurring a liability to transfer cash or other assets that is based on the price of the Group's equity instruments are accounted for as cash-settled share-based payments. The fair value of the amount payable to employees is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is remeasured at each balance sheet date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expenses in profit or loss.

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

Product sales and delivery receipts

In FY18 revenue from the sale of goods and delivery receipts was recognised upon dispatch from the warehouse.

In FY19 revenue from the sale of goods and delivery receipts are recognised when the customer receives the goods ordered, at which point title and risk passes to third parties and revenue can be reliably measured.

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. Returns are dealt with on receipt of the product into the warehouse, which triggers an automatic credit, and an estimate for returns is provided for at the year-end.

Other revenue

Warranty income is spread over the warranty period and, as such, the adoption of IFRS 15 has had no impact.

The Group offers retail point-of-sale credit on orders over £50, through agreements with external credit providers. The Group does not retain any credit risk and commissions are recognised within revenue on recognition of the credit sale. In the period ended 31 March 2019, this income totalled £240,000 (FY18: £112,000). No discount is offered on any sales made through these credit providers.

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 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 period comprises current and deferred tax.

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

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 amounts 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.

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 within 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

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
UK	63,672	44,258
Europe and Rest of the World	54,483	35,842
	118,155	80,100

Administrative expenses by geography

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
UK	24,113	16,823
Europe	2,814	1,535
	26,927	18,358

Revenue by product category

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Other-brand products	82,125	56,075
Own-brand products	31,289	20,947
Warranty income	296	302
Other	4,445	2,776
	118,155	80,100

Notes (forming part of the financial statements) continued

3 Expenses

Included in profit/loss are the following:

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Depreciation of tangible fixed assets	1,039	645
Amortisation of intangible assets	1,254	852
Amortisation of government grants	37	31
Loss on disposal of property, plant and equipment	34	6
Rentals under operating leases – land and buildings	1,425	973
Rentals under operating leases – plant and machinery	8	11
Auditor remuneration – audit of these financial statements	30	20
Auditor remuneration – audit of financial statements of subsidiaries	45	30
Auditor remuneration – other	–	17
Release of rent accrual	(421)	–

4 Staff numbers and costs

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

	Period ended 31 March 2019 No.	Year ended 28 February 2018 No.
Administration	184	130
Selling and distribution	247	183
	431	313

The aggregate payroll costs of these persons were as follows:

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Wages and salaries	8,146	5,428
Equity-settled share-based payments (see Note 19)	(22)	69
Cash-settled share-based payments (see Note 19)	(11)	8
Social security costs	954	701
Contributions to defined contribution plans	480	126
	9,547	6,332

Directors' remuneration is detailed in the Remuneration report on pages 32-33 which forms part of these financial statements, and disclosed in Note 3 of the Notes to the Company Financial Statements on page 79.

5 Earnings per share

Diluted profit 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.

	Period ended 31 March 2019	Year ended 28 February 2018
(Loss)/profit attributable to equity shareholders of the parent (£000)	(163)	1,386
Basic weighted average number of shares	20,926,717	20,713,281
Dilutive potential Ordinary shares	–	88,155
Diluted weighted average number of shares	20,926,717	20,801,436
Basic (loss)/profit per share	(0.8p)	6.7p
Diluted (loss)/profit per share	(0.8p)	6.7p

6 Finance income and expense

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Fair value movement	33	–
Total finance income	33	–

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Bank interest	348	169
Finance leases	4	9
Net foreign exchange loss	249	265
Unwinding of discount on deferred consideration	30	18
Total finance expense	631	461
Total net finance expense	598	461

7 Taxation

Recognised in the income statement

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Current tax expense		
UK Corporation tax	(584)	4
Overseas Corporation tax	20	10
Adjustments for prior periods	(29)	(24)
Current tax credit	(593)	(10)
Deferred tax expense		
Origination and reversal of temporary differences	123	79
Adjustments for prior periods	24	45
Deferred tax expense	147	124
Total tax (credit)/expense	(446)	114

The corporation tax rate applicable to the Company was 19% for the period ended 31 March 2019 and 19.08% in the year ended 28 February 2018. A reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly. The deferred tax assets and liabilities at 31 March 2019 have been calculated based on these rates.

Notes (forming part of the financial statements) continued

7 Taxation continued

Reconciliation of effective tax rate

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
(Loss)/profit for the period	(163)	1,386
Total tax charge	(446)	114
(Loss)/profit excluding taxation	(609)	1,500
Current tax at 19% (2018: 19.08%)		
Tax using the UK corporation tax rate for the relevant period	(116)	286
Non-deductible expenses	(1)	32
Difference between current and deferred tax rates	(15)	(8)
Adjustments relating to prior year – deferred tax	24	45
Adjustments relating to prior year – current tax	(29)	(24)
R&D claim additional deduction	(252)	(219)
Impact of overseas tax rate	1	2
Deferred tax assets not recognised	(58)	–
Total tax (credit)/charge	(446)	114

8 Property, plant and equipment

	Plant and equipment £000	Fixtures and fittings £000	Motor vehicles £000	Computer equipment £000	Land and buildings £000	Total £000
Cost						
At 1 March 2017	553	1,907	64	449	–	2,973
Additions	234	1,384	29	162	5,634	7,443
Disposals	–	–	(31)	–	–	(31)
Revaluation	–	–	–	–	1,716	1,716
Balance at 28 February 2018 and 1 March 2018	787	3,291	62	611	7,350	12,101
Additions	472	1,136	–	177	–	1,785
Disposals	–	(43)	–	(10)	–	(53)
Balance at 31 March 2019	1,259	4,384	62	778	7,350	13,833
Depreciation and impairment						
At 1 March 2017	293	836	6	273	–	1,408
Depreciation charge for the year	151	394	15	85	–	645
Disposals	–	–	(6)	–	–	(6)
Balance at 28 February 2018 and 1 March 2018	444	1,230	15	358	–	2,047
Depreciation charge for the period	212	528	13	127	159	1,039
Disposals	–	(14)	–	(5)	–	(19)
Balance at 31 March 2019	656	1,744	28	480	159	3,067
Net book value as at 31 March 2019	603	2,640	34	298	7,191	10,766
Net book value as at 28 February 2018	343	2,061	47	253	7,350	10,054

Freehold property revaluation

On 30 June 2017, the Group acquired freehold office premises at Holgate Park, York for £5.30m. Total amounts capitalised on acquisition totalled £5.63m. At 28 February 2018 the freehold property was revalued at market value using information provided by an independent chartered surveyor. The valuation was carried out in accordance with the provisions of RICS Appraisal and Valuation Standards ('The Red Book').

At 31 March 2019, the Directors remain comfortable with the valuation based on their understanding of local rental values.

Leased assets

At 31 March 2019, the net carrying amount of leased tangible fixed assets was £526,000 (28 February 2018: £98,000) and the accumulated depreciation against these leased assets was £44,000 (28 February 2018: £286,000).

8 Property, plant and equipment continued

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 2017	1,848	4,845	564	7,257
Additions	–	1,693	–	1,693
Balance at 28 February 2018 and 1 March 2018	1,848	6,538	564	8,950
Additions	–	2,703	–	2,703
Balance at 31 March 2019	1,848	9,241	564	11,653
Amortisation				
At 1 March 2017	–	1,438	282	1,720
Amortisation for the year	–	796	56	852
Balance at 28 February 2018 and 1 March 2018	–	2,234	338	2,572
Amortisation for the period	–	1,193	61	1,254
Balance at 31 March 2019	–	3,427	399	3,826
Net book value as at 31 March 2019	1,848	5,814	165	7,827
Net book value as at 28 February 2018	1,848	4,304	226	6,378

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

Goodwill

On 19 March 2012, goodwill arose on the acquisition of the entire share capital of Gear4music Limited (formerly known as Red Submarine Limited).

On 1 January 2017, goodwill arose on the acquisition of a software development business from Venditan Limited, which effectively brought development of the Group's proprietary software platform in-house. This transaction is detailed in the FY17 Annual Report.

Goodwill balances are denominated in Sterling:

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Gear4music Limited	417	417
Software development business	1,431	1,431
	1,848	1,848

Impairment testing

In accordance with IAS 36 'Impairment of Assets', the Group reviews the carrying value of its intangible assets. A detailed review was undertaken at 31 March 2019 to assess whether the carrying value of assets was supported by the net present value-in-use calculations based on cash flow projections from formally approved budgets and longer-term forecasts.

Intangible assets comprise goodwill, the Gear4music brand name, and the proprietary software platform.

Notes (forming part of the financial statements) continued

9 Intangible assets continued

A 'cash-generating unit' ('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 five-year forecast to 31 March 2024 was used to provide cash flow projections that have been discounted at a pre-tax discount rate of 10% (FY18: 10%). The cash flow projections are subject to key assumptions in respect of revenue growth, gross margin performance, overhead expenditure, and capital expenditure. Management have reviewed and approved the assumptions inherent in the model:

- revenue forecasts based on growth by geographical market, at a range of growth levels based on market size and estimate of opportunity, trends, specific projects underway, and Management's experience and expectation;
- product costs are assumed to be broadly flat and gross margins are forecast to improve from FY19 toward historic levels; and
- wage increases are a function of recruitment and a person-by-person review of current staff, with a range of percentage increases.

No impairment loss was identified in the current year (FY18: Enil). The valuation indicates significant headroom and therefore a terminal growth rate assumption has not been needed to be applied in order to support the valuation of this CGU. 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	Registered office address	Registered number	Class of shares held	Ownership
Gear4music Limited	Holgate Park Drive, York, YO26 4GN	03113256	Ordinary	100%
Cagney Limited	Holgate Park Drive, York, YO26 4GN	04493300	Ordinary	100% via G4M Ltd
Gear4music Sweden AB	Metallvägen 45a, 195 72 Rosersberg, Stockholm County, Sweden	559070-4762	Ordinary	100% via G4M Ltd
Gear4music GmbH	Lahnstraße 27, 45478 Mülheim an der Ruhr, Germany	HRB 29067	Ordinary	100% via G4M Ltd
Gear4music Norway AS	PO Box 2734, Solli, 0204 Oslo, Norway	917 313 210	Ordinary	100% via G4M Ltd

Investment in share capital is £4,550 in Sweden, £21,660 in Germany and £2,806 in Norway.

All Group companies have 31 March financial year-ends (FY18: 28 February year-ends).

Cagney Limited and Gear4music Norway AS are dormant companies.

11 Deferred tax assets and liabilities

Movement in deferred tax during the year

	At 1 March 2018 £000	Recognised in other comprehensive income £000	Recognised in income £000	At 31 March 2019 £000
Property, plant and equipment	(783)	–	(125)	(908)
Short-term timing differences	32	–	(9)	23
Share-based payments	102	(89)	(13)	–
	(649)	(89)	(147)	(885)

Movement in deferred tax during the prior year

	At 1 March 2017 £000	Recognised in other comprehensive income £000	Recognised in income £000	At 28 February 2018 £000
Temporary differences on Intangibles, Property, plant and equipment	(352)	(292)	(139)	(783)
Carried forward tax losses	30	–	2	32
Share-based payments	–	89	13	102
	(322)	(203)	(124)	(649)

A deferred tax asset is not recognised with respect to historic losses in Gear4Music (Holdings) plc (consistent basis to the prior year). There are no losses carried forward in Gear4music Limited.

Losses of £688,000 are carried forward at 31 March 2019, equating to an unrecognised asset of £130,000.

12 Inventories

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Finished goods	18,661	17,055

The cost of inventories recognised as an expense and included in cost of sales in the period amounted to £83.4m (£55.7m in the year ended 28 February 2018).

Management have included a provision of £107,245 (28 February 2018: £79,879), 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

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Trade receivables	856	1,645
Prepayments	801	1,059
	1,657	2,704

Credit risk and impairment

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 carrying amount of trade receivables represents the maximum credit exposure. The Group does not take collateral in respect of trade receivables.

Trade receivables comprise balances due from schools and colleges and funds lodged with payment providers.

Customer receivables

The Group faces low credit risk as customers typically pay for their orders in full on shipment of the product, with the only exceptions being:

- a small number of education accounts with schools and colleges that have 30-day terms (1.8% of 2019 and 2018 revenues); and
- trade sales that accounted for 1.2% of 2019 revenue (2018: 2.0%), although credit terms are rarely offered.

Funds lodged with payment providers

Funds lodged with Amazon, Digital River, Klarna and V12 Retail Finance totalled £128,000 on 31 March 2019 (28 February 2018: £557,000) and are included in Trade debtors. Credit risk in relation to cash held with financial institutions is considered low risk, given the credit rating of these organisations.

14 Cash and cash equivalents

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Cash and cash equivalents per balance sheet	5,304	3,540
Cash and cash equivalents per cash flow statements	5,304	3,540

Notes (forming part of the financial statements) continued

15 Other interest-bearing loans and borrowings

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

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Non-current liabilities		
Bank loans	3,990	4,616
Finance lease liabilities	282	–
	4,272	4,616
Current liabilities		
Bank loans	8,384	3,890
Finance lease liabilities	171	23
	8,555	3,913
Total liabilities		
Bank loans	12,374	8,506
Finance lease liabilities	453	23
	12,827	8,529

Bank loans comprise an Import Loan facility and term loans, all provided by the Group's bankers, HSBC, and are secured by fixed and floating charges over the Group's assets.

The interest rate on 160-day Import loans drawn under the Import Loan 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. Import Loan and overdraft facilities were approved for renewal on 30 May 2019 for a 12-month period.

There are two term loans that were drawn around the time of the freehold property acquisition in June 2017:

- the first loan was for £3,727,500 and is a five-year loan with capital repayments scheduled over 20 years, and interest is 2.04% over LIBOR; and
- the second loan was for £1,797,500 and is a five-year loan with interest of 2.85% over LIBOR.

As at 31 March 2019 there was £4.6m capital outstanding across these two loans.

All borrowings are denominated in Sterling.

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments At 31 March 2019 £000	Interest At 31 March 2019 £000	Principal At 31 March 2019 £000
Less than one year	179	8	171
Between one and five years	295	13	282
	474	21	453
	Minimum lease payments At 28 February 2018 £000	Interest At 28 February 2018 £000	Principal At 28 February 2018 £000
Less than one year	24	1	23
Between one and five years	–	–	–
	24	1	23

Finance leases relate to assets located at the Distribution Centre in York, with net book values of £526,000 (28 February 2018: £98,000).

15 Other interest-bearing loans and borrowings continued

Changes in liabilities from financing activities

	Loans and borrowings £000	Finance lease liabilities £000	Total £000
Balance at 1 March 2018	8,506	23	8,529
Changes from financing cash flows			
Proceeds from loans and borrowings	4,495	–	4,495
Repayment of borrowings	(593)	–	(593)
Payment of finance lease liabilities	–	(105)	(105)
Total changes from financing cash flows	3,902	(105)	3,797
Other changes			
New finance leases	–	535	535
Interest expense (Note 6)	348	4	352
Interest paid	(309)	(3)	(312)
Movement in interest accrual (included in accruals and deferred income – Note 16)	(39)	(1)	(40)
Fair value movement on loans	(34)	–	(34)
Total other changes	(34)	535	501
Balance at 31 March 2019	12,374	453	12,827
	Loans and borrowings £000	Finance lease liabilities £000	Total £000
Balance at 1 March 2017	2,520	125	2,645
Changes from financing cash flows			
Proceeds from loans and borrowings	6,349	–	6,349
Repayment of borrowings	(363)	–	(363)
Payment of finance lease liabilities	–	(102)	(102)
Total changes from financing cash flows	5,986	(102)	5,884
Other changes			
Interest expense (Note 6)	169	9	178
Interest paid	(155)	(8)	(163)
Movement in interest accrual (included in accruals and deferred income – Note 16)	(14)	(1)	(15)
Total other changes	–	–	–
Balance at 28 February 2018	8,506	23	8,529

16 Trade and other payables

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Current		
Trade payables	7,464	7,325
Accruals and deferred income	1,915	1,456
Deferred consideration	393	393
Government grants	8	35
Other taxation and social security	1,753	1,707
	11,533	10,916
Non-current		
Accruals and deferred income	61	169
Deferred consideration	186	555
Government grants	16	27
	263	751

Notes (forming part of the financial statements) *continued*

16 Trade and other payables continued

Accruals at 28 February 2018 included £446,000 of rent accrued but not paid, being the difference in cash paid and the average rent charge as expensed, as per the commercial agreement reached with the landlord of the leasehold distribution centre at Clifton Moor, York. On 21 March 2018, the Group entered into a new 15-year lease with a 10-year clean break clause and this accrual was released in full, resulting in a £421,000 credit that is included in administrative expenses.

Accruals at 31 March 2019 include £62,000 (2018: £161,000) relating to the estimated cash bonuses accrued relating to the CSOP scheme, and Director Cash Plan (see Note 19).

Deferred consideration is due in relation to the acquisition of a software business in January 2017 and comprises six quarterly instalments of £100,000 payable on 1st of January/April/July/October. These amounts are valued in the accounts at fair value and subsequently amortised.

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

Deferred consideration is valued at fair value. The Directors consider the carrying amount of other 'trade and other payables' to approximate their fair value. The interest expense of £30,000 in relation to the unwinding of the discount is disclosed in Note 6.

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 and appropriately structured facilities to cover its future funding requirements. Short-term flexibility is available through Import loans and overdraft facilities and 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 31 March 2019 the Group had £5.3m of cash and bank balances (28 February 2018: £3.5m).

	Effective interest rate %	Carrying amount	Face value	Contractual cash flows			
		Period ended 31 March 2019 £000	Period ended 31 March 2019 £000	Within 1 year £000	1-2 years £000	2-5 years £000	Over 5 years £000
Secured loans	2.99	12,374	12,408	8,384	546	727	2,751
Trade payables	–	7,464	7,464	7,464	–	–	–
		19,838	19,872	15,848	546	727	2,751

17 Financial instruments continued**Risk management framework continued****(a) Liquidity risk continued**

	Effective interest rate %	Carrying amount Year ended 28 February 2018 £000	Face value Year ended 28 February 2018 £000	Contractual cash flows			
				Within 1 year £000	1-2 years £000	2-5 years £000	Over 5 years £000
Secured loans	3.03	8,490	8,506	3,890	546	1,320	2,750
Trade payables	–	7,325	7,325	7,325	–	–	–
		15,815	15,831	11,215	546	1,320	2,750

(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. Trade sales accounted for 1.2% of 2019 revenue (2018: 2.0%) and credit terms are rarely offered.

There are a small number of education accounts with schools and colleges that have 30-day terms (1.8% of 2019 and 2018 revenues).

Funds lodged with Amazon, Digital River, Klarna and V12 Retail Finance totalled £128,000 on 31 March 2019 (28 February 2018: £557,000) and are included in Trade debtors. 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 bank borrowings incur interest at variable rates of between 2.45% and 3.25% above the bank's base rate or LIBOR, which exposes the Group to interest rate risk. Loans are with UK-based institutions and denominated in Sterling.

At 31 March 2019, the Group had cash reserves of £5.3m and could utilise these funds to part 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:

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Variable rate instruments		
Cash	(5,304)	(3,540)
Bank loans	12,374	8,506
	7,070	4,966
Fixed rate instruments		
Finance leases	453	23
Total net financial liabilities	7,523	4,989

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, remain constant and considers the effect of financial instruments with variable interest rates.

	Impact on closing equity/profit and loss Period ended 31 March 2019 £000	Impact on closing equity/profit and loss Year ended 28 February 2018 £000
Increase of 50 basis points	(38)	(29)
Decrease of 50 basis points	38	29

Notes (forming part of the financial statements) continued

17 Financial instruments continued

Risk management framework continued

(d) Foreign exchange risk

All borrowings are denominated in Sterling.

The Group sells into Europe and the Rest of the World in nine currencies including Sterling, Euros and, more recently, US Dollars. In the period ended 31 March 2019, 44% (2018: 43%) of total revenues were in non-Sterling currencies, of which 48% (2018: 46%) 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. The scaling up of the Group's operations in Sweden and Germany has increased the proportion of liabilities denominated in Swedish Krona and Euros (see Note 2), further extending the natural hedge. 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 12-16 weeks, during which time the Group bears currency risk. The Group also trades with one supplier (2018: one supplier) 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 should it choose, and the Group generates enhanced margins on these products such that a proportion of these losses could 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.

The strength of the US Dollar impacts on stock intake prices of the Group, directly on own-branded products and indirectly on other-branded products as whilst the majority of stock had been purchased in Sterling, the branded manufacturers faced similar price inflation. The Group looks to mitigate such events by re-negotiating orders and investing in larger volumes to leverage increasing purchasing economies of scale.

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Trade and other receivables		
Sterling	309	312
US Dollar	88	740
Euro	356	88
Other European currencies	103	505
	856	1,645
Cash and cash equivalents		
Sterling	4,355	2,746
US Dollar	2	-
Euro	409	309
Other European currencies	538	485
	5,304	3,540
Trade payables		
Sterling	6,634	5,781
US Dollar	213	1,200
Euro	255	160
Other European currencies	362	184
	7,464	7,325
Local sales tax		
Sterling	522	(171)
Euro	690	617
Other European currencies	899	842
	2,111	1,288

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, and the Group has started selling in US Dollars.

17 Financial instruments continued

Risk management framework 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 generation from trading, the utilisation of external borrowings, and the cash raised on placing of Ordinary shares.

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 31 March 2019 and 28 February 2018:

	31 March 2019		28 February 2018	
	Book value £000	Fair value £000	Book value £000	Fair value £000
Trade and other receivables	1,657	1,657	2,704	2,704
Cash and cash equivalents	5,304	5,304	3,540	3,540
Bank loans	(12,408)	(12,374)	(8,506)	(8,490)
Finance lease liabilities	(453)	(474)	(23)	(24)
Trade and other payables	(12,115)	(12,115)	(10,719)	(10,719)
Deferred consideration	(600)	(579)	(1,000)	(948)
	(18,615)	(18,581)	(14,004)	(13,937)

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 values 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

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.

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.

Deferred consideration

The deferred consideration is assumed to be 100% payable. The consideration has been discounted to present value at 2.7%, being equivalent to the prevailing market rate of interest for a similar financial instrument.

Notes (forming part of the financial statements) continued

17 Financial instruments continued

Fair values and carrying values of 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
31 March 2019			
Bank loans	–	(12,374)	–
Deferred consideration	–	–	(579)
	–	(12,374)	(579)

28 February 2018

Bank loans	–	(8,490)	–
Deferred consideration	–	–	(948)
	–	(8,490)	(948)

Reconciliation of Level 2 fair value:

	At 1 March 2018 £000	Net increase in bank debt £000	At 31 March 2019 £000
Bank loans	(8,490)	(3,884)	(12,374)

Reconciliation of Level 3 fair value:

	At 1 March 2018 £000	Payment less unwound discount £000	At 31 March 2019 £000
Deferred consideration	(948)	369	(579)

18 Share capital and reserves

Share capital

	Period ended 31 March 2019 Number	Year ended 28 February 2018 Number
Authorised, called up and fully paid:		
Ordinary shares of 10p each	20,945,328	20,867,121

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.

On 3 June 2018, the Company issued and allotted 78,207 new Ordinary shares of 10p each on exercise of options under the Company's EMI schemes (see Note 19). This took the number of Ordinary shares in issue from 20,867,121 to 20,945,328, representing dilution of 0.4%.

Share premium

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Opening	13,055	8,933
Issue of shares	97	4,278
Share issue costs	–	(156)
Closing	13,152	13,055

18 Share capital and reserves continued

Foreign currency translation reserve

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Opening	12	10
Translation (loss)/gain	(9)	2
Closing	3	12

Revaluation reserve

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Opening	1,424	-
Freehold property revaluation	-	1,716
Deferred tax	-	(292)
Closing	1,424	1,424

The revaluation reserve represents the unrealised gain generated on revaluation of the freehold office property on 28 February 2018. It represents the excess of the fair value over deemed cost.

Retained earnings

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Opening	2,307	763
Share-based payment charge	(22)	69
Deferred tax	(89)	89
(Loss)/profit for the period	(163)	1,386
Closing	2,033	2,307

Reserve	Description and purpose
Retained earnings.	Cumulative net profits recognised in the consolidated income statement.

19 Share-based payments

The Group operates 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.

At the start of the period there were four incentive schemes in place and in the period the options granted under two of these schemes were exercised and settled in full, and one new long-term management incentive plan was put in place:

- an Employees' EMI scheme (all options exercised in the period);
- a Directors' EMI scheme relevant to Chris Scott and Gareth Bevan (all options exercised in the period);
- two Directors' cash bonus plans relevant to Andrew Wass who, by virtue of his 34% shareholding, is cash rather than equity rewarded. One of these plans was settled in the period and one remains in place;
- a CSOP scheme; and
- an LTIP set up in the financial period relevant to six senior employees including Andrew Wass, Chris Scott and Gareth Bevan.

All equity-settled share options have an exercise price equal to the nominal value of the shares (10p) that the Company has or will subsidise by way of a bonus, provided there are sufficient distributable reserves and, subject to certain conditions, will vest on a specified anniversary of the date of grant.

The fair value of the cash-settled liability is remeasured at each balance sheet date and settlement date.

Employee EMI Plan

The Board had responsibility for the operation of the Employee EMI Plan. Awards under the Employee EMI Plan were only subject to service conditions. Subject to continued employment, awards were deemed exercised at the end of the relevant vesting period.

On or before 3 June 2018, awards over all 58,251 shares under this plan were satisfied by the issue of new shares and the Company paid a cash bonus to option holders, the net value of which was equivalent to the income tax, employee national insurance and the exercise price arising in relation to the awards. All options have been exercised in full.

Notes (forming part of the financial statements) continued

19 Share-based payments continued

Director EMI Plan

The Remuneration Committee had responsibility for the operation of the Director EMI Plan. Awards under the Director EMI Plan were exercisable at the end of the vesting period subject to meeting EPS-based targets between the date of grant and vest, and subject to service conditions. These conditions were met.

On 3 June 2018, awards over all 19,956 shares under this plan were satisfied by the issue of new shares and the Company paid a cash bonus to option holders, the net value of which was equivalent to the income tax, employee national insurance and the exercise price arising in relation to the awards. All options have been exercised in full.

Director Cash Plans

The Remuneration Committee has responsibility for the operation of the Director Cash Plan and may grant cash bonus awards over shares to eligible employees and retains discretion as to the operation of the plan.

Executive Directors of the Company are eligible to participate in the Director EMI Plan and CSOP plan. An Executive Director who participates in the Director EMI Plan or the CSOP is not eligible to participate in the Director Cash Plan. Participation is at the discretion of the Remuneration Committee.

Awards under the Director Cash Plan are subject to performance conditions. Awards will be exercisable at the end of the relevant vesting period subject to EPS-based performance conditions and continued employment.

Awards will be settled in cash.

On 3 June 2018, Andrew Wass (Chief Executive Officer) exercised his entitlement under the plan to an award of £72,041 that was settled in cash.

CSOP

The Board has responsibility for matters relating to employee members of the plan and may grant share options over shares to eligible employees. Eligible employees will generally have been employed by the Group for more than three years at the time of award, but could be a shorter period at the discretion of the Board. The Board has discretion to select participants from eligible employees of the Group.

The Remuneration Committee has responsibility for matters relating to Director members of the plan and may grant share options over shares to eligible employees and retains discretion as to the operation of the plan. Executive Directors of the Company are eligible to participate in the plan. Participation is at the discretion of the Remuneration Committee.

Employee awards under the CSOP plan are only subject to service conditions. Directors' awards are subject to meeting EPS-based targets between the date of grant and vest, and subject to service conditions.

Subject to continued employment, awards will normally be deemed to have been exercised at the end of the relevant three-year vesting period.

Awards will be satisfied by the issue of new shares. The Company will grant a cash bonus to option holders in the month of exercise, the net value of which will be equivalent to the income tax, employee national insurance and the exercise price arising in relation to the awards.

An initial award of 14,460 shares under option was made in June 2017.

In June 2018, a further award over 7,403 shares was made, and the total number of shares under option under the CSOP scheme at 31 March 2019 was 19,102.

LTIP

On 13 November 2018, the Group announced a new long-term management incentive plan to incentivise senior employees in a manner aligned with the interests of the Company's shareholders.

The plan involved the issue of 210,000 'B' Ordinary shares in Gear4music Limited, a subsidiary of the Company. These 'B' shares vest from 2021-26 and can be exchanged on a one-for-one basis for new Ordinary Company shares subject to meeting specified criteria, including reaching a specified target share price for 80% of the award (see below), and pre-determined revenue and profitability targets for 20%.

19 Share-based payments continued

LTIP continued

The 'B' shares are non-voting, non-dividend restricted shares. The initial subscription cost was paid by way of a cash bonus that has been expensed in FY19.

Financial year ending:	Share price hurdle	Maximum number of shares vesting
31 March 2021	£13	27,300
31 March 2022	£16	29,400
31 March 2023	£20	33,600
31 March 2024	£24	35,700
31 March 2025	£29	39,900
31 March 2026	£35	44,100

The share price hurdle being the average closing mid-price in the 30-day period following announcement of preliminary results.

The Remuneration Committee has responsibility for matters relating to members of the plan. The Executive Directors of Gear4music Limited are participants in the plan.

The terms and conditions of specific grants are as follows:

Grant date/employees entitled	Method of settlement accounting	Number of instruments	Vesting conditions	Contractual life of options
Employee EMI Award 1 – Equity-settled award to eight key employees on IPO, granted by parent on 3 June 2015	Equity	23,383	Continued employment	Settled
Employee EMI Award 2 – Equity-settled award to one key employee, granted by parent on 17 February 2016	Equity	1,845	Continued employment	Settled
Employee EMI Award 3 – Equity-settled award to two key employees, granted by parent on 26 May 2016	Equity	9,433	Continued employment	Settled
Employee EMI Award 4 – Equity-settled award to 44 employees, granted by parent on 31 May 2016	Equity	Initially 27,406; 23,590 at 28 Feb 2018	Continued employment	Settled
Director EMI Award 1a – Equity-settled award to Chris Scott and Gareth Bevan, granted by parent on 31 May 2016	Equity	19,956	EPS-based performance criteria and continued employment	Settled
Director Award 1b – Cash-settled award to Andrew Wass, granted by parent on 31 May 2016	Cash	Cash equivalent to monetary result for the other Directors	EPS-based performance criteria and continued employment	Settled
Employee CSOP Award 5 – Equity-settled award to 75 employees, granted by parent on 30 June 2017	Equity	Initially 7,248; 6,858 at 28 Feb 2018 1,521 forfeit in period; now 5,337	Continued employment	30 June 2020
Senior Management, CSOP Award 2a – Equity-settled award to Chris Scott and Gareth Bevan and two others, granted by parent on 30 June 2017	Equity	7,212	EPS-based performance criteria and continued employment	30 June 2020
Director Award 2b – Cash-settled award to Andrew Wass, granted by parent on 30 June 2017	Cash	Cash equivalent to monetary result for the other Directors	EPS-based performance criteria and continued employment	30 June 2020
Employee CSOP Award 6 – Equity-settled award to 73 employees granted by parent on 30 June 2018	Equity	7,403 granted; 850 forfeit; now 6,553	Continued employment	30 June 2021
LTIP – Equity-settled award to the six Directors of Gear4music Limited	Equity	210,000	80% linked to share price 20% linked to revenue and profitability improvements All subject to continued employment	From August 2021 to August 2026

Notes (forming part of the financial statements) continued

19 Share-based payments continued

LTIP continued

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price 2019	Number of options 2019	Weighted average exercise price 2018	Number of options 2018
Outstanding at the beginning of the period	–	92,277	–	79,226
Forfeited during the period	–	(2,371)	–	(1,409)
Exercised during the period	–	(78,207)	–	–
Granted during the period	–	217,403	–	14,460
Lapsed during the period	–	–	–	–
Outstanding at the end of the period	–	229,102	–	92,277
Exercisable at the end of the period	–	–	–	1,845

Options over 78,207 shares were exercised in the year. The options outstanding at the year end have a nil exercise price and a weighted average contractual life of 4.83 years (28 February 2018: 0.57 years).

The fair values of employee share options were calculated using a Black-Scholes model along with the assumptions detailed below:

Date of grant	Share price on date of grant (pence)	Exercise price (pence)	Volatility (%)	Vesting period (years)	Dividend yield (%)	Risk-free rate of interest (%)	Fair value (pence)
3 Jun 2015	143.0	0.0	1%	3	0%	0.70%	143.0
17 Feb 2016	135.0	0.0	1%	2	0%	0.70%	135.0
26 May 2016	132.5	0.0	11.8%	2	0%	0.45%	132.5
31 May 2016	132.5	0.0	11.8%	2	0%	0.43%	132.5
31 May 2016	132.5	0.0	11.8%	2	0%	0.43%	132.5
30 June 2017	720.0	0.0	52.6%	3	0%	0.43%	720.0
30 June 2017	720.0	0.0	52.6%	3	0%	0.43%	720.0
30 June 2018	719.5	0.0	30.6%	3	0%	0.73%	719.5
8 Nov 2018	563.0	0.0	44.5%	2-7	0%	0.92%	555.0

The expected volatility is wholly based on the historic volatility (calculated based on the weighted average remaining life of the share options).

The total expenses recognised for the period and the total liabilities recognised at the end of the period arising from share-based payments are as follows:

	2019 £000	2018 £000
Equity-settled share-based payment expense	(22)	69
Cash-settled share-based payment expense	(11)	8
	(33)	77
Opening	181	104
	148	181
Recognised in equity	86	116
Recognised as a liability	62	65
Closing	148	181

20 Commitments

Operating lease commitment

Non-cancellable operating lease rentals are payable as follows:

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Less than one year	1,446	1,112
Between one and five years	5,629	4,635
More than five years	5,673	–
	12,748	5,747

Operating lease commitments relate to property leases of the Distribution Centre in York, the Software Development office in Manchester, and Distribution Centres in Sweden and Germany.

On 21 March 2018 the Group entered into a new 15-year lease with a 10-year clean break clause at the York Distribution Centre.

21 Related parties

Transactions with key management personnel

The compensation of key management personnel is as follows:

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Key management emoluments including social security costs	621	503
Company contributions to money purchase pension plans	82	17
	703	520

Key management personnel comprise the Chairman, CEO, CFO and CCO. All transactions with key management personnel have been made on an arms-length basis.

Four Directors are accruing retirement benefits under a money purchase scheme (2018: four).

Share-based payments

EMI and Director Cash Plan

An EMI share incentive plan for Chris Scott and Gareth Bevan, and equivalent discretionary cash bonus plan for Andrew Wass, vested in full in June 2018.

Chris Scott received a bonus of £24,553 and Gareth Bevan a bonus of £25,443 to cover the income tax, national insurance and exercise price of the award. Chris Scott and Gareth Bevan both received 9,978 shares. Andrew Wass exercised his entitlement under the Director Cash Plan to an equivalent award of £72,041, and this was settled in cash.

LTIP

In FY19 a new long-term incentive plan involving Andrew Wass, Chris Scott and Gareth Bevan was put in place and involved the issue of 210,000 'B' Ordinary shares in Gear4music Limited, a subsidiary of the Company. These 'B' shares vest from 2021-26 and can be exchanged on a one-for-one basis for new Ordinary Company shares subject to meeting specified criteria, including reaching a specified target share price for 80% of the award, and pre-determined revenue and profitability targets for 20%.

The initial subscription cost was covered by way of bonus and Andrew Wass, Chris Scott and Gareth Bevan received bonuses of £7,217, £7,217 and £8,350 respectively.

Notes (forming part of the financial statements) continued

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:

Judgements

- Direct software development costs are capitalised as intangible assets. Judgement is applied in assessing the flow of future economic benefit, and in identifying which costs are capitalised and which are written off as an expense. Alternative judgement could result in certain costs being expensed.
- The useful life 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 on IPO. Different UELs could be applied that would change the P&L charge and Balance sheet carrying value.

Estimates

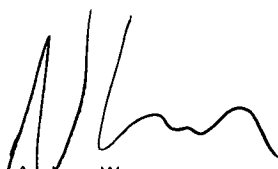
- An accrual for sales returns in the 30-day money-back guarantee period is made based on historical returns and actual returns could vary from this estimate.
- The basis for stock provision and by association the carrying value – given the nature of the products sold, product margins earned, and trading terms with suppliers, Management currently provide for faulty returns retained for spare parts, and an estimate of the product loss to deal with problem stock. At 31 March 2019 the provision is £107,245 on gross stock of £18.8m (FY18: £79,879 on £17.1m). There are no other provisions made.

Company Balance Sheet

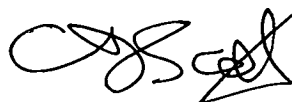
		2019		2018	
	Notes	£000	£000	£000	£000
Fixed assets					
Investments	4		3,852		3,517
Current assets					
Cash in hand and at bank	7	19		17	
Debtors (including £10.47m (2018: £10.74m) due after more than one year)	5,6	10,488		10,766	
		10,507		10,783	
Creditors: amounts falling due within one year	8	(46)		(39)	
Net current assets			10,461		10,744
Total assets less current liabilities			14,313		14,261
Net assets			14,313		14,261
Capital and reserves					
Called-up share capital	9		2,095		2,087
Share premium account	9		13,152		13,055
Profit and loss account	9		(934)		(881)
Shareholders' funds			14,313		14,261

The Notes 1 to 10 form part of these financial statements.

These financial statements were approved by the Board of Directors on 2 August 2019 and were signed on its behalf by:



Andrew Wass
Director
2 August 2019



Chris Scott
Director
2 August 2019

Company registered number: 07786708

Company Statement of Changes in Equity

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Balance at 1 March 2017	2,016	8,933	(868)	10,081
Loss for the year	–	–	(82)	(82)
Issue of shares net of expenses	71	4,122	–	4,193
Share-based payment charge	–	–	69	69
Balance at 28 February 2018	2,087	13,055	(881)	14,261
Loss for the year	–	–	(30)	(30)
Issue of shares net of expenses	8	97	–	105
Share-based payment charge	–	–	(23)	(23)
Balance at 31 March 2019	2,095	13,152	(934)	14,313

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

Notes to the Company Financial Statements (forming part of the financial statements)

1 Accounting policies

The Company's principal activity is to act as the holding company for the Group, whose principal activity is retailing 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 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 period ended 31 March 2019 and year ended 28 February 2018.

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 50.

1.3 Investment in subsidiaries

These are separate financial statements of the Company. Investments in subsidiaries are carried at cost less impairment.

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:

- 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
- 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.

Notes to the Company Financial Statements (forming part of the financial statements) continued

1 Accounting policies continued

1.5 Basic financial instruments continued

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.

Inter-company loans

Amounts owed by Group undertakings are initially recognised at fair value. Subsequently, they are measured at amortised cost using the effective interest rate method less provision for impairment. If the arrangement constitutes a financing transaction, then it is measured at the present value of future payments discounted at a market rate of interest for a similar debt instrument.

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.

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 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.

1 Accounting policies continued

1.8 Employee benefits continued

Share-based payment transactions

Share-based payment arrangements in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group.

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The fair value of the options granted is measured using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

Share-based payment transactions in which the Group receives goods or services by incurring a liability to transfer cash or other assets that is based on the price of the Group's equity instruments are accounted for as cash-settled share-based payments. The fair value of the amount payable to employees is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is remeasured at each balance sheet date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

1.9 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.

1.10 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:

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Auditor remuneration – audit of financial statements	30	20
Auditor remuneration – other	–	17

3 Directors' remuneration

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Directors' remuneration	656	535
Company contributions to money purchase pension schemes	81	17
	737	552

There are four Directors (2018: four) for whom retirement benefits are accruing under a money purchase pension scheme.

The aggregate remuneration of the highest paid Director was £252,000 during the 13-month period (2018: £200,000), including Company pension contributions of £75,000 (2018: £3,000) that were made to a money purchase scheme on their behalf.

Notes to the Company Financial Statements (forming part of the financial statements) continued

4 Fixed asset investments

	Subsidiary undertakings £000
Cost	
At 1 March 2018	3,517
Capital contribution	335
At 31 March 2019	3,852

Investments in subsidiaries are carried at fair value, with changes recognised in other comprehensive income ('OCI') in accordance with FRS 102.17.15E-F. Property, plant and equipment, with net revaluation gains recognised in OCI and net revaluation losses in profit or loss.

The Company has the following investments in subsidiaries:

Subsidiaries	Registered office address	Registered number	Class of shares held	Ownership
Gear4music Limited	Holgate Park Drive, York, YO26 4GN	03113256	Ordinary	100%
Cagney Limited	Holgate Park Drive, York, YO26 4GN	04493300	Ordinary	100% via G4M Ltd
Gear4music Sweden AB	Metallvägen 45a, 195 72 Rosersberg, Stockholm County, Sweden	559070-4762	Ordinary	100% via G4M Ltd
Gear4music GmbH	Lahnstraße 27, 45478 Mülheim an der Ruhr, Germany	HRB 29067	Ordinary	100% via G4M Ltd
Gear4music Norway AS	PO Box 2734, Solli, 0204 Oslo, Norway	917 313 210	Ordinary	100% via G4M Ltd

Cagney Limited and Gear4music Norway AS are dormant companies.

5 Deferred tax assets

Movement in deferred tax during the period

	At 1 March 2018 £000	Recognised in income statement £000	At 31 March 2019 £000
Unused tax losses	–	–	–
	–	–	–

Movement in deferred tax during the previous year

	At 1 March 2017 £000	Recognised in income statement £000	At 31 March 2018 £000
Unused tax losses	–	–	–
	–	–	–

6 Debtors

Due within one year:

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Other debtors	16	22
	16	22

Due after more than one year:

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Amounts owed by Group undertakings	10,472	10,744
	10,472	10,744

The loan to Group undertakings is repayable in 12 months and 1 day from the year end. No interest is charged on the balance.

As at 31 March 2019, receivables from subsidiary undertakings were unimpaired and considered by management to be fully recoverable.

7 Cash and cash equivalents

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Cash and cash equivalents per balance sheet	19	17

8 Creditors: amounts falling due within one year

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Trade creditors	1	6
Accruals and deferred income	45	33
	46	39

9 Share capital and reserves

Share capital

	Period ended 31 March 2019 Number	Year ended 28 February 2018 Number
Authorised, called up and fully paid: Ordinary shares of 10p each	20,945,328	20,867,121

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.

On 3 June 2018, the Company issued and allotted 78,207 new Ordinary shares of 10p each on exercise of options under the Company's EMI schemes (see Note 19). This took the number of Ordinary shares in issue from 20,867,121 to 20,945,328, representing dilution of 0.4%.

Share premium

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Opening	13,055	8,933
Issue of shares	97	4,278
Share issue costs	–	(156)
Closing	13,152	13,055

Retained earnings

	Period ended 31 March 2019 £000	Year ended 28 February 2018 £000
Opening	(881)	(868)
Share-based payment charge	(23)	69
Loss for the year	(30)	(82)
Closing	(934)	(881)

10 Related parties

In FY18 Chris Scott and Gareth Bevan were granted 2,288 equity-settled share options each, and Andrew Wass was awarded an equivalent cash-settled option to result in the same monetary value being returned on vest.

In FY19 an EMI share incentive plan for Chris Scott and Gareth Bevan vested in full, with the exercise total of 9,978 equity-settled share options each. An equivalent discretionary cash bonus plan for Andrew Wass vested in full with payment of £72,041.

Also, in FY19 a new long-term incentive plan involving Andrew Wass, Chris Scott and Gareth Bevan was put in place and involved the issue of 210,000 'B' Ordinary shares in Gear4music Limited, a subsidiary of the Company. These 'B' shares vest from 2021-26 and can be exchanged on a one-for-one basis for new Ordinary Company shares subject to meeting specified criteria, including reaching a specified target share price for 80% of the award, and pre-determined revenue and profitability targets for 20%.

Notes

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