



Placing & Admission to AIM



Nominated Adviser & Broker

PANMURE GORDON & CO
INTEGRITY IN INVESTMENT BANKING SINCE 1876

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document, or the action you should take, you should consult a person duly authorised under the FSMA who specialises in advising on the acquisition of shares and other securities if you are resident in the United Kingdom or, if you are not, another appropriately authorised financial adviser. This document, which comprises an AIM admission document, has been drawn up in accordance with the AIM Rules for Companies and has been issued in connection with the application for admission to trading on AIM of the entire issued and to be issued share capital of the Company. This document does not constitute an offer or constitute any part of an offer to the public within the meaning of sections 85 and 102B of the FSMA. Accordingly, this document does not constitute a prospectus for the purposes of the Prospectus Rules published by the FCA and has not been approved by or filed with the FCA. The definitions used in this document are set out at pages 8 to 12.

The Company, whose registered office address appears on page 7, and the Directors, whose names appear on page 7, accept individual and collective responsibility for the information contained in this document, including responsibility for the Company's compliance with the AIM Rules for Companies. To the best of the knowledge and belief of the Company and the Directors (each of whom has taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Application has been made for the Enlarged Share Capital to be admitted to trading on AIM. It is expected that Admission will become effective and that dealings in the Shares will commence on AIM on 3 June 2015. The Shares are not dealt in on any other recognised investment exchange and no application has been, or is intended to be, made for the Shares to be admitted to trading on any other such exchange.

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the United Kingdom Listing Authority. The London Stock Exchange has not itself examined or approved the contents of this document. The rules of AIM are less demanding than those of the Official List. Each AIM company is required pursuant to the AIM Rules for Companies to have a nominated adviser. The nominated adviser is required to make a declaration to the London Stock Exchange on Admission in the form set out in Schedule Two to the AIM Rules for Nominated Advisers.

A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. Your attention is drawn in particular to the section headed "Risk Factors" set out in Part II of this document; however, the whole text of this document should be read.

Gear4music (Holdings) plc

(incorporated in England and Wales under the Companies Act 1985 with registration number 7786708)

Placing of 7,410,072 Placing Shares at 139 pence per share

Admission to trading on AIM

Financial Adviser, Nominated Adviser and Broker

PANMURE GORDON & CO

Share capital immediately following Admission

	<i>Issued and fully paid</i>	
	<i>Number</i>	<i>Nominal amount</i>
Shares	20,156,339	£0.10

Panmure Gordon, which is regulated by the FCA, is acting as nominated adviser and broker to the Company and will not be responsible to any person other than the Company for providing the protections afforded to its customers or for advising any other person on the contents of this document or any transaction or arrangement referred to in this document. Panmure Gordon has not authorised the contents of any part of this document for the purposes of the AIM Rules and (without limiting the statutory rights of any person to whom this document is issued) accepts no liability whatsoever for the accuracy of any information or opinions contained in this document or for the omission of any material information from this document for which the Company and the Directors are responsible. The responsibilities of Panmure Gordon as the Company's nominated adviser and broker under the AIM Rules are owed solely to the London Stock Exchange and are not owed to the Company or any Director, Shareholder or any other person in respect of a decision

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This document does not constitute an offer to sell or issue, or the solicitation of an offer to subscribe for or buy, securities in any jurisdiction in which such offer or solicitation is unlawful and, in particular, is not for distribution in or into the United States, Canada, Australia, the Republic of South Africa or Japan. The Shares have not been and will not be registered under the US Securities Act nor under the applicable securities laws of the United States or any province or territory of Canada, Australia, the Republic of South Africa or Japan, and therefore the Shares may not be offered, sold, transferred or delivered directly or indirectly in the United States, Canada, Australia, the Republic of South Africa or Japan, nor in any country or territory where to do so may contravene local securities laws or regulations. The distribution of this document in other jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restriction. Any failure to comply with these restrictions may constitute a violation of the securities law of any such jurisdictions. The Shares have not been approved or disapproved by the United States Securities and Exchange Commission, any state securities commission in the United States or any other United States regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence in the United States.

In making any investment decision in respect of the Shares, no information or representation should be relied upon other than as contained in this document. No person has been authorised to give any information or make any representation other than that contained in this document and, if given or made, such information or representation must not be relied upon as having been authorised.

IMPORTANT INFORMATION

Investment in the Company carries risk. There can be no assurance that the Company's strategy will be achieved and investment results may vary substantially over time. Investment in the Company is not intended to be a complete investment programme for any investor. The price of the Shares and any income from Shares can go down as well as up and investors may not realise (in whole or in part) the value of their initial investment. Prospective Shareholders should carefully consider whether an investment in Shares is suitable for them in light of their circumstances and financial resources and should be able and willing to withstand the loss of their entire investment (see further the section headed "Risk Factors" in Part II of this document).

Potential investors contemplating an investment in the Shares should recognise that their market value can fluctuate and may not always reflect their underlying value. Returns achieved are reliant upon the performance of the Group. No assurance is given, express or implied, that Shareholders will receive back the amount (in whole or in part) of their investment in the Shares.

Statements made in this document are based on the law and practice in force in England and Wales at the date of this document and are subject to change.

This document should be read in its entirety before making any investment in the Company.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this document are forward-looking statements and are based on current expectations, estimates and projections about the potential returns of the Group and industry and markets in which the Group will operate, the Directors' beliefs and assumptions made by the Directors. Words such as "expects", "anticipates", "should", "intends", "plans", "believes", "seeks", "estimates", "projects", "pipeline", "aims", "may", "targets", "would", "could" and variations of such words and similar expressions are intended to identify such forward-looking statements and expectations. These statements are not guarantees of future performance or the ability to identify and consummate investments and involve certain risks, uncertainties, outcomes of negotiations and due diligence and assumptions that are difficult to predict, qualify or quantify. Therefore, actual outcomes and results may differ materially from what is expressed in such forward-looking statements or expectations. Among the factors that could cause actual results to differ materially are: the general economic climate, competition, interest rate levels, loss of key personnel, the result of legal and commercial due diligence, the availability of financing on acceptable terms and changes in the legal or regulatory environment. These forward-looking statements speak only as at the date of this document. The Company and the Directors expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained in this document to reflect any change in the Company's and/or the Directors' expectations with regard to them or any change in events, conditions or circumstances on which any such statements are based unless required to do so by applicable law or the AIM Rules for Companies.

USE OF CERTAIN NON-IFRS MEASURES

Certain non-IFRS measures such as earnings before interest, tax, depreciation and amortisation as adjusted for exceptional items and the difference between the annual rental charge for the Group's warehouse, office and showroom facilities in York recognised in the Group's consolidated income statement and related cash cost ("Adjusted EBITDA") have been included in the financial information, as the Directors believe that these provide important alternative measures with which to assess the Group's performance. Further narrative on the calculation of Adjusted EBITDA is provided on paragraph 10 of Part I of this document.

You should not consider Adjusted EBITDA as an alternative for Revenue or Operating Profit which are IFRS measures. Additionally, the Company's calculation of Adjusted EBITDA may be different from the calculation used by other companies and therefore comparability may be limited.

PRESENTATION OF MARKET INFORMATION

The data, statistics and information and other statements in this document regarding the markets in which the Group operates, or the Group's position in those markets, are based on the Group's records or are taken or derived from statistical data and information derived from the sources described in this document.

In relation to these sources, such information has been accurately reproduced from the published information and, so far as the Directors are aware and are able to ascertain from the information provided by the suppliers of these sources, no facts have been omitted which would render such information inaccurate or misleading.

ROUNDING

Various figures and percentages in this document have been rounded and accordingly may not add up to 100 per cent. Certain financial data has also been rounded. As a result of this rounding, the totals of data presented in this document may vary slightly from the actual arithmetical totals of such data.

WEBSITES

The contents of the Group's websites, any website mentioned in this document or any website directly or indirectly linked to those websites have not been verified and do not form part of this document, and investors should not rely on such information.

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EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Date of publication of this document	28 May 2015
Allotment and issue of the EIS Shares	8.00 a.m. on 2 June 2015
Expected date for CREST accounts, to be credited with EIS Shares (where applicable)	2 June 2015
Allotment and issue of the VCT Shares and allotment of the Non-Eligible Shares	8.00 a.m. on 3 June 2015
Admission becomes effective and dealings expected to commence on AIM	8.00 a.m. on 3 June 2015
Issue of the Non-Eligible Shares	at or about 9.30 a.m. on 3 June 2015
Expected date for CREST accounts to be credited with VCT Shares and Non-Eligible Shares (where applicable)	3 June 2015
Despatch of definitive share certificates (where applicable)	by 10 June 2015

Each of the times and dates in the above timetable is subject to change. All times are London, UK times unless otherwise stated.

PLACING STATISTICS

Placing Price per Placing Share	139 pence
Number of Existing Shares in issue immediately prior to Admission	14,473,577 ¹
Number of Subscription Shares to be issued by the Company pursuant to the Placing	7,175,569
Number of Sale Shares to be sold by the Sellers pursuant to the Placing	234,503
Number of Shares in issue immediately following Admission ²	20,156,339
Percentage of Enlarged Share Capital represented by the Subscription Shares	35.6 per cent.
Gross proceeds of the Placing receivable by the Company	approximately £10 million
Gross proceeds of the Placing receivable by the Sellers	approximately £0.3 million
Expenses of the Placing borne by the Company	approximately £1 million
Expenses of the Placing borne by the Sellers	£12,000
Estimated net proceeds of the Placing receivable by the Company	approximately £9 million
Estimated net proceeds of the Placing receivable by the Sellers	approximately £0.3 million
Estimated market capitalisation of the Company at the Placing Price at Admission ²	£28 million
TIDM	G4M
ISIN	GB00BW9PJQ87
SEDOL	BW9PJQ8

¹ This includes the EIS Shares.

² Includes Non-Eligible Shares which will be unconditionally allotted at 8.00 a.m. on 3 June 2015 but not issued until at or about 9.30 a.m. on 3 June 2015.

DIRECTORS, SECRETARY AND ADVISERS

Directors	Eric Kenelm Ford (<i>Chairman and Non-Executive Director</i>) Andrew Paul Wass (<i>Chief Executive Officer</i>) Christopher David Scott (<i>Chief Financial Officer</i>) Gareth John Bevan (<i>Chief Commercial Officer</i>) Dean Anthony Murray (<i>Non-Executive Director</i>) Peter Robert Armitage (<i>Non-Executive Director</i>)
Company Secretary	Christopher David Scott
Registered Office and Principal Place of Business	Kettlestring Lane Clifton Moor York YO30 4XF
Website	www.gear4music.com
Financial Adviser, Nominated Adviser and Broker	Panmure Gordon (UK) Limited One New Change London EC4M 9AF
Reporting Accountant and Auditors	KPMG LLP 1 The Embankment Neville Street Leeds LS1 4DW
Lawyers to the Company	Walker Morris LLP Kings Court 12 King Street Leeds LS1 2HL
Lawyers to the Nominated Adviser and Broker	Squire Patton Boggs (UK) LLP 2 Park Lane Leeds LS3 1ES
Financial PR	MHP Communications 60 Great Portland Street London W1W 7RT
Registrar	Capita Asset Services The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
Company Bankers	HSBC Bank plc 13 Parliament Street York YO1 8XS

DEFINITIONS AND GLOSSARY OF KEY TERMS

In this document, where the context permits or unless otherwise stated, the definitions set out below shall apply:

A Ordinary Shares	A Ordinary Shares of £0.10 each in the capital of the Company, each of which will be converted into one Share on Admission;
Act	the Companies Act 2006, as amended;
active customers	customers of the Group who have purchased item(s) at least once in the last two years;
Adjusted EBITDA	EBITDA adjusted for exceptional items and the difference between the annual rental charge for the Group's warehouse, office and showroom facilities in York recognised in the Group's consolidated income statement and related cash cost, as set out in paragraph 10 of Part I of this document;
Admission	admission of the entire share capital of the Company, issued and to be issued, to trading on AIM and such admission becoming effective in accordance with the AIM Rules for Companies;
AIM	AIM, a market owned and operated by the London Stock Exchange;
AIM Rules	the AIM Rules for Companies and/or the AIM Rules for Nominated Advisers, as appropriate;
AIM Rules for Companies	the AIM Rules for Companies published by the London Stock Exchange, as amended or re-issued from time to time, which set out the rules, responsibilities and guidance notes in relation to companies whose shares are admitted to trading on AIM;
AIM Rules for Nominated Advisers	the AIM Rules for Nominated Advisers to AIM Companies published by the London Stock Exchange, as amended or re-issued from time to time;
Articles or Articles of Association	the articles of association of the Company adopted conditional upon Admission, a summary of which is set out in paragraph 4 of Part IV of this document;
Audit Committee	the audit committee of the Board, intended to be established prior to Admission;
B Ordinary Shares	B Ordinary Shares of £0.10 each in the capital of the Company, each of which will be converted into one Share on Admission;
Board or Directors	the directors of the Company, whose names are set out on page 7 of this document next to the heading "Directors";
C Ordinary Shares	C Ordinary Shares of £0.10 each in the capital of the Company, each of which will be converted into one Share on Admission;
CAGR	compound annual growth rate;
CE marking	indicates that a product complies with all applicable EU legislation;
Company or Gear4music	Gear4music (Holdings) plc, a company incorporated in England and Wales with registered number 7786708, or its businesses, as the context requires;

Corporate Governance Code	the UK Corporate Governance Code published in September 2014, as amended or re-issued by the Financial Reporting Council from time to time;
CREST	the relevant system (as defined in the CREST Regulations) in respect of which Euroclear is the Operator (as defined in the CREST Regulations);
CREST Regulations	the Uncertificated Securities Regulations 2001 (SI 2001/3755), including (i) any enactment or subordinate legislation which amends or supersedes those regulations; and (ii) any applicable rules made under those regulations or any such enactment or subordinate legislation for the time being in force;
Director Cash Plan	the Gear4music (Holdings) plc Director Long Term Cash Incentive Plan
Director EMI Plan	the Gear4music (Holdings) plc Director Enterprise Management Incentive Plan;
EBITDA	earnings before interest, tax, depreciation and amortisation;
EIS	Enterprise Investment Scheme for the purposes of Part 5 of the Income Tax Act 2007;
EIS Shares	1,492,807 ordinary shares of £0.10 each in the capital of the Company, having the rights set out in the articles of association of the Company in force at the time of issue of such shares, to be allotted and issued by the Company on the day before and not conditional on Admission as part of the Placing to investors seeking to benefit under EIS, each of which will be converted into one Share on Admission;
Employee EMI Plan	the Gear4music (Holdings) plc Employee Enterprise Management Incentive Plan;
Enlarged Share Capital	the allotted share capital of the Company immediately following Admission;
EU	European Union;
Euroclear	Euroclear UK & Ireland Limited, a company incorporated in England and Wales with registered number 2878738;
Executive Directors	the executive directors of the Company at the relevant time, who as at the date of this document are Andrew Wass, Christopher Scott and Gareth Bevan;
Existing Shares	the 3,894,230 A Ordinary Shares, the 8,437,500 B Ordinary Shares, the 649,040 C Ordinary Shares and the EIS Shares in the capital of the Company and in issue immediately prior to Admission;
Existing Shareholders	holders of Existing Shares;
FCA	the UK Financial Conduct Authority;
FSMA	the Financial Services and Markets Act 2000, as amended;
FY13	the financial year ended 28 February 2013;

FY14	the financial year ended 28 February 2014;
FY15	the financial year ended 28 February 2015;
Group	the Company and its subsidiaries;
HMRC	Her Majesty's Revenue and Customs;
IFRS	International Financial Reporting Standards, as adopted for use in the European Union;
ISIN	international security identification number;
KCP or Key Capital Partners	Key Capital Partners (General Partner) Limited and/or for Key Capital Partners (Nominees) Limited and/or the several limited partnerships which constitute Key Capital Partners Fund V (as the context requires);
LFL	like for like;
Loan Notes	the £3,010,577 fixed rate loan notes 2018 issued by the Company to KCP pursuant to a loan note instrument dated 19 March 2012;
Lock-in Agreement	the conditional lock-in and orderly marketing agreement dated 28 May 2015 between (1) the Company, (2) Panmure Gordon and (3) the Locked-in Shareholders, summary details of which are set out in paragraph 10.3 of Part IV of this document;
Locked-in Shareholders	KCP, Andrew Wass, Christopher Scott, Gareth Bevan and Dean Murray;
London Stock Exchange	London Stock Exchange plc;
New EMI Plans	the Employee EMI Plan and the Director EMI Plan, further details of which are set out in paragraph 5 of Part IV of this document;
Nominated Adviser or Panmure Gordon	Panmure Gordon (UK) Limited, a company incorporated in England and Wales (registered number 4915201) and having its registered office at One New Change, London EC4M 9AF;
Non-Eligible Shares	the Subscription Shares (other than the EIS Shares and the VCT Shares) to be allotted by the Company conditional on Admission;
Non-Executive Directors	the non-executive directors of the Company at the relevant time, who as at the date of this document are Ken Ford, Dean Murray and Peter Armitage;
Official List	the Official List of the FCA;
Old Share Option Scheme	the Gear 4 Music (Holdings) Limited Share Option Scheme;
Panel or Takeover Panel	the UK Panel on Takeovers and Mergers;
Placing	the conditional placing by Panmure Gordon, as agent for the Company and the Sellers, of the Subscription Shares and the Sale Shares, respectively, at the Placing Price pursuant to the Placing Agreement as described in this document;
Placing Agreement	the conditional agreement dated 28 May 2015 between (1) Panmure Gordon, (2) the Directors, (3) the Sellers and (4) the Company, further details of which are set out in paragraph 10.2 of Part IV of this document;

Placing Price	139 pence per Placing Share;
Placing Shares	the Sale Shares and the Subscription Shares;
pounds, pounds sterling, “£”, pence or p	the lawful currency of the UK;
Prospectus Directive	Directive 2003/71/EC of the European Parliament and of the Council dated 4 November 2003, as amended;
Prospectus Rules	the Prospectus Regulations 2005 (SI 2005/1433), the Prospectus Regulations 2012 (SI 2012/1538) and the prospectus rules made by the FCA pursuant to sections 73A(1) and (4) of the FSMA, in each case as amended or re-issued from time to time;
Quoted Companies Alliance Guidelines	the Corporate Governance Guidelines for AIM Companies issued by the Quoted Companies Alliance dated July 2005 (and last updated in May 2013), as amended or re-issued from time to time;
registered customers	people who have registered their details on Gear4music’s customer database;
Registrar	Capita Asset Services (a trading name of Capita Registrars Limited);
Regulatory Information Service	has the meaning ascribed thereto by the AIM Rules for Companies;
Relationship Agreement	the conditional relationship agreement dated 28 May 2015 between (1) the Company, (2) Andrew Wass and (3) Panmure Gordon, summary details of which are set out in paragraph 10.4 of Part IV of this document;
Remuneration Committee	the remuneration committee of the Board, intended to be established prior to Admission;
RoHS	the Restriction of the Use of Certain Hazardous Substances (RoHS) in Electrical and Electronic Equipment (EEE) Directive (2011/651EU), as amended;
Sale Shares	234,503 Shares (in aggregate) to be placed by Panmure Gordon as agent for the Sellers pursuant to the Placing;
Sellers	Andrew Wass, Christopher Scott and Gareth Bevan;
Shares	ordinary shares of £0.10 each in the capital of the Company;
Shareholder(s)	the person(s) who are registered as holder(s) of Shares at the relevant time;
SKU	stock keeping unit, a reference to a specific type of product held in inventory;
subscribed customers	customers of Gear4music who have elected to receive digital or hard copy marketing communications from the Group;
Subscription Shares	the 7,175,569 new Shares to be allotted and issued by the Company pursuant to the Placing, comprising the VCT Shares, the Non-Eligible Shares and the EIS Shares;
Takeover Code	the Takeover Code issued by the Takeover Panel, as amended or re-issued from time to time;

TIDM	tradable investment display mnemonic;
UK or United Kingdom	the United Kingdom of Great Britain and Northern Ireland;
US, USA or United States	the United States of America, its territories and possessions, any state of the United States and the District of Columbia;
US Securities Act	the US Securities Act of 1933, as amended;
VCT	venture capital trust for the purposes of Part 6 of the Income Tax Act 2007;
VCT Shares	the 1,999,280 new Shares to be allotted by the Company conditional on Admission as part of the Placing to VCTs; and
Warrant Instrument	the conditional instrument dated 28 May 2015 between (1) Panmure Gordon and (2) the Company, further details of which are set out in paragraph 10.5 of Part IV of this document.

References to Europe in this document are to countries in Europe excluding the UK, unless otherwise stated.

PART I

INFORMATION ON THE GROUP

1. OVERVIEW

Introduction

Gear4music is one of the largest UK based online retailers of musical instruments and music equipment. Founded in 1995 by Chief Executive Officer, Andrew Wass, Gear4music Limited, the Group's main trading company, has been profitable since its launch as "Gear4music" in 2003 and has accelerated its revenue growth during the last two years, from £12.3 million in FY13 to £24.2 million in FY15.

About Gear4music

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

Having developed its own ecommerce platform, with multilingual, multicurrency and fully responsive design websites covering 19 countries, the Group has rapidly expanded its database (which currently has details of more than 750,000 people) and continues to build its overseas presence.

The Market

The Directors estimate that the top 10 European retail markets for musical instruments and music equipment (including the UK) were worth, in aggregate, approximately £4.3 billion in 2012, and are undergoing a profound shift towards online retail. The Directors estimate the UK market was worth £750 million in 2014, and is currently fragmented, with no large or dominant retailers.

The Opportunity

The Board believes that the Group's rapid growth is a result of the experience and detailed understanding the Directors and senior management have of this specialist market, and the ability to design and deploy a robust and effective ecommerce platform. In addition, the efficient use of digital marketing technologies and an extensive product range at competitive prices have contributed to sales growth.

As one of the fastest growing UK based retailers within this sector, the Directors believe that the Group is well positioned to take advantage of the fragmented UK market, and the ongoing shift from high street to online retail across Europe.

The Group's European revenues increased by 87 per cent. to £5.5 million during FY15 (FY14: £2.9 million) which, alongside the strong UK revenue growth over the same period of 27 per cent., resulted in Adjusted EBITDA of £1.19 million for FY15 (FY14: £0.79 million). This was achieved through a period of significant strategic investment in marketing, distribution and IT infrastructure.

Reasons for Admission

The Placing proceeds of approximately £9 million (net of expenses) receivable by the Company will be used to accelerate the Company's growth strategy, and to pay down debt.

The Board intends to use the net proceeds of the Placing to develop further the Group's bespoke ecommerce platform, invest in additional marketing initiatives whilst simultaneously extending the range of products held in stock for immediate dispatch and open a flagship showroom in London.

Admission of Gear4music will also provide a readily available means for the Company to introduce employee share incentive schemes and, if required, provide the Company with future access to the capital markets in support of the Group's strategic objectives.

2. KEY STRENGTHS

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

- Revenues have increased every year since launch in 2003
- Momentum stepped up following additional investment in 2012
- 37 per cent. LFL sales growth in FY15
- Strong European growth validates website roll-out strategy
- Over 590,000 registered customers

Bespoke and proprietary ecommerce platform delivers competitive advantage

- Gear4music has developed its own ecommerce platform as an end-to-end solution encompassing all trading aspects of its operation
- Currently supports 19 websites in 15 languages and 8 currencies
- Ability to respond to changing customer behaviours and expectations
- Capability to expand into new markets
- Capacity to handle significantly increased volumes and website traffic
- Additional functionality in development

Specialist knowledge facilitates strong relationships with customers and suppliers

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

Well-developed product ranges

- Over 27,000 products from over 550 brands
- Reputation for quality and value for money
- Over 1,400 own-brand SKUs, developed over a 12 year period
- Provide enhanced margin opportunities as volumes increase
- LFL own brand product sales grew by 27 per cent. during FY15 and accounted for 29 per cent. of revenues in FY15

Ample distribution capacity and efficient logistics systems

- Operates from a modern 135,000 square foot building on the outskirts of York
- Highest number of orders dispatched in a single day was 4,103 on 15 December 2014
- Directors estimate the premises in their current format provide sufficient capacity to dispatch in excess of 10,000 orders per day
- The most appropriate courier delivery services are automatically selected from more than 600 permutations depending on the weight, size, value and destination of the goods being purchased

3. GROWTH STRATEGY

The key elements of Gear4music's growth strategy are:

- International expansion, in both existing and new geographical markets:
 - increasing "localisation" of international websites
 - launching new websites in further territories
- Accelerated development of the Group's bespoke ecommerce platform:
 - driving higher website traffic and conversion rates
 - increasing fulfilment efficiency
- Intelligent marketing to new and existing customers:
 - extending the reach of marketing activities and increasing return on marketing investment
 - content personalisation to drive efficiency
- Product range extension:
 - extending the range of SKUs, particularly those available for next day delivery
 - extending own-brand ranges into additional product categories
- Opening a flagship London showroom:
 - improve penetration in the London area
 - further establishing Gear4music's position as a key retailer for suppliers

International Expansion

Gear4music is planning further growth in its existing and in new international markets. Gear4music will seek to build on the "localisation" of its international websites to further drive traffic and conversion rates by incorporating additional payment mechanisms and expanding its multilingual customer service and marketing teams. The Group also plans to launch additional international websites in new territories within 12 to 18 months of Admission.

Accelerated Development of the Bespoke ecommerce Platform

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

Intelligent Marketing

The Group intends to invest in new email re-marketing and content personalisation systems delivering a more personalised experience to the Group's 297,000+ subscribed customers, which the Directors believe will lead to increased engagement and conversion rates.

The Board plans to accelerate international marketing initiatives, extending the Group's reach and penetration into existing and new international territories. New website content will be added, including a wide range of broadcast quality product videos created in Gear4music's in-house studio facilities.

Product Range Extension

The Board plans to invest in a wider range of third party brands to extend the number of products available for next day delivery, leading, the Directors expect, to higher website conversion and customer satisfaction. The Board believes up to 80,000 products could be suitable for sale.

The Board intends to continue the expansion of the Group's own-brand product ranges with new, exclusive, custom-developed products.

London Showroom

A central London showroom will greatly improve the convenience for the Group's London based customers wishing to try out instruments and equipment prior to purchase, or click and collect in-store having ordered on-line. Additionally, a flagship London store will also help to grow awareness of the Gear4music brand, allow more hands-on access to own-brand products, and provide premium showcase space to global brands, whilst potentially gaining access to new brands and further establishing Gear4music's perception as a key retail partner.

4. HISTORY AND DEVELOPMENT

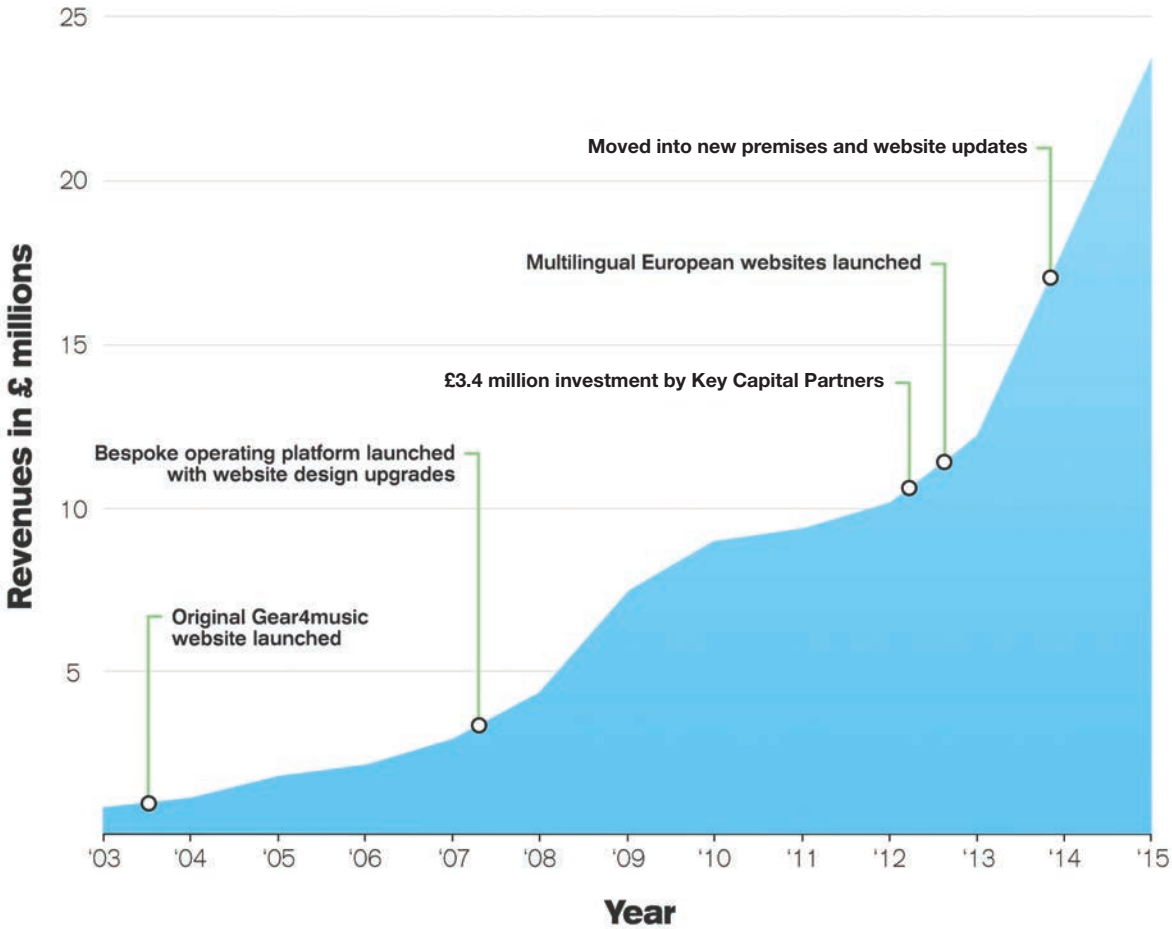
Gear4music Limited, Gear4music’s main trading entity, was established in 1995 by the Group’s Chief Executive Officer, Andrew Wass, then a sound recording engineer when he identified an opportunity to supply small recording studios and educational establishments with personal computer based digital recording solutions.

In 2003 Andrew began to research the potential to retail own-brand beginner level musical instruments, with the intention of opening up the market by selling at lower prices than traditional music shops. After visiting several international exhibitions in the USA and China, Andrew placed a bulk order for guitars and listed them for sale on the then new gear4music.com website. The website generated £0.65 million of sales in its first full year of trading.

Gear4music has grown consistently since launch and, in March 2012, Key Capital Partners invested £3.4 million in the Group. This investment provided additional funding to develop further the ecommerce platform and invest in the Group’s expansion into Europe. Following this investment, the Group launched 18 country-specific websites for customers in Ireland, France, Spain, Portugal, Germany, Netherlands, Belgium, Denmark, Norway, Sweden, Finland, Italy, Switzerland, Austria, Poland, Czech Republic, Slovenia and Slovakia.

Following the move in November 2013 to Gear4music’s current premises, a new 9,000 square foot showroom was opened in May 2014 at the site which has been instrumental in increasing face-to-face sales from £485,000 in FY14 to £1.01 million in FY15.

Gear4music Sales Growth and Key Milestones



5. MARKET OVERVIEW

UK

The Directors estimate that in 2014 the total UK retail market value for musical instruments and music equipment was approximately £750 million, of which approximately £150 million was already online. The Directors believe the total value of the Group's UK addressable market has not materially changed during the last five years; however the industry is undergoing a transition from sales through physical stores to online retail. In addition, many suppliers are consolidating their retail partner networks, such that they deal with fewer individual dealer accounts trading larger volumes.

A survey conducted by Nexus Research in 2014 on behalf of the charity "Music for All" suggested:

- 28 per cent. of the population over five years of age currently play a musical instrument (2005: 21 per cent.);
- 47 per cent. of all UK households have at least one musical instrument player (2005: 37 per cent.);
- there are 13.6 million "lapsed" players, of whom 58 per cent. (7.9 million) would like to start playing again; and
- of those who have never played before, 58 per cent. (14.6 million) agreed they would like to learn to play a musical instrument.

UK Competitive Landscape

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

The table below sets out details of Gear4music's direct competitors selling in the UK market:

Company	Notes	Total estimated revenues (£'m)	Estimated UK revenues (£'m)	Hitwise UK web traffic Dec '14
Thomann.de	– Based in Germany – Founded 1954	417	24	1,373,848
Gear4music.com	– 1 store in York – Founded 2003	24	19	1,280,489
GuitarGuitar.co.uk	– 5 UK stores – Founded 2003	23	23	841,202
GAK.co.uk (GuitarAmpKeyboard)	– 1 store in Brighton – Founded 2002	21	21	1,026,867
S&T Audio (PMT & Dolphin Music.co.uk)	– 11 UK stores – Founded 1999	21	21	574,002
Dawsons.co.uk	– 11 UK stores – Founded 1898	18	18	471,041

Source for estimated UK revenues: latest published audited accounts, other than Thomann, which is the Directors' estimate of that company's UK sales.

Other UK competitors of note include Andertons Music, Music Room and Absolute Music, each of which, the Directors believe, have annual revenues relating to sale of musical instruments and music equipment of less than £18 million.

Both eBay and Amazon sell products within the sector although many of the Group's suppliers and distributors have a contractual requirement for their products to be displayed in face-to-face retail facilities, thus creating a significant barrier to entry for such pure play online retailers.

The Board believes that the current dynamics of the UK competitive landscape for the sale of musical instruments and music equipment, in particular the significant degree of fragmentation, presents a consolidation opportunity. Whilst acquisitions do not form a core part of the Directors' current strategy, opportunities will continue to be reviewed on an ad hoc basis.

Europe

The Directors estimate that the top ten European retail markets by sales of musical instruments and music equipment (including the UK) generated sales of approximately £4.3 billion, in aggregate, in 2012.

The largest market was Germany at c.£1.2 billion followed by France at approximately c.£860 million. The UK is the third largest market at c.£750 million, followed by Italy at c.£580 million. Other notable markets include the Netherlands (c.£200 million), Austria (c.£180 million), Spain (c.£165 million), Switzerland (c.£140 million), Sweden (c.£110 million) and Norway (c.£80 million).

European Competitive Landscape

The company with the highest published turnover serving the European musical instruments and related equipment and accessories markets is Thomann.de based in Germany, with a reported turnover of approximately £417 million. Other competitors in overseas markets include Musicstore.de (Germany), Just Music (Germany), Key Music (Netherlands), Bax Shop (Netherlands) and Woodbrass.com (France).

The table below provides further details of Gear4music's competition in its European markets:

Company	Country	Estimated revenues (£'m)	International sales?	Website rank and position	Estimated market share
Thomann.de	Germany	417	✓	2,753 (1)	9.78%
Luthman/4Sound	Sweden	89	✗	184,543 (16)	2.09%
Musicstore.de	Germany	69	✓	19,856 (3)	1.62%
Bax Shop	Netherlands	55	✓	28,988 (5)	1.29%
Music Hug AG	Switzerland	52	✗	845,798 (18)	1.22%
Key Music	Netherlands	44	✓	141,021 (13)	1.03%
Just Music	Germany	42	✓	156,211 (14)	0.98%
Session Musik	Germany	31	✗	51,645 (6)	0.73%
Gear4music.com	UK	24	✓	18,143 (2)	0.56%
RockShop	Germany	23	✗	291,932 (17)	0.54%
Woodbrass.com	France	20	✓	25,510 (4)	0.47%
SonoVente.com	France	16	✗	52,770 (7)	0.38%

Country means country of principal operation.

Estimated revenue source: Music Trades or published accounts.

Source for website rank and position: Alexa website traffic rankings for the three month period ended 5 February 2015 (1=best). Where a retailer has multiple websites, the highest ranking website is used.

Estimated market share has been calculated by expressing the estimated revenues for each company as a percentage of the aggregate of the top ten European retail markets by sales of musical instruments and music equipment (including the UK), as estimated by the Directors.

Of these companies, only Thomann.de recorded a higher website traffic ranking than the Group's according to Alexa, a global website traffic monitoring platform, for the period.

6. TRADING ACTIVITIES

6.1 Overview

Gear4music retails over 27,000 SKUs across all major categories of musical instruments and music equipment, an increase of 65 per cent. during the last two financial years. The products are sourced from over 550 manufacturers, and range from kazoos costing less than £1, to digital pianos, drum kits and guitars costing thousands of pounds.

The table below provides an overview of each of the major product categories sold by the Group:

Product category	Guitar and bass	Keyboards and pianos	Drums and percussion	PA, DJ and lighting equipment	Recording and computers	Woodwind, brass and strings
Turnover* (£ million)	7.33	4.24	3.34	3.43	2.60	2.07
Percentage of total product sales	31.5%	18.3%	14.4%	14.8%	11.2%	8.9%
Average product retail price (£)*	51	148	69	76	103	59
Major brands retailed	Epiphone Fender Gibson Ibanez Marshall Squier Taylor Yamaha	Casio Korg Roland Yamaha	DW Mapex Pearl Yamaha	AKG Behringer Mackie Peavey Sennheiser Shure	Focusrite KRK Native-Instruments Steinberg Tascam	Buffet Jupiter Stentor Yamaha
Own brands	Gear4music SubZero RedSub	Gear4music Minster	Gear4music WHD	Gear4music SubZero	Gear4music SubZero	Archer Coppergate Gear4music Rosedale

*For FY15. Excludes carriage income and warranty income, and Home Audio, Books, DVDs and "other" departments.

6.2 Branded Products

Third party branded products generated £16.3 million of sales in FY15, accounting for approximately 67 per cent. of the Group's turnover. The Group is not significantly dependent on the sales of any one major brand, with the largest being Yamaha.

The Directors believe that the following are some of the important factors that have enabled Gear4music to develop long-term partnerships with the majority of recognised brands within the industry:

- the specialist product knowledge of Gear4music's staff;
- the high standard of customer service that Gear4music provides;
- the high standard of presentation at the York showroom; and
- the high standard of online product content and presentation.

6.3 Own-brand Products

The ongoing development of Gear4music's own-brand product range has been a focus of the Group's strategy since it was established in 2003, an important part of which has been the numerous visits made by Group employees to the factories in the Far East to identify preferred manufacturing partners. The Group now holds strong relationships with over 30 suppliers, that produce more than 1,400 different products under eight separate brands, which the Directors believe creates a significant barrier to entry for potential competitors.

The dedicated own-brand buying team thoroughly evaluates the suitability and functionality of all products, undertaking assessment and testing for RoHS and CE marking compliance and other EU regulations as appropriate.

Sales of the Group’s own-brand products totalled approximately £7.0 million in FY15, representing approximately 29 per cent. of the Group’s turnover. In FY15, Gear4music also generated £0.2 million of warranty revenues associated with own-brand product sales.

The Directors believe the Group’s own-brand products have established a good reputation within the market, and third party reviews can be found on www.musicradar.com.

The table below sets out the Group’s own brands, the category in which they are listed and brand overview:

Logo	Brand	Category	Overview
	Gear4music	All	Combination of value and quality across most product categories
	SubZero	Guitars, Amps, Mixers, Speakers, Audio electronics	Step-up products with rapidly growing sales. (120 per cent. LFL sales increase in FY15)
	RedSub	Bass Guitar Amps and Pedals	Specialist Bass brand. Ideal for improving players starting to play music live
	Minster	Digital Pianos	Next level up from Gear4music branded Digital Pianos
	WHD	Drum Kits	Next level up from Gear4music branded Drum Kits
	Archer	String Instruments: Violins, Cellos, Violas, Double Bass	Targeted at advancing and intermediate string players
	Rosedale	Woodwind Instruments: Clarinets, Flutes, Oboes, Piccolos	Next level up from Gear4music branded Woodwind Instruments
	Coppergate	Brass Instruments: Trumpets, Trombones, Tubas, French Horns	Next level up from Gear4music branded Brass Instruments

6.4 Systems

Gear4music has developed its own bespoke and proprietary ecommerce platform, which is an end-to-end solution covering all aspects of the Group's retail operations including website content, inventory management, multi-currency pricing, logistics and dispatch, CRM, automated marketing, purchasing, customer receipts and management reporting.

Having invested over £2.4 million in developing the ecommerce platform since 2006, the Directors believe the platform is a cornerstone of Gear4music's competitive advantage, delivering reliability, scalability and unique functionality.

The ecommerce platform continues to be developed in-house by a dedicated team of experienced software engineers, who are managed by the specialist software development company that originally developed the platform, based in Manchester.

The ecommerce platform currently operates 19 websites in 15 languages and eight currencies. Unlike many off-the-shelf packages, the platform's capabilities are open-ended and its flexible and bespoke nature enables rapid development and deployment of new features and functionality.

Examples of further enhancements to functionality currently in development include:

- email re-marketing and content personalisation platform – to increase the existing customer repeat purchase rates;
- logistics upgrades – to include new courier services integration and systems to increase the efficiency of order picking and dispatch;
- European payments system – to improve European website conversion by increasing the range of localised payment types accepted; and
- ability for customers to pay monthly, using a third party consumer credit provider.

6.5 Premises

Gear4music agreed a lease for its 135,000 square foot premises in September 2013 and completed the transfer of its operations from its old site in May 2014. The building was constructed in 1991, and has recently been refurbished by the Company. The landlord recently carried out significant roofing maintenance works, and the property now benefits from an insurance backed roofing warranty with 14 years remaining. The current lease expires in June 2020.

6.6 Warehousing and Distribution

Gear4music has invested over £1 million in equipping the Group's logistics function for the new premises to provide the Group with the capacity required for further significant growth. The Directors are confident that following the logistics software upgrades as referred to above, the York facility will be sufficient to support revenues of over £50 million.

As competitive pricing is fundamental to the Group's offering, its bespoke ecommerce platform is configured to select the most cost-effective delivery to the customer. The Group uses six different delivery service providers to ensure competitive pricing and to reduce the risk of any one or more courier being unable to provide delivery services.

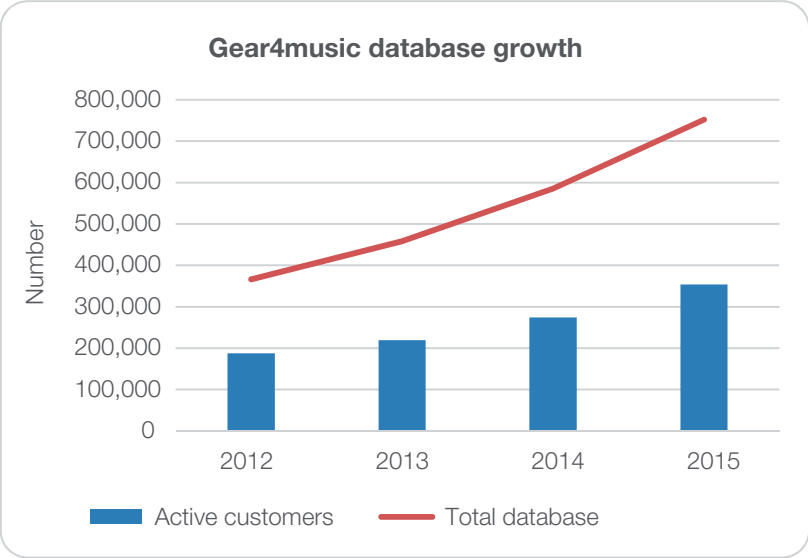
Customers benefit from free or subsidised delivery on many items, with paid upgrade options available to specific day and timed deliveries.

7. CUSTOMERS AND MARKETING

7.1 Customer Overview

Gear4music has over 750,000 people on its database, of which over 350,000 are classified by the Group as active customers (being customers who have purchased from Gear4music in the last two financial years). During FY15, over 170,000 new customers were added to the Group’s database, and average order value was £109, up from £106 in FY14.

The chart below provides an analysis of growth in total registered customer numbers on the Group’s database, including active customers, at 29 February 2012 and 28 February 2013, 2014 and 2015:



The Group’s customer base is primarily made up of private individuals, from beginners and parents buying own-brand and branded musical instruments and music equipment for their children through to professional musicians (by their nature, these customers tend to be equipment end-users), who accounted in FY15 for 97 per cent. of the Group’s turnover.

A key strategic goal for the Group is the development of repeat business from customers. Approximately 26 per cent. of customers ordered products from the Group’s websites on at least two occasions in FY15, which was above the long-term trend, with 22.5 per cent. of customers having ordered products on at least two occasions since the Group started trading in 2003. The Directors believe there is an opportunity to sell more accessories and associated products with the introduction of the new marketing platform referred to in paragraph 6.4 above.

The remainder of the Group’s turnover in FY15 (two per cent.) was generated from schools and other educational establishments (one per cent.), with the Company recently being selected as the preferred supplier by the Crescent Purchasing Consortium which specialises in educational sales and service and a small number of trade accounts which constituted approximately a further two per cent. of the Group’s turnover.

7.2 Websites

Gear4music currently operates 19 websites in a range of languages and currencies, all supported by the functionality of the bespoke ecommerce platform allowing for rapid deployment of new websites in new languages and currencies. The 19 websites currently in use are:

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	Euro	Czech, English
www.gear4music.si	Slovenia	Euro	Slovenian, English
www.gear4music.sk	Slovakia	Euro	Slovak, English

In addition to the countries with specific websites listed above, the Group also ships to Bosnia and Herzegovina, Bulgaria, Cape Verde, the Channel Islands, Croatia, Cyprus, Estonia, Gibraltar, Greece, Hungary, Iceland, Latvia, Lithuania, Luxembourg, Malta, Romania, Serbia and Turkey.

The Group owns a total portfolio of 82 internet domain names to protect its trading name and allow for further international expansion when appropriate.

7.3 Website Design

The responsive design of Gear4music's websites means their presentation and layout is adapted depending on the resolution of the device or browser window used to view the website, including on mobile phones, tablets, laptops and desktop computers.

The Group continues to pay close attention to website usability, with careful categorisation of products, product finders and a real-time user friendly search engine that quickly provides relevant results. Users can also filter search results by price, brand, or a large number of other data variables depending on the search term entered.

All pages are search engine optimised which, combined with Gear4music's reputation, has resulted in approximately 54 per cent. of all traffic in FY15 coming from non-paid organic search engine and direct traffic sources.

Product pages often include unique product descriptions written by Gear4music's staff, suggestions for alternative products or accessories, high quality photography, and 360 degree images taken in the Group's in-house photographic studio. In addition, the Group has installed an in-house video studio, with the capacity to create hundreds of cost effective broadcast quality product video presentations each year.

7.4 Traffic and Conversion

Over the period from 1 March 2012 to 28 February 2015, the number of visitors to the Group's websites has increased at a CAGR of 30 per cent. During FY15, there were over 8.1 million visitors to the Group's websites, representing 27 per cent. growth in visitor numbers over the prior financial year. Visitor numbers included 53 per cent. growth in traffic to the Group's European websites and 57 per cent. growth in traffic from mobile devices. Over 42 million pages of content were viewed in total. Gear4music's websites overall conversion rate per unique visitor improved by 10 basis points to 1.96 per cent.

Experian Hitwise data showed that Gear4music ranked seventh in the UK traffic rankings for all music websites in the "shopping and classifieds" category during the period 1 December 2014 to 28 February 2015, with the top six including Apple, Play.com and WHSmith.

7.5 Showrooms

Gear4music opened a new 9,000 sq. ft. showroom at its premises in York in May 2014, which was completed at a cost of £250,000. The investment in the showroom was supported by suppliers and manufacturers keen to ensure their brands are well represented.



Since the new showroom opened, face-to-face sales have increased by 133 per cent., and the York "YO" postcode now generates more than double the sales revenues of any other UK postcode. The top seven postcode areas by revenue generation in the last financial year were York, South East London, Sheffield, Birmingham, North London, East London and South West London.

The Directors intend to use part of the net proceeds of the Placing to launch a new central London flagship showroom within 12 months of Admission. A London showroom is expected to have a similar "look and feel" to the York showroom, and kiosks for browsing the in-store version of the Gear4music website, in addition to self-service "click and collect" facilities.

Although there are currently no plans for further showrooms, the Board may review this position subject to the performances of its York and London showrooms.

7.6 Customer Service and Support

The Directors believe that achieving a high degree of customer satisfaction is a key requirement of sustained growth in online retail, and customer reviews on the independent website www.trustpilot.co.uk suggest the Group's performance in this area is strong.

The table below sets out www/trustpilot.co.uk website scores for a selection of online retailers as at 27 April 2015:

Website	Trust Pilot score (Maximum = 10)	Number of reviews
AO.com	9.7	38,353 reviews
Gear4music.com	9.5	8,545 reviews
Ebuyer.com	9.4	12,769 reviews
Wiggle.co.uk	9.2	20,885 reviews
BooHoo.com	7.8	114,161 reviews
Made.com	7.5	10,273 reviews

The Group benefits from a low average annual returns rate of 3.67 per cent. in FY15.

International orders placed over the telephone accounted for 15 per cent. of the total international revenues in FY15. The Directors believe that multilingual support for overseas customers continues to be a key requirement of growing the Group’s international business in non-English speaking countries, and a pre-requisite for many of the Group’s dealership agreements when selling outside the UK.

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

7.7 Marketing Activity

Effective digital marketing is one of Gear4music’s key competitive strengths, and during FY15, 97.6 per cent. of Gear4music’s marketing investment related to online activities.

Online techniques used by the Group to drive website traffic and revenues include pay per click marketing, affiliate schemes, re-targeting, and email marketing. In addition, search engine optimisation techniques are utilised throughout all the Group’s websites to help maximise organic traffic.

Gear4music has over 297,000 subscribers listed on its database who regularly receive the Group’s email promotions. As referred to in paragraph 6.4 above, a new email marketing platform is currently under development that will send personalised offers to customers based on their specific interests.

Gear4music also has a developing social media presence, including a YouTube video channel that has attracted over 10 million views, and its own Facebook page with over 20,500 “likes”, and a Twitter account with over 9,500 followers. The Group also uses Instagram and Pinterest as further visual marketing tools:

- <http://www.youtube.com/user/gear4music1/>
- <http://www.facebook.com/Gear4music>
- http://twitter.com/gear_4_music
- <http://instagram.com/gear4music>
- <http://www.pinterest.com/gear4music/>

Other media used by the Group include advertisements and product placement articles in specialist music magazines and other publications.

8. COMPETITIVE ADVANTAGES AND BARRIERS TO ENTRY

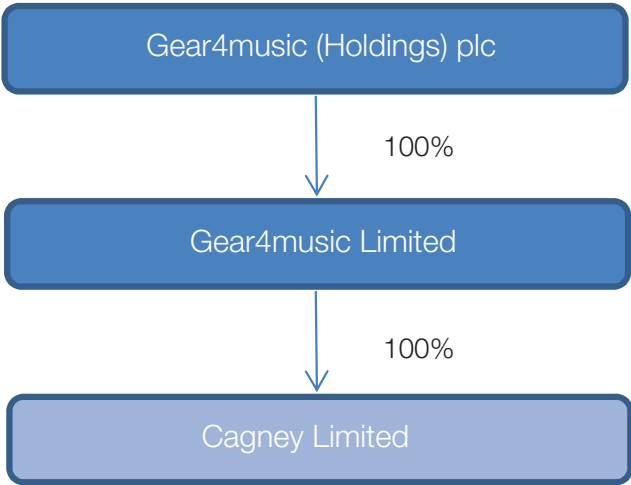
The Board believes that Gear4music is well positioned to capitalise on the opportunities available in its markets due to the following competitive advantages and barriers to entry:

- in the 12 weeks to 28 February 2015, Experian Hitwise reported “Gear4music” as being the number one search term driving traffic in the category “Music Shops”;
- Gear4music was one of the first businesses to establish itself as a specialist online musical instrument and music equipment retailer and has built a well-recognised brand;
- the Group has developed long-term relationships with major branded musical instrument and music equipment manufacturers, placing it in a strong position during a period of retailer consolidation;
- the Group’s own-brand offering has been developed over 12 years, and has established a reputation for good quality products at affordable prices;
- Gear4music’s bespoke ecommerce platform provides a high degree of operational flexibility and scalability which the Directors believe cannot easily be replicated;
- the Group has invested in a proven and scalable distribution centre; and
- the Directors and senior management have an intimate knowledge of the musical instrument and music equipment market.

9. GROUP OVERVIEW

Corporate structure

The table below shows the Group’s corporate structure:



Gear4music (Holdings) plc is the holding company of the Group. Further details of the Company’s issued share capital and its current shareholders are set out in paragraphs 2 and 7 respectively of Part IV of this document. A short biography on each of the Directors and other key senior management within the Group is provided in paragraph 12 below.

Gear4music Limited is the Group’s main trading Company. Gear4music (Holdings) plc holds 100 per cent. of Gear4music Limited’s issued share capital. Gear4music Limited holds 100 per cent. of Cagney Limited, a dormant company.

10. HISTORICAL TRADING

The following financial information of the Group for the years ended 28 February 2013, 2014 and 2015 has been extracted, without material adjustment, from the financial information contained in Section B of Part III of this document prepared in accordance with IFRS, and should be read in conjunction with the full text of this document. The table also includes “Adjusted EBITDA” which, as described on page 3 of this document, the Directors believe is an important alternative non-IFRS measure with which to assess the Group’s performance. Investors should not rely solely on the summarised information.

	Year ended 28 February		
	2013 £’000	2014 £’000	2015 £’000
UK revenues	11,188	14,757	18,775
European revenues	1,078	2,921	5,465
Total revenues	12,266	17,678	24,240
Gross profit	3,376	4,725	6,757
Operating (loss)/profit	(181)	24	211
EBITDA pre-exceptionals ¹	513	553	842
Adjusted EBITDA ²	513	792	1,187

⁽¹⁾ Calculated as operating (loss)/profit as above, adjusted for depreciation of tangible fixed assets, amortisation of intangible assets and exceptional items, as detailed in note 3 on page 59 in Part III of this document.

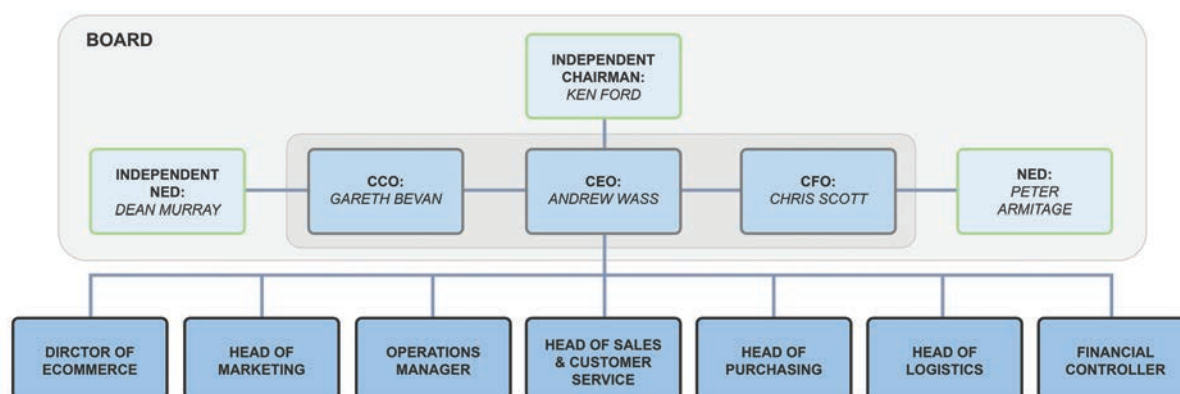
⁽²⁾ As described on page 77 in Part III of this document, the Group’s lease over its warehouse, office and showroom facility in York entered into in September 2013 included incentives to match the growth plans of the business. Under IFRS the incentives have been averaged over the total period of the lease, resulting in the annual rental charge recognised in the Group’s consolidated income statement, being £239,000 and £345,000 higher than the related cash cost of the lease in the years ended 28 February 2014 and 2015 respectively (“cash-based rent adjustment”). Adjusted EBITDA is therefore calculated as the sum of EBITDA pre-exceptionals and the cash-based rent adjustment.

11. CURRENT TRADING AND PROSPECTS

Trading for the Group post the period end at 28 February 2015 has seen a positive start to the financial year with LFL sales growth of 43 per cent. for the first two months of the current financial year. The Board confirms that it is confident of the Group’s future prospects and that current trading is ahead of the Board’s expectations.

12. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

The figure below summarises Gear4music’s Board and senior management team:



Directors

Short biographies of the Directors and details of their roles, including the principal activities performed by the Directors outside the Group, are set out below.

Eric (Ken) Ford – *Chairman and Non-Executive Director (age 66)*

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. Mr Ford was Chairman of the UK society of Investment Analysts and a former Chairman of the Quoted Companies Alliance (QCA) and member of the EU Advisory Committee to the Corporation of London. Ken's previous directorships include Aberdeen Asset Management and Morgan Grenfell. Ken is currently Chairman of AIM-quoted companies BrainJuicer Group PLC, Nakama Group plc and Scientific Digital Imaging plc. Ken is a Fellow of the Chartered Securities Institute and will join the board of Gear4music on Admission.

Andrew Wass – *Chief Executive Officer (age 44)*

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 (age 39)*

Before joining Gear4music in October 2012, Chris was the Finance Director at Officers Club, overseeing the sale of the business to Blue Inc. Chris joined the audit team of KPMG LLP in Leeds in 1997, qualified as a Chartered Accountant in 2000 and went on to spend nine further years in their advisory practice including a year on secondment at Barclays Bank. He holds an Executive Masters in Business Administration.

Gareth Bevan – *Chief Commercial Officer (age 37)*

Gareth joined Gear4music in July 2012. He was previously at DV247, a £36 million turnover musical equipment retailer, where he was responsible for purchasing, sales and marketing. He has 16 years' experience in musical equipment retail.

Dean Murray – *Non-Executive Director (age 52)*

Dean joined the board of Gear4music in March 2012 as a non-executive director and chairman. Dean is a Chartered Accountant, former Chief Financial Officer and Chief Operating Officer of Myriad Childrenswear Group, and is currently a non-executive director of French Connection, and Chairman of Neville Johnson Limited and Yumi International Limited.

Peter Armitage – *Non-Executive Director (age 58)*

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

Senior management

Key management staff include:

- **Director of ecommerce:** joined Gear4music in 2007 whilst studying Politics, Philosophy and Economics at York University. During his eight years within the business he has gained invaluable knowledge of its systems, processes and objectives, and was previously Head of Marketing;
- **Operations Manager:** joined Gear4music in 2013, having had 25 years' experience of commerce, management and delivering projects whilst running his own exhibition stand design company;
- **Head of Purchasing:** joined Gear4music in 2013, having previously been a purchasing advisor at musical instrument and sheet music retailer Music Room;
- **Head of Sales and Customer Services** and the **Head of Logistics** both joined in 2005 and both have a detailed understanding of the operations and processes of the business; and

- **Head of Marketing:** joined in April 2015, having previously worked for Google as an account manager and the Blueclaw media agency. Since 2011 she has worked for Farnell Electronics expanding their European PPC marketing activities.

Employees

As at 28 February 2015, the Group had 86 full time and 24 part time employees, all based at the Group's premises in York. The Group also employs additional temporary staff to respond to seasonal peaks.

13. REASONS FOR ADMISSION AND USE OF PROCEEDS

The Board believes that Admission is an important step in the Company's continuing development, and will accelerate its commercial progression. In particular, Admission will provide the Company with capital to execute the Board's growth plans for the Group. The Board intends to use the net proceeds of the Placing receivable by the Company to redeem the Loan Notes in their entirety, totalling approximately £4.3 million at the date of this document.

The Board intends to use the remainder of the net proceeds of the Placing (approximately £4.7 million) receivable by the Company to:

- develop further the Group's proprietary ecommerce platform to drive traffic, conversion rates and efficiency;
- extend the range of products sold and held in stock for immediate delivery;
- invest in online marketing initiatives with the objective of expanding the Group's market presence;
- open a new showroom in London; and
- appoint additional staff members, as required, to support the growth of the business.

Admission will enhance the Company's profile and raise awareness of the Gear4music brand, enable the Company to incentivise key staff through equity-linked schemes (such as the Director EMI Plan and the Employee EMI Plan), and broaden the Company's shareholder base and provide access to capital markets in the future, if required.

14. DETAILS OF THE PLACING

The Company, the Directors, the Sellers and Panmure Gordon have entered into the Placing Agreement pursuant to which, subject to certain conditions, Panmure Gordon has conditionally agreed to use its reasonable endeavours to procure subscribers for the Subscription Shares and purchasers for the Sale Shares. The Subscription Shares and the Sale Shares will be placed with institutional and other investors introduced by Panmure Gordon.

The Placing will raise approximately £9 million for the Company net of estimated expenses of approximately £1 million payable by the Company. The Placing has not been underwritten by Panmure Gordon.

The placing of the Subscription Shares will be conducted in three separate tranches to assist investors in the Placing to claim certain tax reliefs available to EIS investors and VCTs.

EIS Shares will be offered to those investors seeking to claim EIS relief in relation to their subscription, VCT Shares will be offered to VCTs and the remaining Subscription Shares, being the Non-Eligible Shares, will be offered to those investors who are neither seeking EIS relief nor are VCTs.

The placing of the EIS Shares is conditional, among other things, upon the Placing Agreement not having been terminated in accordance with its terms. **EIS investors should note that it is intended that the Company will issue the EIS Shares at 8.00 a.m. on 2 June 2015 and that Admission is expected to occur at 8.00 a.m. on 3 June 2015 and, accordingly, completion of the Placing of the EIS Shares is not conditional upon Admission.**

The placing of the VCT Shares and the Non-Eligible Shares is conditional, among other things, upon the Placing Agreement becoming unconditional (including Admission taking place at 8.00 a.m. on 3 June 2015

(or such later time and/or date as Panmure Gordon and the Company may agree, not being later than 8.00 a.m. on 3 July 2015)) and not having been terminated in accordance with its terms prior to Admission. It is intended that the Company will issue the VCT Shares at 8.00 a.m. on 3 June 2015 and the Non-Eligible Shares at or about 9.30 a.m. on 3 June 2015.

The Subscription Shares will be issued credited as fully paid and will, on Admission, rank *pari passu* in all respects with the then existing Shares (including the Sale Shares), including the right to receive all dividends and other distributions declared, paid or made after Admission.

Following the issue of Subscription Shares, the Subscription Shares will represent approximately 35.6 per cent. of the Enlarged Share Capital and the Existing Shares will represent approximately 64.4 per cent. of the Enlarged Share Capital.

The Sellers have, pursuant to the Placing Agreement, severally agreed to sell the Sale Shares, raising gross proceeds for the Sellers of, in aggregate, approximately £0.3 million before their expenses.

Further details of the Placing Agreement are set out in paragraph 10.2 of Part IV of this document.

15. DIVIDEND POLICY

The Company is primarily seeking to achieve capital growth for its Shareholders and it is the Board's intention during the current phase of the Group's development to retain future distributable profits and only recommend dividends when appropriate and practicable.

16. CORPORATE GOVERNANCE

The Directors recognise the value and importance of high standards of corporate governance and following Admission intend to take account of the Quoted Companies Alliance Guidelines to the extent that they consider it appropriate having regard to the Company's size, Board structure and resources. Following Admission, the Board will comprise six Directors of which three are Executive Directors and three are Non-Executive Directors. The Board considers Ken Ford and Dean Murray to be independent Non-Executive Directors under the criteria identified in the Quoted Companies Alliance Guidelines.

Following Admission, the Board will meet regularly to review, formulate and approve the Group's strategy, budgets, and corporate actions and oversee the Group's progress towards its goals. In accordance with best practice, prior to Admission the Board intends to establish the Audit Committee and the Remuneration Committee with formally delegated duties and responsibilities and with written terms of reference, as briefly summarised below. From time to time separate committees may be set up by the Board to consider specific issues when the need arises. The Board will undertake those functions normally associated with a nomination committee.

The Audit Committee will be chaired by Dean Murray and its other member will be Ken Ford. The Audit Committee will assist the Board in discharging its responsibilities, within agreed terms of reference with regard to monitoring the quality of internal controls and ensuring that the financial performance of the Company is properly measured and reported on. It will receive and review reports from the Company's management and auditors relating to the interim and annual accounts and the accounting and internal control systems in use throughout the Group. The Audit Committee will meet at least twice a year and will have unrestricted access to the Company's auditors.

The Remuneration Committee will be chaired by Ken Ford and its other member will be Dean Murray. The Remuneration Committee will review the performance of the Executive Directors and make recommendations to the Board on matters relating to their remuneration and terms of employment. The Remuneration Committee will also make recommendations to the Board on proposals for the remuneration packages of each Director, including, where appropriate, the granting of share options and other equity incentives pursuant to any share option scheme or equity incentive scheme in operation from time to time (including the Director EMI Plan). The remuneration and terms and conditions of appointment of the Non-Executive Directors will be set by the Board.

17. SHARE DEALING CODE

The Directors intend to comply, and procure compliance with, Rule 21 of the AIM Rules for Companies relating to dealings by Directors and other applicable employees in the Company's securities and, to this end, the Company has adopted an appropriate share dealing code conditional upon Admission.

18. INCENTIVE ARRANGEMENTS

The Directors recognise the role of its staff in contributing to the overall success of the Group and the importance of the Group's ability to incentivise and motivate its employees. Therefore, the Directors believe that certain employees should be given the opportunity to participate and take a financial interest in the success of the Company.

Share Incentive plans

The Company currently operates the Old Share Option Scheme, under which Chris Scott and Gareth Bevan currently hold EMI options over a total of 25,960 C Ordinary Shares, with an exercise price of £1 per share. These options will be exercised prior to Admission and no further grants will be made under the Old Share Option Scheme (and, from Admission, if these options are not exercised they shall cease to exist).

The Company has therefore resolved to adopt the New EMI Plans with effect from Admission. The Company intends to grant EMI options to certain key employees under the Employee EMI Plan at the time of Admission over 23,381 Shares with an initial value of £32,500, based on the Placing Price. No immediate option grants are proposed under the Director EMI Plan.

Under the rules of the New EMI Plans, no grant may be made if it would result in the aggregate number of Shares issued (or committed to be issued) under the New EMI Plans (together with those issued, or committed to be issued, under any other share incentive scheme) exceeding 10 per cent. of the issued Shares at that time.

Further details of the New EMI Plans are set out in paragraph 5 of Part IV of this document.

Cash Incentive plans

The Company has resolved to adopt the Director Cash Plan with effect from Admission. No immediate award grants are proposed under the Director Cash Plan.

Further details of the Director Cash Plan are set out in paragraph 5 of Part IV of this document.

19. LOCK-IN AND ORDERLY MARKET ARRANGEMENTS

The Locked-in Shareholders, who will hold, in aggregate, approximately 68.1 per cent. of the Enlarged Share Capital, have severally undertaken to the Company and Panmure Gordon that, except in certain limited circumstances, they will not dispose of any interest in the Shares in which they or their connected persons are interested as at Admission for a period, in the case of Key Capital Partners, of 12 months from the date of Admission and, in the case of any other Locked-in Shareholder (save in certain limited circumstances), from the date of Admission up to and including the date one calendar month after the date of publication of the Company's consolidated annual accounts for the financial year ending 29 February 2016. The Locked-in Shareholders have also undertaken that, for the next 12 months following the end of the relevant lock-in period, they will only dispose of Shares through the Company's broker at the relevant time for the purposes of preserving an orderly market in the Shares.

Further details of the lock-in and orderly market arrangements described above are set out in paragraph 10.3 of Part IV of this document.

20. RELATIONSHIP AGREEMENT

On Admission, Andrew Wass will hold approximately 41.1 per cent. of the Enlarged Share Capital. The Company, Andrew Wass and Panmure Gordon have entered into the Relationship Agreement to regulate aspects of the continuing relationship between the Company and Mr Wass to ensure that any future

transactions between the Company and Mr Wass are on arm's length terms and on a normal commercial basis. Further details of the Relationship Agreement are set out in paragraph 10.4 of Part IV of this document.

21. ADMISSION, SETTLEMENT AND DEALINGS

Application has been made to the London Stock Exchange for all of the Shares, including those issued and to be issued pursuant to the Placing and the exercise of options under the Old Share Option Scheme, to be admitted to trading on AIM. It is expected that Admission will become effective and that dealings will commence in the Shares at 8.00 a.m. on 3 June 2015.

No temporary documents of title will be issued. All documents sent by or to a placee, or at its direction, will be sent through the post at the placee's risk. Pending the despatch of definitive share certificates, instruments of transfer will be certified against the register of members of the Company.

The Company has applied for the Shares to be admitted to CREST and it is expected that the Shares will be so admitted and accordingly enabled for settlement in CREST on the date of Admission. Accordingly, settlement of transactions in Shares following Admission may take place within the CREST system if any individual Shareholder so wishes provided such person is a "system member" (as defined in the CREST Regulations) in relation to CREST.

CREST is a paperless settlement system enabling securities to be evidenced otherwise than by certificate and transferred otherwise than by written instrument in accordance with the CREST Regulations. The Articles permit the holding of Shares in uncertificated form in accordance with the CREST Regulations. CREST is a voluntary system and holders of Shares who wish to receive and retain share certificates will be able to do so.

22. EIS AND VCT STATUS

EIS

HMRC has authorised the Company to issue certificates under section 204 of the Income Tax Act 2007 in respect of Shares issued to individuals, following receipt from the Company of a properly completed compliance statement (EIS 1 form) within the prescribed time limit stipulated in section 205(4) of the Income Tax Act 2007. The continuing status of the Shares as qualifying for EIS purposes will be conditional on the qualifying conditions being satisfied throughout the relevant period of ownership. Neither the Company nor the Directors give any warranty, representation or undertaking that any investment in the Company by way of EIS shares will remain a qualifying investment for EIS purposes. EIS eligibility is also dependent on a Shareholder's own position and not just that of the Company. Accordingly, prospective investors should take their own advice in this regard.

VCT Scheme

HMRC has provided clearance that the Company qualifies as a qualifying company and that the Shares represent a "qualifying holding" for the purposes of investment by VCTs. The continuing status of the Shares as a qualifying holding for VCT purposes will be conditional, *inter alia*, on the Shares being held as a "qualifying holding" for VCT purposes throughout the period of ownership. Neither the Company nor the Directors give any warranty, representation or undertaking that any VCT investment in the Company will remain a qualifying holding.

23. TAXATION INFORMATION FOR INVESTORS

The attention of investors is drawn to the information regarding taxation which is set out at paragraph 9 of Part IV of this document. These details are, however, only intended as a guide to the current taxation law position in the UK. **Investors who are in any doubt as to their tax position or who are subject to tax in jurisdictions other than the UK are strongly advised to consult their own independent financial adviser immediately.**

24. APPLICABILITY OF THE TAKEOVER CODE

The Takeover Code applies to the Company. Under Rule 9 of the Takeover Code, if an acquisition of interests in shares carrying voting rights were to result in the acquirer and any person acting in concert with it ("concert

parties”) holding, in aggregate, interests in shares carrying 30 per cent. or more of the voting rights in the Company, the acquirer and, depending on the circumstances, its concert parties would normally be required (except with the consent of the Takeover Panel) to make a cash offer for the outstanding shares in the Company at a price not less than the highest price paid for interests in shares by the acquirer or its concert parties during the previous 12 months (a “Rule 9 Offer”). The requirement to make a Rule 9 Offer would also normally be triggered by any acquisition of interests in shares by a person holding (together with its concert parties) interests in shares carrying between 30 per cent. and 50 per cent. of the voting rights in the Company if the effect of such acquisition were to increase that person’s (together with its concert parties’) percentage interest in the Company’s shares to which voting rights relate.

Immediately following Admission, Andrew Wass and his connected parties will own approximately 41.1 per cent. of the Enlarged Share Capital. Without limitation to the above, should the interest of Mr Wass in the Shares remain at such level (or at 30 per cent. or more of the voting rights in the Company) and should Mr Wass (or any of his concert parties) make any further acquisitions of interests in the Shares that would increase his percentage, Mr Wass and his concert parties (if any) may be required to make a Rule 9 Offer for the remainder of the Company’s issued share capital.

25. RISK FACTORS

Prospective investors should consider carefully the risk factors described in Part II of this document in addition to the other information set out in this document and their own circumstances, before deciding to invest in Shares.

26. FURTHER INFORMATION

Your attention is drawn to Part II of this document which contains certain risk factors relating to any investment in the Company and to Part III and Part IV of this document, which contain further additional information on the Company and the Group.

PART II

RISK FACTORS

Investing in and holding Shares involves financial risk. Prospective investors in the Shares should carefully review all of the information contained in this document and should pay particular attention to the following risks associated with an investment in the Shares, the Group's business and the industry in which it operates which should be considered together with all other information contained in this document. As the risks which the Group faces relate to events and depend on circumstances that may or may not occur in the future, prospective investors should consider, among other things, the risks and uncertainties described below.

The risks and uncertainties described below are not an exhaustive list and do not necessarily comprise all, or explain all, of the risks associated with the Group and the industry within which it operates or an investment in the Shares (but do comprise the material risks and uncertainties in this regard that are known to the Company) and should be used as guidance only. Additional risks and uncertainties relating to the Group and/or the Shares that are not currently known to the Company, or which the Company currently deems immaterial, may arise or become (individually or collectively) material in the future and may have a material adverse effect on the Group's business, results of operations, financial condition and prospects and, if any such risk or risks should occur, the price of the Shares may decline and investors could lose all or part of their investment.

The order in which the risks are presented does not necessarily reflect the likelihood of their occurrence or the magnitude of their potential impact on the Group's business, financial condition, results of operation, future prospects or the trading price of the Shares.

Investors should consider carefully whether an investment in the Shares is suitable for them in the light of the information in this document and their personal circumstances. Investors should consult a duly authorised legal adviser, an independent financial adviser or a tax adviser for legal, financial or tax advice if they do not understand this document (or any part of it).

1. RISKS RELATING TO THE GROUP'S BUSINESS AND THE RETAILING OF MUSICAL INSTRUMENTS AND MUSIC EQUIPMENT

1.1 Rapid growth

The Group's business has grown rapidly. Operations and practices adopted at earlier stages of the Group's development may be considered to be inappropriate for a business of the size and scale of the Group as at the date of this document or in the future; however, the Board will continue to monitor actively and respond so as to seek to maintain systems and practices that are appropriate for the operations and scale of the Group.

The Group may need to expand and enhance its infrastructure and technology, and improve its operational and financial systems and procedures and controls from time to time in order to be able to match its anticipated growth. The Group may face challenges in matching the pace of its expansion with achieving corresponding improvements and enhancements in its systems, controls and procedures in the future. The Group will also need to expand, train and manage its growing employee base. There can be no assurance that the Group's current and planned personnel, infrastructure, systems, procedures and controls will be adequate to support its expanding operations in the future. If the Group fails to manage its expansion effectively, its business, operations and prospects may be materially and adversely affected.

The Group's expansion into new jurisdictions may be subject to overseas laws regulating the operations of the Group. There is a risk that with rapid growth, the Group will not always be fully compliant with the laws and/or regulations of overseas jurisdictions. Failure to comply with these laws and/or regulations may leave it open to sanctions or the commission of offences and, as a result, materially and adversely affect the Group's business, prospects, results of operation and financial results.

1.2 Market recognition

The Group's brands, websites and product offerings may not receive positive market recognition and wide acceptance. 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 result in the loss of customer confidence and a reduction in purchases. Unfavourable publicity concerning the Group could also damage the Group's brands and its business.

If the Group fails to maintain its brands or if excessive expenses are incurred in this effort, the Group's business, financial condition, results of operation and prospects may be materially and adversely affected.

1.3 Online demand

The online retail market has grown very quickly as customers become more used to shopping online.

Maintaining and enhancing the number of customer visits to, and the number of orders on, the Group's websites is critical to the Group's success.

Although the UK is believed by the Directors to be at the forefront of consumer behaviour when it comes to buying online due to high levels of broadband penetration, this makes forecasting market growth difficult. The UK is currently the largest market for the Group. If the online retail markets in other countries do not grow as expected, the Group's performance could be negatively impacted and its business, financial condition, results of operation and prospects may suffer materially and adversely.

1.4 New jurisdictions

The Group's expansion into new jurisdictions may not be successful. Any further expansion into markets outside the United Kingdom 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 United Kingdom 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 and therefore have a competitive advantage over the Group.

There is also a risk that markets outside the United Kingdom, and in particular the online musical instruments and/or music equipment market, may not develop as quickly as anticipated, or at all. The development of such markets is subject to political, social, regulatory and economic forces beyond the Group's control. The Group's estimates of the potential future traffic and conversion rates in new geographic markets are based on a variety of assumptions which may prove to be inaccurate. 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 United Kingdom, the Group's attempt to expand into new geographic markets may be unsuccessful and may have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

1.5 Showroom portfolio

A key aspect of the Group's future strategy is to expand its showroom portfolio into London and become recognised in the market as a multichannel retailer, as discussed in paragraph 3 of Part I of this document. The roll-out of further showroom(s) will be conducted in a controlled manner and further, rigorous, due diligence will be undertaken prior to the opening of any new showroom(s). The Group's

customer-facing operations have, to date, been predominantly conducted online and, whilst the Group's York showroom has traded well since opening in May 2014, the development of an offline offering is still at an early stage. Any significant failure by, restriction on or delay by the Group to execute its strategy in this area and meet the objectives set could, in turn, have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

1.6 Technological changes

Unless the Group is able to respond to technological advances, e.g. through optimising Gear4music's websites for electronic or digital communications devices such as mobile telephones or internet televisions on a cost-effective and timely basis, it may not be able to effectively build and/or maintain a competitive advantage which would have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

1.7 Increase in regulation of the internet or online retailing

The application or modification of existing laws or regulations, or the adoption of new laws and regulations relating to the internet and online retail operations, could adversely affect the manner in which the Group currently conducts its business. The law of the internet remains largely unsettled, even in areas where there has been some legislative action. In addition, the growth and development of the market for online retail may lead to more stringent customer protection laws which may impose additional burdens on the Group and increase its costs of business, all of which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

1.8 Management of inventory

The Group must maintain sufficient inventory levels to operate its business successfully and part of the Group's strategy is to increase the range of SKUs available for next day delivery. However, the Group must also avoid accumulation of excess inventory as it seeks to minimise out-of-stock levels and maintain in-stock levels across all product categories. If the Group does not accurately anticipate the future demand for a particular product or the time it will take to obtain new inventory, its inventory levels may not be appropriate and this may result in lost sales, limitations on working capital, margin reduction due to discounted prices to sell stock and/or a reduction in the efficiency of the Group's operations, which may have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

1.9 Supply and sale of third party branded products

The Group purchases products from a range of UK and non-UK third party product suppliers, including 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. Whilst sales of third party branded products accounted for approximately 67 per cent. of the Group's turnover in FY15, the Directors do not consider that the Group is significantly reliant on any one or more major brand/brand owner. The Group's largest brand, by Group revenue in FY15, was Yamaha which accounted for approximately 8 per cent. of the Group's turnover in that period, with Roland and Fender being the next largest by that measure.

The relationships between the Group and the third party brand owners generally are not based on long-term supply contracts, but rather on annual contracts that the Group seeks to renew each year. In some instances, the relationship between the Group and a third party brand owner is not set out in a written agreement. 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, encounter financial difficulties, 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. Such brand owners may also choose to take actions to reduce their credit exposure to the Group, including by seeking to change their credit terms or refusing to contract with the Group. Any of the foregoing could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

A number of the Group's contractual arrangements with third party brand owners contain terms requiring pre-approval of the websites through which their products are sold, minimum levels of purchases to be made by the Group, minimum levels of stock to be held by the Group or minimum levels of sales to be made by the Group of their products, or other such matters. Under the terms of the relevant contracts, the third party brand owners may be entitled to terminate and/or adversely alter the terms of supply to the Group if any one of more of those requirements were not met. Notwithstanding this, 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 in those circumstances. However, if any relevant third party brand owner did seek to enforce the strict terms of the contractual arrangements with the Group, and the Group were found not to be meeting any one or more of the prescribed minimum thresholds, termination of any such arrangement would likely have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group's supply of musical instrument and music equipment could also be materially adversely affected by a number of other factors, including, amongst other things, potential economic and political instability in countries where its suppliers are located, increases in shipping or other transportation costs, manufacturing and transportation delays and interruptions, whether as a result of natural disasters, industrial action in the supply chain or other factors, supplier compliance with applicable laws, including labour and environmental laws, adverse fluctuations in currency exchange rates and changes in UK and foreign laws affecting the importation and taxation of goods, including duties, tariffs and quotas, or changes in the enforcement of those laws.

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 materially adversely affect its business, financial condition, results of operations and prospects.

1.10 Reliance on sub-contract manufacturers

The Group sub-contracts manufacture of its own-brand musical instruments and music equipment to independent third party businesses in South-East Asia. The Board believes that the Group has established robust take-on and ongoing monitoring procedures covering areas such as quality control and delivery performance for new and existing sub-contract manufacturers that the Group seeks to adhere to rigidly. Any disruption to supply or issues such as poor product quality could cause certain key stock lines to become unavailable, either temporarily or longer-term, and have an adverse impact on the Group's reputation which, in turn, could have a material adverse effect on the Group's business, financial condition, results of operations and prospects. The impact of any issues arising with sub-contractors products is exacerbated by the long lead times involved (12-14 weeks).

1.11 Distribution centre

The Group's business depends entirely on a single distribution centre and warehouse located in York. All of the Group's stock is held at the distribution centre from where it is delivered directly to customers. The Group's business is therefore dependent on the continued efficient operation of the distribution centre and its ability to continue to satisfy customer orders, including any increase in the number of customer orders. Any disruption to the distribution centre's efficient operation may therefore have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The distribution centre may suffer prolonged power or equipment failures, failures in its information technology systems or networks or damage from fires, floods, other disasters or other unforeseen events which may not be covered by or may exceed the Group's insurance coverage. Damage resulting from any of these events may cause significant disruption to the Group's operations and take considerable time to repair.

The direct effect of any such event and any prolonged period before rectification could have a material adverse effect on the Group's business, financial condition and results of operations. Moreover, the complete destruction of the distribution centre through a single catastrophic event, such as a fire, would have a material adverse impact on the operation of the Group's business for a significant period

of time and the Group's insurance policies may not cover any loss in full or in part (including losses resulting from business interruptions) or damage that it suffers fully or at all.

In addition, the Group leases (rather than owns) the distribution centre pursuant to a lease that is scheduled to expire in June 2020. The Group could inadvertently breach the terms of the lease through the day-to-day operation of its business. Any breach of the terms of the lease on which the distribution centre is held could result, if not waived or deemed waived by the landlord, in the early termination of the lease as a result of which the Group's business, financial condition, results of operations and prospects may be materially and adversely affected.

1.12 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. If there are any unforeseen logistical delays this could have knock-on effects for all areas of the Group. The Group therefore operates its own warehouse, run by senior management that have many years of experience in the sector.

There is a continuous monitoring of capacity at the warehouse and there is a step plan in place that the Directors believe should allow the Group to fulfill significantly more orders than current levels from the existing site. The Group completed the move to new premises in May 2014 which incorporate warehousing, logistics, offices and showroom under one roof with sufficient space to meet current demand. Any rapid increase in sales may require further expansion of current warehouse space.

The Group has multiple delivery service providers to reduce the dependency on any single provider and tracks service level agreements on an ongoing basis. This provides system flexibility to switch providers within a matter of days if required.

Nevertheless, there is a risk that the Group may experience interruptions to the operation of these logistics and distribution networks, including due to events that are beyond the Group's control or the control of third-party providers engaged by the Group. Disruptions could arise for a number of reasons, including as a result of failure to expand logistics and distribution processes effectively, from inclement weather, natural disasters, transportation interruptions, regulatory issues or labour unrest or shortage or contractual disputes. Interruptions to, or failures in, the Group's logistics and/or distribution networks (including in their third-parties delivery services) 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 from dealing with the Group and adversely affect its business, financial condition, results of operation and prospects.

1.13 Dependence on key personnel

The Group has a relatively small senior management team and the loss of any key individual or the inability to attract appropriate personnel could impact upon the Group's future performance. While employment agreements are in place with all employees, these agreements do not prevent employees from terminating their employment at any time and there can be no certainty that restrictive covenants (where included in employment contracts) designed to prevent them competing against the Group will be enforceable.

In addition, as the Group's business expands, it may need to add new information technology personnel to maintain and expand the websites and systems and customer support personnel to service the Group's increased customer base. The Group may experience difficulties in attracting and retaining appropriately experienced and qualified employees. Should the Group fail to retain or attract suitably qualified and experienced personnel, it may not be able to compete successfully.

The loss of members of the Group's senior management team or its key employees, or any failure to retain or attract suitably qualified and experienced personnel could have a material and adverse effect on the Group's business, financial condition, results of operation and prospects.

1.14 Lack of funds available to the Group

Following the first 12 months after Admission, the Group may need additional working capital as it implements its strategy. Such funds may not be available on acceptable terms or at all when required and, without additional funds, the Group may not be able to execute effectively its growth strategy, take advantage of future opportunities, respond to competitive pressures or unanticipated requirements.

1.15 Foreign currency risk

The Group both generates revenues and incurs costs in foreign currencies. As a result, the Group is exposed to the risk that adverse exchange rate movements cause the value (relative to its reporting currency) of its revenues to decrease, or costs to increase, resulting in an adverse effect on its trading position.

1.16 Domain names

The Group may not be able to register or maintain its domain names in all countries in which it operates or into which it may seek to expand its operations. Companies with similar domain names may be able to oppose successfully the Group's right to operate country-specific domain names or rely on earlier rights to challenge the Group's domain names. In addition, if the Group's brands are confused with another's it may dilute the value of the Group's brands or damage the Group's reputation.

1.17 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. A significant number of the Group's customers access the Group's websites by clicking on a link contained in search engines' "natural" listings (i.e. listings not dependent on advertising or other payments). Transactions effected by these customers generate higher gross margins for the Group as there are minimal associated direct costs, although the Group does incur costs in the form of advertising expenses.

Search engines typically do not accept payments to rank websites in their natural listings and instead rely on algorithms to determine which websites are included in the results of a search query. The Group endeavours to enhance the relevancy of the Group's websites to common consumer search queries and thereby improve the rankings of the Group's websites in natural listings, a process known as search engine optimisation ("SEO"). Search engines frequently modify their algorithms and ranking criteria to prevent their natural listings from being manipulated, which could impair the Group's SEO activities. These algorithms and ranking criteria may be confidential or proprietary information, and the Group may not have complete information on the methods used to rank its websites. If the Group is unable to recognise and adapt quickly to such modifications in search engine algorithms, or if the effectiveness of the Group's SEO activities is affected for any other reason, the Group could suffer a significant decrease in traffic to its websites and, in turn, conversion rates and revenue. This could materially and adversely affect the Group's business, financial condition, results of operation and prospects.

1.18 Data security and IT reliability

The Company relies heavily on its IT infrastructure and ecommerce systems, and in particular its websites. If any one or more of its websites were to fail or be damaged this could seriously impact the Group's ability to trade. The Group seeks to mitigate this risk by investing in IT infrastructure including backup systems, although such systems, like all IT infrastructure, require periodic additions and improvements to keep pace with the growth of the Group and technological advancement and any failure to have in place appropriate, robust backup systems could periodically and actively effect the Group's business, financial condition, results of operations and prospects. The Group also 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.

There is further risk associated with handling large quantities of customer data. If the data were to be obtained by third parties without the consent of the customer this would have serious risks for the Group from both a reputational and regulatory perspective.

Furthermore, errors, interruptions, delays in, or loss of, service from any third party service (or software) providers relating to the Group's IT infrastructure and e-commerce systems could impact or otherwise impair the delivery of services to customers and therefore harm the Group. Any such errors, interruptions, delays in, or loss of, service could harm the reputation of the Group's business and would likely result in a loss of revenues. There is a risk that if the Group's IT and data security systems do not function properly there could be website slowdown or unavailability, loss of data, a failure by the Group to protect the confidential information of its customers from security breaches, delays in transaction processing, the inability to accept and fulfil customer orders which, if sustained or regular, could materially adversely affect the Group's business, financial condition, results of operation and prospects.

1.19 Processing online payments

The Group is subject to risks relating to the receipt and processing of online payments. The Group's customers may choose from a range of payment methods, including credit cards, debit cards and PayPal accounts. If the Group offers new payment options to its customers, it may be subject to additional regulations and compliance requirements. The Group pays interchange and other fees for the processing of credit and debit card payments, which may increase over time and raise operating costs and lower margins. The Group relies on third parties to provide payment processing services, and if these companies become unwilling or unable to provide these services or increase the costs of providing such services, the Group's operations may be disrupted and its operating costs could increase. The Group is also subject to payment card association operating rules, certification requirements, Payment Card Industry Data Security Standards and rules governing electronic funds transfers, which could change or be reinterpreted to make them difficult or impossible to comply with. If the Group fails to comply with any of these rules or requirements, it may be subject to fines or higher transactions fees and in extreme cases may lose its ability to accept credit or debit card payments from customers, process electronic funds transfers or facilitate other types of online payments. In addition, the Group has experienced and expects to continue to experience instances of fraud where, for example, a user of the Group's websites uses a stolen credit or debit card number to complete a transaction. Although the Group screens transactions and attempts to identify and reject fraudulent transactions and incidences of fraud have been isolated, there can be no assurance that the Group's fraud detection systems will be effective in protecting the Group against significant fraud. Where fraudulent transactions occur, the Group may be liable to repay the relevant credit or debit card company and the Group may have no effective redress against the perpetrator of the fraudulent transaction.

Accordingly, any significant failure of the Group's payment processing or fraud detection systems, whether caused by a systems failure or otherwise, will adversely affect the Group's revenues, and may result in the loss of customers or in damage to the Group's reputation, which may have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

1.20 Intellectual property

The Group has a number of trade marks and also owns certain copyright protected material. The Group may need to seek to expand its trade mark protection in the future to cover additional territories. The Group believes that its various intellectual property rights provide a degree of protection for the business. However, any unprotected intellectual property (including unregistered or unregistrable intellectual property rights) used by the Group in the course of its business or in respect of which the Group believes it has rights may be prejudiced and/or open to challenge by third parties (including where such third parties have or claim to have pre-existing rights in such intellectual property). In any such case, the Group may be prevented from using such intellectual property or it may require the Group to become involved in litigation to protect its intellectual property rights, each of which may have a material adverse effect on the Group's results of operations, financial condition or prospects.

1.21 Issues relating to third party intellectual property

Although the Directors believe that the Group's goods and services do not infringe the intellectual property rights of any third parties, it is impossible to be aware of all third party intellectual property, particularly any third party intellectual property rights that are not registered. Third parties may assert claims that the Group and/or the goods or services it delivers to customers infringe intellectual property

rights or misuse confidential information belonging to them. Any such claims, with or without merit, could be time consuming and expensive to defend or settle and could divert management resources and attention and accordingly may have a material adverse effect on the Group's results of operations, financial condition and prospects.

1.22 Consultants, contractors and intellectual property

The Group has historically engaged and will continue to engage consultants and other independent contractors in or in relation to its business. The contractual basis upon which such persons are engaged may contain or be alleged to contain deficiencies, particularly relating to ownership of and/or assignment to the Group of any intellectual property created. Where such intellectual property is material to the business of the Group (either now or in the future), disputes as to its ownership (in relation to which there can be no guarantee that the Group would be successful) would have a material adverse effect on the Group's results of operations, financial condition and prospects.

1.23 Competition in its target market

The UK and European retail market for musical instruments and music equipment is highly competitive. Consumers have a wide variety of choices of retailers of musical instruments and music equipment, including a number of companies with a similar level of turnover to the Group in the UK (such as the companies operating the websites Thomann.de, GuitarGuitar.co.uk and GAK.co.uk). A number of these competitors currently have financial resources substantially greater than those of the Group and/or brands that may be more widely recognised by consumers throughout the UK and elsewhere in Europe than the Group's own brands. In addition, both Amazon and eBay sell musical instruments and music equipment.

The Group's competitors may also merge or form strategic partnerships, which could increase competition for the Group.

The Group primarily competes on the basis of factors such as quality and range of products, price, product availability, product information, convenience, delivery options and service. If the Group fails to compete effectively in any one of these areas, it may lose existing customers and fail to attract new customers. In addition, the Group may be materially adversely affected by the entrance of new competitors in the musical instrument and music equipment market or by the manufactures seeking to sell more of their products direct to consumers.

The Group's inability to adapt effectively and quickly to a changing competitive landscape could affect its prices, its margins and demand for the Group's products, which may have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

2. RISKS RELATING TO THE SHARES AND ADMISSION

2.1 Suitability

Investment in the Shares may not be suitable for all readers of this document. Readers are accordingly advised to consult a person duly authorised under the FSMA who specialises in investments of this nature before making any investment decisions.

2.2 Investment in AIM-traded securities

Investment in shares traded on AIM involves a higher degree of risk, and such shares may be less liquid than shares in companies which are listed on the Official List. The AIM Rules are less demanding than the rules that apply to companies on the Official List. It is emphasised that no application is being made for the admission of the Company's securities to the Official List. An investment in the Shares may be difficult to realise. Prospective investors should be aware that the value of an investment in the Company may go down as well as up and that the market price of the Shares may not reflect the underlying value of the Group. Investors may therefore realise less than, or lose all of, their investment.

2.3 Trading market for the Shares

The share price of quoted companies can be highly volatile and shareholdings can be illiquid. The price at which the Shares are quoted and the price which investors may realise for their Shares will be influenced by a large number of factors, some specific to the Group and its operations and others which may affect quoted companies generally. These factors could include the performance of the Group, large purchases or sales of the Shares, currency fluctuations, legislative changes and general economic, political, regulatory or social conditions. A public perception that the Company is an internet, e-commerce or technology company may result in the price of the Shares moving in line with other shares in companies of this nature. Traditionally, the share prices of internet, e-commerce and technology companies have tended to be more volatile than share prices of companies operating in other industries.

Prior to Admission, there was no public market for the Shares. There can be no assurance that an active market for (and hence strong liquidity in the trading of) the Shares will develop upon Admission, or if developed, that such market will be sustained. If an active trading market is not developed or maintained, the liquidity and trading price of the Shares may be adversely affected.

2.4 Dividends

The Company's ability to pay dividends to Shareholders will, in part, depend on the availability and upstream payment of cash to the Company from other members of the Group. The Company's principal operating subsidiary is Gear4music Limited and, therefore, the Company does not directly receive cash generated by the underlying revenues of the Group. The ability of Gear4music Limited (and any other Group entities that may be incorporated from time to time) to make upstream cash distributions or loans to each other and the Company is generally subject to applicable laws, such as entities' organisational documents, maintenance of capital rules, the terms of any financing arrangements, accounting treatment and other factors. Applicable laws may require such entities to comply with, amongst other things, restrictions on the amounts distributed by way of dividend, capital and reserve maintenance principles or require them to obtain shareholder or court approval. Applicable laws may also restrict the making of any distribution, loan or other payment or the timing of it. There can be no assurance that the Group will be able to comply with any laws or requirements regulating upstream cash distributions, loans or payments directly or indirectly to the Company.

2.5 Access to further capital

The Group may require additional funds to respond to business challenges or to enhance existing products and services. Accordingly, the Group may need to engage in equity or debt financings to secure additional funds. If the Company raises additional funds through further issues of equity or convertible debt securities, the then existing Shareholders could suffer significant dilution, and any new equity securities could have rights, preferences and privileges superior to those of the then current Shareholders. Any debt financing secured by the Group in the future could involve restrictive covenants relating to its capital raising activities and other financial and operational matters, which may make it more difficult for the Group to obtain additional capital and to pursue business opportunities. In addition, the Group may not be able to obtain additional financing on terms favourable to it, if at all. If the Group is unable to obtain adequate financing or financing on terms satisfactory to it when the Group requires it, the Group's ability to continue to support its business growth and to respond to business challenges could be significantly limited or could affect its financial viability.

2.6 Future sale of Shares, equity fundraisings and dilution

The Company is unable to predict when and if substantial numbers of Shares will be sold in the open market following Admission. Any such sales, or the perception that such sales might occur, whether by a Director or otherwise could result in a material adverse effect on the market price of the Shares or could affect the Company's ability to obtain further capital through an offering of equity securities. Other than in connection with Admission, the New EMI Plans and the Warrant Instrument, the Company has no current plans for an offering or issue of Shares. It is possible that the Company may decide to offer additional Shares in the future and, if available, future equity financings to provide capital may dilute the then Shareholders' proportionate ownership in the Company. Any such issues may exclude the pre-emption rights pertaining to the then outstanding Shares. If the Company raises amounts of

capital by these or other means, it could cause dilution for the then existing Shareholders. Moreover, the further issue of Shares could have a negative impact on the trading price and increase the volatility of the market price of the Shares. The Company may also issue further Shares, or create further options over Shares, as part of its employee remuneration policy, which could, in aggregate, create a substantial dilution in the value of the Shares and the proportion of the Company's share capital in which investors are interested and adversely affect the prevailing market price of the Shares and impact the Group's ability to issue capital through future sales of equity securities.

2.7 Shares may be sold by KCP and the Executive Directors once the lock-in periods have expired

As noted in paragraph 19 of Part I of this document and paragraph 10.3 of Part IV of this document, KCP and the Executive Directors will be restricted from selling their Shares for a period of at least 12 months following Admission. On the expiry of the relevant lock-in periods, such persons will be required (subject to certain exemptions) to trade in the Shares through the Company's broker at the relevant time, for a further 12 months, for the purposes of preserving an orderly market in the Shares. Thereafter, these Shareholders will be permitted to sell their respective Shares freely. Any such sale(s) could devalue the price of the Shares by increasing the supply offered and/or decreasing general market confidence in the Company. This may make it more difficult for Shareholders to sell their Shares at a time and price that they deem appropriate, and could also impede the Company's ability to issue equity securities in the future.

2.8 Interests of major Shareholders

On Admission and in addition to the interests of the Directors set out in paragraph 7.1 of Part IV of this document, certain Shareholders, whose names are set out in paragraph 7.2 of Part IV of this document will hold, in aggregate, approximately 38.3 per cent. of the Enlarged Share Capital. Notwithstanding the Relationship Agreement, the Articles and applicable laws and regulations, these Shareholders will be able to exercise significant influence over the Company and the Group's operations, business strategy and those corporate actions that require the approval of the Shareholders.

2.9 Placing of EIS Shares not conditional on Admission

In order to seek to protect the Company's EIS and VCT status, the Placing will be effected in three tranches. Completion of the placing of the EIS Shares is intended to occur at 8.00 a.m. on 2 June 2015. Admission is expected to occur at 8.00 a.m. on 3 June 2015.

Accordingly, under the terms of the Placing Agreement, the allotment and issue of the EIS Shares is not conditional upon Admission. Therefore, were the Placing Agreement to be terminated after allotment and issue of the EIS Shares, but prior to Admission, investors who had subscribed for EIS Shares pursuant to the Placing would hold shares in a company that was not admitted to trading on AIM and such shares would not rank *pari passu* in all respects with the other classes of shares (being the A Ordinary Shares, the B Ordinary Shares and the C Ordinary Shares) then in issue.

2.10 EIS and VCT status

HMRC has provided clearance that the Company qualifies as a qualifying company and that the Shares represent a "qualifying holding" for the purposes of investment by VCTs. The continuing status of the Shares as a qualifying holding for VCT purposes will be conditional, *inter alia*, on the Shares being held as a "qualifying holding" for VCT purposes throughout the period of ownership. Neither the Company nor the Directors give any warranty, representation or undertaking that any VCT investment in the Company will remain a qualifying holding.

HMRC has authorised the Company to issue certificates under section 204 of the Income Tax Act 2007 in respect of Shares issued to individuals, following receipt from the Company of a properly completed compliance statement (EIS 1 form) within the prescribed time limit stipulated in section 205(4) of the Income Tax Act 2007. The continuing status of the Shares as qualifying for EIS purposes will be conditional on the qualifying conditions being satisfied throughout the relevant period of

ownership. Neither the Company nor the Directors give any warranty, representation or undertaking that any investment in the Company by way of EIS qualifying shares will remain a qualifying investment for EIS purposes. EIS eligibility is also dependent on a Shareholder's own position and not just that of the Company. Accordingly, prospective investors should take their own advice in this regard.

Circumstances may arise where the Directors believe that the interests of the Company are not best served by acting in a way that preserves VCT and/or EIS qualifying status and the Company cannot undertake to conduct its activities in a way designed to secure or preserve such qualifying status. If the Company does not employ the proceeds of a VCT share issue for qualifying purposes within 24 months, the funds invested by the VCT would be apportioned pro rata and its qualifying holding would be equal to the VCT's funds that had been employed for qualifying trading purposes within the above time limits. Any remaining element of the VCT's investment would comprise part of its non-qualifying holdings. If the Company does not employ the whole of the proceeds from EIS investors within 24 months, EIS tax relief will be withdrawn. The information in this document is based upon current tax law and practice and other legislation and any changes in the legislation or in the levels and bases of, and reliefs from, taxation may affect the value of an investment in the Company.

If the Company ceases to carry on the business outlined in this document or acquires or commences a business which is not insubstantial to the Company's activities and which is a non-qualifying trade under the VCT or EIS legislation, this could prejudice the qualifying status of the Company (as referred to above) under the VCT and EIS schemes. This situation will be monitored by the Directors with a view, where appropriate, to seek to preserve the Company's qualifying status but this cannot be guaranteed.

Any company receiving aid through any Government State Aid scheme, that would include from VCTs and under the EIS, individually or combined, that amounts to a value above the investment limit currently shown at section 292A(1) of the Income Tax Act 2007 (£5 million per annum) is at risk of the European Commission deeming the aid to be illegal, and bears the risk of sanctions imposed by the European Commission to recover that aid.

The Budget 2015 announced a number of changes to the qualifying conditions required to be met in order that companies are qualifying companies for the purposes of the EIS and VCT regimes, some of which, if implemented prior to the subscription for Shares, may preclude the Company from being a qualifying company for EIS and/or VCT purposes.

These changes however are subject to State Aid approval by the European Commission and, as such, these changes were not included in the Finance Act 2015 and instead will, subject to State Aid approval being granted, be included in a future Finance Bill. It is therefore unlikely that this legislation would be enacted prior to Admission.

It is not normal practice for the UK Government to introduce changes that limit the availability of tax relief with retrospective effect. However, in guidance issued by HMRC on 24 March 2015, it was highlighted that it is possible that the European Commission could require recovery of State Aid (in the form of the tax reliefs) given in particular circumstances where investments do not comply with European Commission guidance under its new risk finance framework.

2.11 Taxation

The attention of potential investors is drawn to paragraph 9 of Part IV of this document. The tax rules, including stamp duty provisions and their interpretation relating to an investment in the Group, may change during the life of the Group.

The levels of, and reliefs from, taxation may change. The tax reliefs referred to in this document are those currently available and their value depends on investors' individual circumstances. Any change in the Group's tax status or the tax applicable to holding Shares or in taxation legislation or its interpretation could have an adverse effect on the value of the investments held by the Group, its ability to provide returns to Shareholders and/or alter the post-tax returns to Shareholders. Statements in this document concerning taxation of the Group and its investors are based on current tax law and practice which is subject to change.

Prospective investors should therefore consider carefully whether investment in the Company is suitable for them, in light of the risk factors outlined, their personal circumstances and the financial resources available to them.

THE RISKS NOTED ABOVE DO NOT NECESSARILY COMPRISE ALL RISKS FACED BY THE GROUP AND ARE NOT INTENDED TO BE PRESENTED IN ANY ASSUMED ORDER OF PRIORITY.

PART III
HISTORICAL FINANCIAL INFORMATION OF THE GROUP

SECTION A:

ACCOUNTANT'S REPORT ON THE HISTORICAL FINANCIAL INFORMATION OF THE GROUP



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The Directors
Gear4music (Holdings) plc
Kettlestring Lane
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York
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28 May 2015

Ladies and Gentlemen

Gear4music (Holdings) plc (the "Company")

We report on the financial information set out on pages 48 to 81 of the AIM Admission Document for the three years ended 28 February 2015. This financial information has been prepared for inclusion in the AIM Admission Document dated 28 May 2015 of Gear4music (Holdings) plc on the basis of the accounting policies set out in paragraph 1 of Section B of this Part III. This report is required by Paragraph (a) of Schedule Two of the AIM Rules for Companies and is given for the purpose of complying with that paragraph and for no other purpose.

Responsibilities

The Directors of Gear4music (Holdings) plc are responsible for preparing the financial information on the basis of preparation set out in note 1 to the financial information and in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Save for any responsibility arising under Paragraph (a) of Schedule Two of the AIM Rules for Companies to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Schedule Two of the AIM Rules for Companies, consenting to its inclusion in the Admission Document.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion on financial information

In our opinion, the financial information gives, for the purposes of the AIM Admission Document dated 28 May 2015, a true and fair view of the state of affairs of Gear4music (Holdings) plc as at 28 February 2013, 28 February 2014, and 28 February 2015 and of its profits/losses, cash flows and changes in equity for the three years ended 28 February 2015 in accordance with the basis of preparation set out in note 1 and in accordance with International Financial Reporting Standards as adopted by the European Union as described in note 1.

Declaration

For the purposes of Paragraph (a) of Schedule Two of the AIM Rules for Companies we are responsible for this report as part of the AIM Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the AIM Admission Document in compliance with Schedule Two of the AIM Rules for Companies.

Yours faithfully

KPMG LLP

SECTION B:

HISTORICAL FINANCIAL INFORMATION ON THE GROUP

Consolidated Income Statements and Statements of Comprehensive Income

	<i>Note</i>	<i>Year ended 28 February 2015 £'000</i>	<i>Year ended 28 February 2014 £'000</i>	<i>Year ended 28 February 2013 £'000</i>
Revenue		24,240	17,678	12,266
Cost of sales		<u>(17,483)</u>	<u>(12,953)</u>	<u>(8,890)</u>
Gross profit		6,757	4,725	3,376
Administrative expenses before exceptional items	3,4	(6,381)	(4,489)	(3,161)
Administrative expenses – exceptional items	3,4	(165)	(212)	(396)
Administrative expenses	3,4	<u>(6,546)</u>	<u>(4,701)</u>	<u>(3,557)</u>
Operating profit/(loss)	3	211	24	(181)
Financial expenses	6	<u>(1,008)</u>	<u>(426)</u>	<u>(433)</u>
Loss before tax		(797)	(402)	(614)
Taxation	7	<u>111</u>	<u>92</u>	<u>55</u>
Loss and other comprehensive income for the year		<u><u>(686)</u></u>	<u><u>(310)</u></u>	<u><u>(559)</u></u>
Loss per share attributable to equity shareholders of the Company:				
Basic and diluted loss per share	5	<u><u>(54.2p)</u></u>	<u><u>(24.5p)</u></u>	<u><u>(44.2p)</u></u>

Consolidated Balance Sheets

	Note	Year ended 28 February 2015 £'000	Year ended 28 February 2014 £'000	Year ended 28 February 2013 £'000
Non-current assets				
Property, plant and equipment	8	991	803	310
Intangible assets	9	2,764	2,457	2,155
		<u>3,755</u>	<u>3,260</u>	<u>2,465</u>
Current assets				
Inventories	14	5,326	4,222	3,611
Trade and other receivables	15	216	157	229
Cash and cash equivalents	16	916	708	656
		<u>6,458</u>	<u>5,087</u>	<u>4,496</u>
Total assets		<u><u>10,213</u></u>	<u><u>8,347</u></u>	<u><u>6,961</u></u>
Current liabilities				
Other interest bearing loans and borrowings	17	(1,320)	(1,225)	(716)
Trade and other payables	18	(4,522)	(2,298)	(1,385)
Current tax payable		–	–	(21)
Provisions	12	–	(34)	–
		<u>(5,842)</u>	<u>(3,557)</u>	<u>(2,122)</u>
Non-current liabilities				
Other interest-bearing loans and borrowings	17	(4,570)	(4,177)	(3,876)
Other payables	18	(35)	(50)	–
Deferred tax liability	13	(55)	(166)	(256)
		<u>(4,660)</u>	<u>(4,393)</u>	<u>(4,132)</u>
Total liabilities		<u><u>(10,502)</u></u>	<u><u>(7,950)</u></u>	<u><u>(6,254)</u></u>
Net (liabilities)/assets		<u><u>(289)</u></u>	<u><u>397</u></u>	<u><u>707</u></u>
Equity				
Share capital	20	1,266	1,266	1,266
Retained earnings	20	(1,555)	(869)	(559)
Total equity		<u><u>(289)</u></u>	<u><u>397</u></u>	<u><u>707</u></u>

An opening balance sheet at 1 March 2012 can be found at the end of this financial information.

AP Wass
Director

Dated:

CD Scott
Director

Dated:

Consolidated Statements of Cash Flows

		Year ended 28 February 2015 £'000	Year ended 28 February 2014 £'000	Year ended 28 February 2013 £'000
Cash flows from operating activities				
Profit for the year		(686)	(310)	(559)
<i>Adjustments for:</i>				
Depreciation and amortisation	3	466	317	298
Financial expense	6	878	393	418
(Profit) on sales of property, plant and equipment		(9)	(2)	–
Taxation	7	(111)	(92)	(55)
		538	306	102
(Increase)/decrease in trade and other receivables		(59)	72	65
Decrease/(increase) in inventories		(1,104)	(611)	(1,661)
Increase/(decrease) in trade and other payables		2,209	964	441
Increase/(decrease) in provisions		(34)	34	–
		1,550	765	(1,053)
Tax paid		–	(19)	(65)
Net cash from operating activities		1,550	746	(1,118)
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment		10	95	1
Acquisition of subsidiary net of cash acquired		–	–	(1,986)
Acquisition of property, plant and equipment		(412)	(355)	(124)
Acquisition of intangible assets		(551)	(504)	(369)
Net cash from investing activities		(953)	(764)	(2,478)
Cash flows from financing activities				
Proceeds from the issue of share capital		–	–	1,266
Proceeds from new borrowings	17	213	474	–
Issue of new loan note	17	–	–	3,160
Interest paid		(185)	(216)	(61)
Repayment of borrowings		(300)	(70)	(65)
Payment of finance lease liabilities		(117)	(118)	(48)
Net cash from financing activities		(389)	70	4,252
Net increase in cash and cash equivalents		208	52	656
Cash and cash equivalents at beginning of year		708	656	–
Cash and cash equivalents at end of year	16	916	708	656

Consolidated Statement of Changes in Equity

	<i>Note</i>	<i>Year ended 28 February 2015 £'000</i>	<i>Year ended 28 February 2014 £'000</i>	<i>Year ended 28 February 2013 £'000</i>
Share capital				
Opening		1,266	1,266	–
Issue of share capital		–	–	1,266
		<u>1,266</u>	<u>1,266</u>	<u>1,266</u>
Retained earnings				
Previous periods		(869)	(559)	–
Loss for the year		(686)	(310)	(559)
		<u>(1,555)</u>	<u>(869)</u>	<u>(559)</u>
Total equity	20	<u>(289)</u>	<u>397</u>	<u>707</u>

Notes

(forming part of the financial information)

General Information

The principal activity of the Group is the retail of musical instruments and music equipment. The Company and all subsidiaries comprising the Group are incorporated and domiciled in the United Kingdom. The registered office is: Kettlestring Lane, Clifton Moor, York YO30 4XF. The registered number of the Company is 7786708.

Mr AP Wass owns 843,750 "B" Ordinary Shares, which is 65 per cent. of the issued share capital, giving him ultimate control.

1. Accounting policies

1.1 Basis of preparation

The Group is planning to seek admission to AIM through an Initial Public Offering ("IPO"). This will enable the Group to continue its growth by accelerating its investment in its ecommerce platform, expanding its product range, opening a London flagship showroom, and will enable the investors to realise part of their investment thereby deleveraging the balance sheet. At the same time, the IPO provides a mechanism for incentivising key employees of the business as it moves into its next phase of growth.

The financial information has been prepared for the purposes of the AIM admission document in accordance with the AIM Rules for Companies and in accordance with this basis of preparation, including the significant accounting policies set out below.

This Group financial information for the years ended 28 February 2015, 28 February 2014 and 28 February 2013 has been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs").

The Group has previously prepared statutory accounts under UK GAAP and an explanation of the differences on transition to Adopted IFRSs is given in note 25.

The Group is preparing its financial information in accordance with Adopted IFRS for the first time. The date of transition to Adopted IFRSs is 1 March 2012, which is the beginning of the earliest comparative period presented. An opening balance sheet at 1 March 2012 can be found at the end of this financial information.

The Group financial information consolidates those of the Company and its subsidiaries (together referred to as the "Group").

Accounting period

The financial information presented covers the years ended 28 February 2015, 28 February 2014 and 28 February 2013.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in this consolidated financial information and in preparing an opening IFRS balance sheet at 1 March 2012 for the purposes of the transition to Adopted IFRSs.

Subjective judgements made by the Directors in the application of these accounting policies that have significant effect on the financial information are considered in note 24.

1.2 Measurement convention

The financial information has been prepared on the historical cost basis.

1.3 Going concern

The Directors have reviewed the current cash flow projections for the 12 months from the date of approval of this historical financial information taking into account the existing committed borrowing facilities, the anticipated IPO and the projected results of the Group.

At 28 February 2015 the Group had cash and cash equivalent balances of £916,000 (28 February 2014: £708,000). The Group has annual revolving trade finance facilities of £1.8 million with a £500,000 overdraft sub-limit, which expire in July 2015. The Directors are set to enter into discussions for their annual renegotiation and there is no reason to believe that these would not be renewed on similar terms in the ordinary course of business.

The Group's other institutional financial liabilities are in the form of a secured loans of £270,000 with HSBC, loan notes of £3.76 million due to KCP and finance leases. The bank loan is being repaid in monthly instalments with the final payment due in October 2018. The loan notes represent part of KCP private equity investment in the Group in March 2012, and as part of this agreement interest payments are deferred and become payable from May 2015, and capital is not required to start being repaid until May 2016. The loan notes will become repayable post Admission of the Group to AIM.

As part of the Placing the Group is raising funds which would be sufficient to repay the KCP loan notes as required by KCP. Therefore, following the completion of the IPO, the Directors will use part of the IPO proceeds to make a full repayment of these facilities.

The forecasts and projected financial results have been reviewed by the Directors in detail as part of the IPO preparation process. These include analysis of expected income, expenses and working capital requirements.

Assuming the proceeds of a successful IPO, the forecasts show that there is expected to be sufficient resources to meet the cash requirements of the Group for at least the 12 months following the date of approval of this report.

The Directors have also prepared an alternative forecast which considers the expected income, expenses and working capital requirements in a scenario where an IPO does not take place and the banking facilities are not renewed in July 2015. Whilst the Directors would not be able to fully implement their current growth strategy within the time frames currently planned, there would be sufficient resources to meet the cash requirements of the business for at least the 12 months following the date of approval of this report.

In the preparation of this Historical Financial Information, the Directors are confident that the Group will have sufficient resources to meet cash requirements for at least the 12 months following the date of approval of this report and accordingly have adopted the going concern basis in the preparation of this Historical Financial Information.

1.4 **Basis of consolidation**

Subsidiaries

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

Transactions eliminated on consolidation

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

1.5 **Foreign currency**

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

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and

liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Functional currency

The consolidated financial information is presented in Sterling which is the Company's functional currency.

1.6 **Classification of financial instruments issued by the Group**

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

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

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

1.7 **Non-derivative financial instruments**

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

Trade and other receivables

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

Trade and other payables

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

Cash and cash equivalents

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

Interest-bearing borrowings

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

1.8 **Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

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

- Plant and equipment 20-25% on reducing balance

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

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

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

1.9 Business combinations

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

The Group measures goodwill at the acquisition date as:

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

Costs related to the acquisition are expensed as incurred.

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

Goodwill impairment testing

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

1.10 Intangible assets

Software platform

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

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

Software development assets are held at historic cost less accumulated amortisation and impairment, and are amortised over their useful economic life of 8-years on a straight line basis.

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.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and

Goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- Brand 10 years; and
- Software platform 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 per cent. 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 based on the previous 12-months retail experience 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, and intangible assets that have indefinite useful lives or that are not yet available for use, 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 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.

1.14 Provisions

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

1.15 Revenue

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

1.16 Expenses

Operating lease payments

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

Finance lease payments

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

Exceptional items

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

Government and other forms of grant

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

Financing income and expenses

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

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

1.17 Taxation

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

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

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

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

1.18 Adopted IFRS not yet applied

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

- IFRS 9 Financial Instruments (effective for periods beginning on or after 1 January 2018, not yet endorsed by the EU);
- IFRS 15 Revenue from Contracts with Customers (effective date 31 December 2017, not yet endorsed by the EU);
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS16 and IAS38) (effective date 31 December 2016);
- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS11) (effective date 31 December 2016); and
- IFRS14 Regulatory Deferral Accounts (effective date 31 December 2016).

1.19 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 this financial information. IFRS 8 requires consideration of the "Chief Operating Decision Maker ("CODM") within the Group. Operating segments have been identified based on the internal reporting information and management structures with the Group. From such 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.

3. Expenses

Included in profit/loss are the following:

	<i>Year ended</i> <i>28 February</i> <i>2015</i> <i>£'000</i>	<i>Year ended</i> <i>28 February</i> <i>2014</i> <i>£'000</i>	<i>Year ended</i> <i>28 February</i> <i>2013</i> <i>£'000</i>
Depreciation of tangible fixed assets	222	115	92
Amortisation of intangible assets	244	202	206
Amortisation of government grants	15	4	–
(Profit) on disposal of property, plant and equipment	(9)	(2)	–
Rentals under operating leases – land & buildings	291	350	229
Rentals under operating leases – plant & machinery	18	16	11
Auditors remuneration – audit of financial statements	16	15	13
Auditors remuneration – other	119	3	3
<i>Exceptional items:</i>			
Exceptional deal costs	165	–	396
Exceptional relocation costs	–	212	–
	<u> </u>	<u> </u>	<u> </u>

Exceptional costs in 2015 relate to professional fees incurred in relation to the proposed admission to AIM.

Exceptional costs in 2014 related to the costs incurred by the Group in moving the warehouse, offices and showroom.

Exceptional costs in 2013 related to professional fees incurred in relation to KCP's private equity investment in the Group.

4. Staff numbers and costs

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

	<i>Year ended</i> <i>28 February</i> <i>2015</i> <i>No.</i>	<i>Year ended</i> <i>28 February</i> <i>2014</i> <i>No.</i>	<i>Year ended</i> <i>28 February</i> <i>2013</i> <i>No.</i>
Administration	61	41	30
Selling and distribution	42	34	22
	<u> </u>	<u> </u>	<u> </u>
	103	75	52
	<u> </u>	<u> </u>	<u> </u>

The aggregate payroll costs of these persons were as follows:

	<i>Year ended</i> <i>28 February</i> <i>2015</i> <i>£'000</i>	<i>Year ended</i> <i>28 February</i> <i>2014</i> <i>£'000</i>	<i>Year ended</i> <i>28 February</i> <i>2013</i> <i>£'000</i>
Wages and salaries	1,969	1,542	1,100
Social security costs	161	131	96
Contributions to defined contribution plans	2	2	6
	<u> </u>	<u> </u>	<u> </u>
	2,132	1,675	1,202
	<u> </u>	<u> </u>	<u> </u>

5. Earnings per share

Basic earnings 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.

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

	<i>Year ended 28 February 2015</i>	<i>Year ended 28 February 2014</i>	<i>Year ended 28 February 2013</i>
Loss attributable to equity shareholders of the parent (£'000)	(686)	(310)	(559)
Basic weighted average number of shares	1,265,625	1,265,625	1,265,625
Dilutive potential ordinary shares	25,960	25,960	25,960
Diluted weighted average number of shares	<u>1,291,585</u>	<u>1,291,585</u>	<u>1,291,585</u>
Basic loss per share	(54.2p)	(24.5p)	(44.2p)
Diluted loss per share	<u>(54.2p)</u>	<u>(24.5p)</u>	<u>(44.2p)</u>

6. Finance expense

	<i>Year ended 28 February 2015 £'000</i>	<i>Year ended 28 February 2014 £'000</i>	<i>Year ended 28 February 2013 £'000</i>
Finance expense			
Bank interest	52	40	37
Loan note interest	804	340	370
Finance leases	21	13	11
Net foreign exchange loss	131	33	15
Total finance expense	<u>1,008</u>	<u>426</u>	<u>433</u>

Loan note interest comprises £12,000 of interest due to Andrew Wass (2014: £13,000; 2013: £13,000) that was cash paid, and £792,000 due to KCP (2014: £327,000; 2013: £357,000), the Company's private equity investor, which is accrued but does not require to start being repaid until May 2015. In February 2014 management took the commercial decision to service £100,000 of KCP's loan note interest (February 2013: £150,000), with the balance being rolled up into the total amount due. The £792,000 KCP loan note financial expense in the year ending 28 February 2015 includes a technical adjustment arising from the intended IPO relating to the recognition of a redemption premium.

7. Taxation

Recognised in the income statement

	<i>Year ended</i> <i>28 February</i> <i>2015</i> <i>£'000</i>	<i>Year ended</i> <i>28 February</i> <i>2014</i> <i>£'000</i>	<i>Year ended</i> <i>28 February</i> <i>2013</i> <i>£'000</i>
Current tax			
UK corporation tax	–	–	21
Adjustments for prior periods	–	(2)	1
Current tax expense/(credit)	–	(2)	22
Deferred tax			
Origination and reversal of temporary differences	(124)	(63)	(75)
Deferred tax rate change impact	6	(25)	(2)
Adjustments for prior periods	7	(2)	–
Deferred tax credit	(111)	(90)	(77)
Total tax credit	(111)	(92)	(55)

The corporation tax rate applicable to the Company was 20 per cent. in the year ending 28 February 2013 and 28 February 2014. The deferred tax asset at 28 February 2013 and 28 February 2014 has been calculated based on the rate of 20 per cent. substantively enacted at the balance sheet date.

The corporation tax rate applicable to the Company was 20 per cent. in the year to 28 February 2015. Reductions in the main rate of Corporation Tax from 23 per cent. to 21 per cent. (effective from 1 April 2014) and a further reduction to 20 per cent. (effective from 1 April 2015) were substantively enacted on 2 July 2013. The deferred tax asset has therefore been calculated based on the rate of 20 per cent. substantively enacted at the balance sheet date.

Reconciliation of effective tax rate

	<i>Year ended</i> <i>28 February</i> <i>2015</i> <i>£'000</i>	<i>Year ended</i> <i>28 February</i> <i>2014</i> <i>£'000</i>	<i>Year ended</i> <i>28 February</i> <i>2013</i> <i>£'000</i>
(Loss) for the period	(686)	(310)	(559)
Total tax charge/credit	111	92	55
(Loss) excluding taxation	(797)	(402)	(614)
Current tax at 21.17% (2014: 23.08%; 2013: 24.17%)			
Tax using the UK corporation tax rate for the relevant period:	(168)	(92)	(148)
Non-deductible expenses	44	–	96
Tax rate difference	–	–	(1)
Deferred tax rate change on opening balances	–	–	(2)
Unrelieved tax losses	–	29	
Rate change	6	(25)	–
Adjustments relating to prior year – deferred tax	7	(1)	–
Adjustments relating to prior year – corporation tax	–	(3)	
Total tax credit	(111)	(92)	(55)

8. Property, plant and equipment

	<i>Plant and equipment £'000</i>	<i>Fixtures and fittings £'000</i>	<i>Motor Vehicles £'000</i>	<i>Computer equipment £'000</i>	<i>Total £'000</i>
Cost					
Balance at 1 March 2012	–	–	–	–	–
On acquisition of subsidiary (note 23)	61	548	12	132	753
Additions	1	88	–	35	124
Disposals	–	–	(4)	–	(4)
Balance at 28 February 2013 & 1 March 2013	<u>62</u>	<u>636</u>	<u>8</u>	<u>167</u>	<u>873</u>
Additions	148	518	–	35	701
Disposals	(5)	(268)	–	–	(273)
Balance at 28 February 2014 & 1 March 2014	<u>205</u>	<u>886</u>	<u>8</u>	<u>202</u>	<u>1,301</u>
Additions	8	366	–	37	411
Disposals	(20)	–	(8)	–	(28)
Balance at 28 February 2015	<u>193</u>	<u>1,252</u>	<u>–</u>	<u>239</u>	<u>1,684</u>
Depreciation and impairment					
Balance at 1 March 2012	–	–	–	–	–
On acquisition of subsidiary (note 23)	38	325	8	103	474
Depreciation charge for the year	13	57	1	21	92
Disposals	–	–	(3)	–	(3)
Balance at 28 February 2013 & 1 March 2013	<u>51</u>	<u>382</u>	<u>6</u>	<u>124</u>	<u>563</u>
Depreciation charge for the year	13	80	1	21	115
Disposals	–	(180)	–	–	(180)
Balance at 28 February 2014 & 1 March 2014	<u>64</u>	<u>282</u>	<u>7</u>	<u>145</u>	<u>498</u>
Depreciation charge for the period	38	155	–	29	222
Disposals	(20)	–	(7)	–	(27)
Balance at 28 February 2015	<u>82</u>	<u>437</u>	<u>–</u>	<u>174</u>	<u>693</u>
Net book value as at 28 February 2015	<u>111</u>	<u>815</u>	<u>–</u>	<u>65</u>	<u>991</u>
Net book value as at 28 February 2014	<u>141</u>	<u>604</u>	<u>1</u>	<u>57</u>	<u>803</u>
Net book value as at 28 February 2013	<u>11</u>	<u>254</u>	<u>2</u>	<u>43</u>	<u>310</u>
Net book value as at 1 March 2012	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

Leased assets

At 28 February 2015 the net carrying amount of leased tangible fixed assets was £269,000 (2014: £352,000; 2013: £70,000), and the accumulated depreciation against leased assets was £172,000 (2014: £108,000; 2013: £130,000).

9. Intangible assets

	<i>Goodwill</i> <i>£'000</i>	<i>Software</i> <i>platform</i> <i>£'000</i>	<i>Brand</i> <i>£'000</i>	<i>Total</i> <i>£'000</i>
Cost				
At 1 March 2012	–	–	–	–
On acquisition of subsidiary (note 23)	417	1,011	564	1,992
Additions	–	369	–	369
Balance at 28 February 2013 & 1 March 2013	417	1,380	564	2,361
Additions	–	504	–	504
Balance at 28 February 2014 & 1 March 2014	417	1,884	564	2,865
Additions	–	551	–	551
Balance at 28 February 2015 & 1 March 2015	417	2,435	564	3,416
Amortisation				
At 1 March 2012	–	–	–	–
On acquisition of subsidiary (note 23)	–	–	–	–
Amortisation for the year	–	149	57	206
Balance at 28 February 2013 & 1 March 2013	–	149	57	206
Amortisation for the year	–	146	56	202
Balance at 28 February 2014 & 1 March 2014	–	295	113	408
Amortisation for the year	–	188	56	244
Balance at 28 February 2014 & 1 March 2014	–	483	169	652
Net book value as at 28 February 2015	417	1,952	395	2,764
Net book value as at 28 February 2014	417	1,589	451	2,457
Net book value as at 28 February 2013	417	1,231	507	2,155
Net book value as at 1 March 2012	–	–	–	–

Impairment testing

Goodwill arose on the acquisition of the entire share capital of Gear4music Limited on 19 March 2012. The Goodwill balance is denominated in Sterling:

	<i>Year ended</i> <i>28 February</i> <i>2015</i> <i>£'000</i>	<i>Year ended</i> <i>28 February</i> <i>2014</i> <i>£'000</i>	<i>Year ended</i> <i>28 February</i> <i>2013</i> <i>£'000</i>
Gear4music Limited	417	417	417

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

Impairment reviews have been performed on all three intangible asset groups. The recoverable amounts have been determined based on value-in-use calculations. In assessing value in use, the four year forecast to 28 February 2019 was used to provide cash-flow projections that have been discounted at a pre-tax discount rate of 15 per cent. The cash flow projections are subject to key assumptions in respect of sales growth, gross margin performance, and overhead expenditure. Management has reviewed and approved the assumptions inherent in the model:

- Sales forecasts based on growth by geographical market, at a range of growth levels based on trends, in-house projects underway, and Management's expectation, achieving overall growth comparable to the previous years.
- Product costs are assumed to nominally decrease and gross margins are forecast to nominally increase, from their full year 2015 level over the four year management forecast period.
- Wage increases are a function of recruitment and a person-by-person review of current staff, with a range of per cent. increases. The return on marketing costs is expected to improve year on year.

No impairment loss was identified in the current year (2014: £nil; 2013: £nil). The valuations indicate significant headroom such that a terminal growth rate assumption has not been applied, and that any reasonably possible change in other key assumptions, including the discount rate, would not result in an impairment of the related goodwill or other intangible assets.

11. Investments in subsidiaries, associates and jointly controlled entities

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

<i>Subsidiaries</i>	<i>Country of incorporation</i>	<i>Registered Number</i>	<i>Year-end</i>	<i>Class of Shares held</i>	<i>Ownership</i>
Gear4music Limited	UK	03113256	28 February	Ordinary	100%
Cagney Limited	UK	04493300	28 February	Ordinary	100% via Gear4music Limited

12. Provision for liabilities

	<i>Property Provision £'000</i>
At 1 March 2012	–
Additions	–
Release	–
	<hr/>
Balance at 28 February 2013 & 1 March 2013	–
	<hr/> <hr/>
Additions	34
Release	–
	<hr/>
Balance at 28 February 2014 & 1 March 2014	34
	<hr/> <hr/>
Additions	34
Utilised	(34)
	<hr/>
Balance at 28 February 2015 & 1 March 2015	–
	<hr/> <hr/>

On 16 September 2013 Gear4music Limited entered into a new lease on new premises in Clifton Moor, York and as a consequence the property containing the former showroom and offices became surplus to requirements, and was vacated in May 2014. At 28 February 2014 the Directors and landlord were in discussions with a party interested in taking on this unit, and as such provided for an estimate of the property costs to completion. On 24 October 2014 Gear4music Limited surrendered the lease back to the landlord and the property provision was utilised against costs incurred in the period.

13. Deferred tax assets and liabilities

Movement in deferred tax during the year

	<i>At 1 March 2014 £'000</i>	<i>Recognised in income £'000</i>	<i>At 28 February 2015 £'000</i>
Property, plant and equipment	(300)	(45)	(345)
Short term timing differences	134	156	290
	<u>(166)</u>	<u>111</u>	<u>(55)</u>

	<i>At 1 March 2013 £'000</i>	<i>Recognised in income £'000</i>	<i>At 28 February 2014 £'000</i>
Property, plant and equipment	(315)	15	(300)
Short term timing differences	59	75	134
	<u>(256)</u>	<u>90</u>	<u>(166)</u>

	<i>At 1 March 2012 £'000</i>	<i>Acquired in business combination £'000</i>	<i>Recognised in income £'000</i>	<i>At 28 February 2013 £'000</i>
Property, plant and equipment	–	(333)	18	(315)
Short term timing differences	–	–	59	59
	<u>–</u>	<u>(333)</u>	<u>77</u>	<u>(256)</u>

The Group has an unrecognised deferred tax asset of £29,000 in relation to the tax losses to 28 February 2015 (28 February 2014: £29,000, 28 February 2013: £nil).

14. Inventories

	<i>Year ended 28 February 2015 £'000</i>	<i>Year ended 28 February 2014 £'000</i>	<i>Year ended 28 February 2013 £'000</i>
Finished goods	<u>5,326</u>	<u>4,222</u>	<u>3,611</u>

The cost of inventories recognised as an expense and included in cost of sales in the period amounted to £16.4 million in the year ended 28 February 2015, £12.2 million in the year ended 28 February 2014, and £8.2 million in the year ended 28 February 2013.

There are no stock related provisions in the financial information for the year ending 28 February 2014 and 2013. In the year ending 28 February 2015 management has included a provision of £8,200, representing a 100 per cent. 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 previous 12-months retail experience for the expected product loss on dealing with returns stock.

15. Trade and other receivables

	<i>Year ended 28 February 2015 £'000</i>	<i>Year ended 28 February 2014 £'000</i>	<i>Year ended 28 February 2013 £'000</i>
Trade receivables	84	27	31
Prepayments	132	130	198
	<u>216</u>	<u>157</u>	<u>229</u>

16. Cash and cash equivalents

	<i>Year ended 28 February 2015 £'000</i>	<i>Year ended 28 February 2014 £'000</i>	<i>Year ended 28 February 2013 £'000</i>
Cash and cash equivalents per balance sheet	916	708	656
Cash and cash equivalents per cash flow statements	916	708	656

17. Other interest-bearing loans and borrowings

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

	<i>Year ended 28 February 2015 £'000</i>	<i>Year ended 28 February 2014 £'000</i>	<i>Year ended 28 February 2013 £'000</i>
Non-current liabilities			
Bank loans	195	270	339
Finance lease liabilities	138	182	8
Loan notes	4,237	3,725	3,529
	<u>4,570</u>	<u>4,177</u>	<u>3,876</u>
Current liabilities			
Bank loans	1,202	1,090	617
Finance lease liabilities	118	90	35
Loan notes	–	45	64
	<u>1,320</u>	<u>1,225</u>	<u>716</u>
Total liabilities			
Bank loans	1,397	1,360	956
Finance lease liabilities	256	272	43
Loan notes	4,237	3,770	3,593
	<u>5,890</u>	<u>5,402</u>	<u>4,592</u>

Bank loans comprise a Trade Finance facility made up of import loans and a term loan made under the Enterprise Finance Guarantee Scheme ("EFG"). These facilities are provided by the Group's bankers, HSBC, and are secured against the by fixed and floating charges over the Group's assets.

The interest rate on the import loans is 2.45 per cent. per annum over HSBC's Sterling Base Rate, on the overdraft is 3.25 per cent. over base, and on the EFG loan is 4.00 per cent. over base. Interest on import loans is paid at the maturity of the relevant loan. Interest on the overdraft is paid monthly in arrears. The

Trade finance facilities are due for renewal on or before 15 July 2015. The EFG loan is being repaid in equal monthly instalments with final payment due in October 2018. Interest is paid quarterly in arrears.

At 28 February 2015, loan notes are due to KCP. Previously loan notes were due to both KCP and Mr AP Wass:

- Mr AP Wass's £225,000 loan notes were to be repaid on the earlier of September 2018 and rolling EBITDA (as defined in the investor agreement), exceeding £1 million. Interest on these loan notes accrued at 6 per cent. and was paid quarterly in arrears. These loan notes were repaid in full in February 2015; and
- The KCP loan notes have a capital repayment schedule of £501,763 every six months commencing March 2016 with a final payment due in September 2018. Interest accrues at 10 per cent. per annum, compounding on a quarterly basis, and there is a 20 per cent. redemption premium due on the principal amount (excluding rolled-up interest). Interest is payable from May 2015 or earlier at the discretion of management and as cash-flow permits. Management serviced £150,000 of interest in February 2014 and £100,000 in February 2015. These loan notes are repayable in full post-IPO.

Finance lease liabilities

Finance lease liabilities are payable as follows:

	<i>Minimum lease payments At 28 February 2015 £'000</i>	<i>Interest At 28 February 2015 £'000</i>	<i>Principal At 28 February 2015 £'000</i>
Less than one year	122	4	118
Between one and five years	145	7	138
	<u>267</u>	<u>11</u>	<u>256</u>

	<i>Minimum lease payments At 28 February 2014 £'000</i>	<i>Interest At 28 February 2014 £'000</i>	<i>Principal At 28 February 2014 £'000</i>
Less than one year	102	12	90
Between one and five years	193	11	182
	<u>295</u>	<u>23</u>	<u>272</u>

	<i>Minimum lease payments At 28 February 2013 £'000</i>	<i>Interest At 28 February 2013 £'000</i>	<i>Principal At 28 February 2013 £'000</i>
Less than one year	42	7	35
Between one and five years	9	1	8
	<u>51</u>	<u>8</u>	<u>43</u>

Finance leases relate to assets located at the Head Office site in York, with net book values of £262,000 at 28 February 2015, £352,000 at 28 February 2014 and £70,000 at 28 February 2013.

18. Trade and other payables

	Year ended 28 February 2015 £'000	Year ended 28 February 2014 £'000	Year ended 28 February 2013 £'000
Current			
Trade payables	3,231	1,824	1,207
Accruals and deferred income	1,072	304	77
Government grants	15	15	–
Other taxation and social security	204	155	101
	<u>4,522</u>	<u>2,298</u>	<u>1,385</u>
Non-current			
Government grants	<u>35</u>	<u>50</u>	<u>–</u>

Accruals at 28 February 2015 include £585,000 (2014: £239,000) of rent accrued but not payable as per the commercial agreement reached with the landlord and the legal form of the property lease. This accrual will unwind in future financial years.

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

19. Financial instruments

Financial risk management

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

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

Risk management framework

Regular reviews of strategic risks are performed by the Board.

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

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

(a) Liquidity risk

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

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

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

	Effective interest rate	Carrying amount	Total	Within 1 year	Contractual cash-flows		
		Year ended	Year ended		1-2 years	2-5 years	Over 5 years
		28 February 2014	28 February 2014				
%	£'000	£'000	£'000	£'000	£'000	£'000	
Secured loans	4.5	1,360	1,401	1,109	85	207	–
Trade payables	–	1,824	1,824	1,824	–	–	–
Loan notes	6-9.4	3,770	5,679	14	383	5,282	–
		<u>6,954</u>	<u>8,904</u>	<u>2,947</u>	<u>468</u>	<u>5,489</u>	<u>–</u>

	Effective interest rate	Carrying amount	Total	Within 1 year	Contractual cash-flows		
		Year ended	Year ended		1-2 years	2-5 years	Over 5 years
		28 February 2013	28 February 2013				
%	£'000	£'000	£'000	£'000	£'000	£'000	
Secured loans	4.5	956	1,013	632	89	292	–
Trade payables	–	1,207	1,207	1,207	–	–	–
Loan notes	6-12	3,593	5,765	14	14	5,737	–
		<u>5,756</u>	<u>7,985</u>	<u>1,853</u>	<u>103</u>	<u>6,029</u>	<u>–</u>

(b) *Credit risk*

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

The Group faces low credit risk as customers typically pay for their orders in full on shipment of the product. There are a small number of education accounts with schools and colleges that have 30-day terms (less than 2.3 per cent. of 2014/15 sales), and trade accounts (1.0 per cent. of 2014/15 sales).

Trade debtors, including funds lodged with Amazon and Paypal, totalled £84,000 on 28 February 2015, £27,000 on 28 February 2014, and £31,000 on 28 February 2013.

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

(c) *Interest rate risk*

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

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:

	<i>Year ended</i> <i>28 February</i> <i>2015</i> <i>£'000</i>	<i>Year ended</i> <i>28 February</i> <i>2014</i> <i>£'000</i>	<i>Year ended</i> <i>28 February</i> <i>2013</i> <i>£'000</i>
Variable rate instruments			
Cash	(916)	(708)	(656)
Bank loans	1,397	1,360	956
	<u>481</u>	<u>652</u>	<u>300</u>
Fixed rate instruments			
Loan note payable	4,237	3,770	3,593
Finance leases	256	272	43
	<u>4,493</u>	<u>4,042</u>	<u>3,636</u>
Total net financial liabilities	<u>4,974</u>	<u>4,694</u>	<u>3,936</u>

Sensitivity analysis

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

	<i>Year ended</i> <i>28 February</i> <i>2015</i> <i>£'000</i>	<i>Year ended</i> <i>28 February</i> <i>2014</i> <i>£'000</i>	<i>Year ended</i> <i>28 February</i> <i>2013</i> <i>£'000</i>
Increase of 0.5 basis points	(3)	(5)	(5)
Decrease of 0.5 basis points	3	5	5

(d) Foreign exchange risk

All borrowings are denominated in sterling.

The Group sells into Europe in eight currencies including sterling and euros. In the year ended 28 February 2015, 21 per cent. (2014: 14 per cent.; 2013: 6 per cent.) of total sales were in non-sterling currencies, of which 68 per cent. (2014: 75 per cent.; 2013: 100 per cent.) were in euros. Where costs (including local tax liabilities) are incurred in these respective currencies, currency balances are retained and payments made in these currencies, thereby mitigating any associated currency loss. Surplus foreign currency holdings are reviewed on a weekly basis and balances in excess of known liabilities are converted into sterling, restricting the period between the transaction and the point of conversion, thereby reducing the transactional risk.

The Group purchases Own-branded instruments and equipment from the Far East, transacting in US dollars. The lead time from committed order to receipt of stock is typically 12-14 weeks, during which time the Group bears currency risk. The Group also trades with two suppliers on a trade credit basis with terms of 60 and 150 days. The Group has the trading platform ability and sufficient price flexibility to be able to pass on some adverse currency variances, and the Group generates enhanced margins on these products such that a proportion of these losses can be absorbed. The Group do 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.

	<i>Year ended</i> <i>28 February</i> <i>2015</i> <i>£'000</i>	<i>Year ended</i> <i>28 February</i> <i>2014</i> <i>£'000</i>	<i>Year ended</i> <i>28 February</i> <i>2013</i> <i>£'000</i>
Trade and Other Receivables			
Sterling	71	12	27
Euro	13	15	4
	<u>84</u>	<u>27</u>	<u>31</u>
Cash and Cash Equivalents			
Sterling	899	699	614
Euro	8	5	16
Other European currencies	9	4	26
	<u>916</u>	<u>708</u>	<u>656</u>
Trade Payables			
Sterling	2,595	1,818	1,195
Euro	–	6	12
US Dollar	636	–	–
	<u>3,231</u>	<u>1,824</u>	<u>1,207</u>
Local sales tax			
Sterling	31	13	36
Euro	117	69	32
Other European currencies	10	1	–
	<u>158</u>	<u>83</u>	<u>68</u>

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 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.

(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 the utilisation of external borrowings together with available cash.

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 28 February 2015, 28 February 2014 and 28 February 2013 is shown below:

	28 February 2015		28 February 2014		28 February 2013	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
Trade and other receivables	216	216	157	157	229	229
Cash and cash equivalents	916	916	708	708	656	656
Bank loans	(1,397)	(1,397)	(1,360)	(1,360)	(956)	(956)
Finance lease liabilities	(256)	(267)	(272)	(295)	(43)	(51)
Trade and other payables	(4,557)	(4,557)	(2,348)	(2,348)	(1,385)	(1,385)
Loan notes	(4,237)	(4,237)	(3,770)	(3,770)	(3,593)	(3,593)
	<u>(9,315)</u>	<u>(9,326)</u>	<u>(6,885)</u>	<u>(6,908)</u>	<u>(5,092)</u>	<u>(5,100)</u>

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

Trade and other payables and receivables

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

Cash and cash equivalents

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

Long-term and short-term borrowings

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

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

Derivative financial instruments

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

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 priced 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).

	<i>Level 1</i> £'000	<i>Level 2</i> £'000	<i>Level 3</i> £'000
28 February 2015			
Bank loans	–	(1,397)	–
Loan notes	–	(4,237)	–
	<u>–</u>	<u>(5,634)</u>	<u>–</u>
28 February 2014			
Bank loans	–	(1,360)	–
Loan notes	–	(3,770)	–
	<u>–</u>	<u>(5,130)</u>	<u>–</u>
28 February 2013			
Bank loans	–	(956)	–
Loan notes	–	(3,593)	–
	<u>–</u>	<u>(4,549)</u>	<u>–</u>

20. Capital and reserves

	<i>Year ended</i> <i>28 February</i> <i>2015</i> <i>Number</i>	<i>Year ended</i> <i>28 February</i> <i>2014</i> <i>Number</i>	<i>Year ended</i> <i>28 February</i> <i>2013</i> <i>Number</i>
Share capital			
<i>Authorised, called up and fully paid:</i>			
“A” Ordinary Shares of £1 each	389,423	389,423	389,423
“B” Ordinary Shares of £1 each	843,750	843,750	843,750
“C” Ordinary Shares of £1 each	32,452	32,452	32,452
	<u>1,265,625</u>	<u>1,265,625</u>	<u>1,265,625</u>

Each ordinary share carries one vote and ranks equally with the other ordinary shares in all respects including as to dividends and other distributions.

Accumulated losses

	<i>Year ended</i> <i>28 February</i> <i>2015</i> £'000	<i>Year ended</i> <i>28 February</i> <i>2014</i> £'000	<i>Year ended</i> <i>28 February</i> <i>2013</i> £'000
Opening at 1 March	(869)	(559)	–
Loss for the year	(686)	(310)	(559)
Closing at 28 February	<u>(1,555)</u>	<u>(869)</u>	<u>(559)</u>

Reserve

Accumulated losses

Description and purpose

Cumulative net losses recognised in the consolidated income statement.

Capital commitment

As at 28 February 2015 a contractual minimum spend arrangement was in place for £458,000 (2014: £458,000; 2013: £151,000), in relation to a contract for development services of the ecommerce platform.

Operating lease commitments

Non-cancellable operating lease rentals are payable as follows:

	<i>Year ended 28 February 2015 £'000</i>	<i>Year ended 28 February 2014 £'000</i>	<i>Year ended 28 February 2013 £'000</i>
Less than one year	163	93	232
Between one and five years	1,627	1,303	39
More than five years	167	654	–
	<u>1,957</u>	<u>2,050</u>	<u>271</u>

At 28 February 2015, the operating lease commitment relates to the property lease of the Head Office site at Clifton Moor, York. At 28 February 2014, the operating lease commitments related to the current Head Office site and a previous leasehold unit vacated in May 2014 and lease surrendered in October 2014. At 28 February 2013 the operating lease commitment related solely to the previous property.

22. Related parties

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

At 28 February 2015, an amount of £3,010,577 (being the principal loan excluding interest) was owed by Gear4music (Holdings) plc to KCP, a shareholder and who control one director on the board of Gear4music (Holdings) plc. Interest is charged on the loan at a rate of 10 per cent. Interest charged on the loan during the year amounted to £363,000 of which £100,000 was repaid prior to the year end and £753,000 remained unpaid at the year end and is included within loan notes and interest. KCP loan notes have a capital repayment schedule of £501,763 every six months commencing March 2016 with final payment due September 2018. Interest is payable from May 2015 or earlier at the discretion of management as cash-flow permits.

During the year, KCP charged Gear4music (Holdings) plc £36,000 in respect of on-going investment monitoring and management charges. At the balance sheet date Gear4music (Holdings) plc owed KCP £nil in respect of these charges.

There are EMI share options in place for a total of 25,960 “C” Ordinary Shares, split equally between two directors, Chris Scott and Gareth Bevan, subject to defined performance criteria.

Transactions with key management personnel

The compensation of key management personnel is as follows:

	<i>Year ended 28 February 2015 £'000</i>	<i>Year ended 28 February 2014 £'000</i>	<i>Year ended 28 February 2013 £'000</i>
Key management emoluments including social security costs	393	384	248
Company contributions to money purchase pension plans	2	2	5
	<u>395</u>	<u>386</u>	<u>253</u>

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

One Director is accruing retirement benefits under a money purchase scheme (2014: 2; 2013: 2).

23. Acquisitions of subsidiary

Acquisition in the period ending 28 February 2013

On 19 March 2012 the Company acquired all of the ordinary shares in Gear4music Limited for £2.34 million, satisfied in cash. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 29 February 2012.

The results of Gear4music Limited have been consolidated in the Group accounts from the date of acquisition. The trading results for the period from 1 March 2012 to 19 March 2012 were not considered material with revenue of £444,000 and loss before tax of £11,000 for the 19 day period.

Effect of acquisition

The acquisition had the following effect on the Group's assets and liabilities.

	<i>Recognised values on acquisition £'000</i>
Acquiree's net assets at the acquisition date:	
Property, plant and equipment	279
Investments	1
Intangible assets – brand and software platform	1,575
Inventories	1,944
Trade and other receivables	195
Cash and cash equivalents	358
Interest-bearing loans and borrowings	(722)
Trade and other payables	(911)
Deferred tax liabilities	(283)
Long-term other payables	(458)
Deferred tax asset	(51)
Net identifiable assets and liabilities	<u>1,927</u>
Consideration paid:	
Cash	<u>2,344</u>
Goodwill on acquisition	<u>417</u>

Goodwill arose on acquisition being the difference between the fair value of the assets acquired and the cash consideration paid. This residual amount relates to items including supplier relationships.

Professional fees totalling £396,000 were incurred and recognised as an exceptional expense in delivering this acquisition.

24. Accounting estimates and judgements

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

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

- The basis for stock provision and by association the carrying value – given the nature of the products sold, product margins earned, and trading terms with suppliers, Management currently provide for

faulty returns retained for spare parts, and an estimate of the product loss to deal with returns stock. There are no other provisions made;

- Assumptions inherent in the goodwill impairment review – four year approved management forecast and a 15 per cent. discount rate (see note 10); and
- The UEL of tangible and intangible fixed assets – management selected depreciation and amortisation periods appropriate to the assets held, and consistent with industry and accounting norm. Amortisation periods were independently reviewed as part of an intangible asset valuation exercise.

25. First time adoption of IFRS

The Group has previously produced and filed financial statements under UK Generally Accepted Accounting Practice (UK GAAP). This Financial Information is required to be in accordance with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) as adopted by the European Union.

As this financial information covers the periods from 1 March 2012 to 28 February 2015, the transition date is the 1 March 2012.

Reconciliations between IFRS and UK GAAP

Certain presentation differences between UK GAAP and IFRS have no impact on reported profit or total equity. Some line items are described differently (renamed) under IFRS compared with previous UK GAAP, although the assets and liabilities included in those line items are unaffected.

The cash flow statement for the years ended 28 February 2015, 28 February 2014 and 28 February 2013 under IFRS are the same as under UK GAAP apart from presentational differences.

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period and as such the Group does not apply hedge accounting and has not applied hedge accounting retrospectively in this financial information in accordance with the mandatory exemption from the retrospective application of hedge accounting contained within IFRS 1.

The following IFRS adjustments have been made on transition to IFRS:

	<i>Year ended 28 February 2015 £'000</i>	<i>Year ended 28 February 2014 £'000</i>	<i>Year ended 28 February 2013 £'000</i>
Expense of deal fees capitalised under UK GAAP	–	–	(396)
Net impact of IFRS3 Intangible revaluation exercise	249	223	82
Net impact of EIR accounting	(258)	14	(49)
Re-statement of rent and rates charge	(345)	(239)	–
	<u> </u>	<u> </u>	<u> </u>

Reconciliation of net income for the year ended 28 February 2015:

	Year ended 28 February 2015		
	UK GAAP	Transition Adjustments	IFRS
	£'000	£'000	£'000
Revenue	24,240	–	24,240
Cost of sales	(17,483)	–	(17,483)
Gross profit	6,757	–	6,757
Administrative expenses	(6,341)	(40)	(6,381)
Administrative expenses – exceptional items	(165)	–	(165)
Administrative expenses	(6,506)	(40)	(6,546)
Operating profit	251	(40)	211
Financial expenses	(720)	(288)	(1,008)
Loss before tax	(469)	(328)	(797)
Taxation	23	88	111
Loss after tax for the year	(446)	(240)	(686)

Transition adjustments above include the following:

- On transition to IFRS and following independent review of the Intangible assets as at 19 March 2012, existing and arising on the purchase of the entire share issued share capital of Gear4music Limited, the following adjustments were made:
 - o The ecommerce platform was independently valued as an intangible asset at £1.01 million with a useful economic life of 8-years. This also included the reclassification of costs that were previously included in tangible fixed assets;
 - o An intangible “Brand” was recognised, independently valued at £564,000 with an estimated UEL of 10-years;
 - o Goodwill on acquisition reduced from £1.76 million under UK GAAP to £467,000 under IFRS. Goodwill was amortised over 15-years under UK GAAP, but is impairment reviewed under IFRS.
- In September 2013 the Group consolidated its warehouse, offices, and showroom onto a single site in York. The lease was negotiated to include incentives to match the growth plans of the business. Under IFRS the incentives have been averaged over the total period of the lease, resulting in a profit adjustment of £345,000 in the year ended 28 February 2015, and £239,000 in the year ended 28 February 2014.
- Deferred tax liabilities arose in respect of the adjustments to IFRS.
- Adjustments in the year ending 28 February 2013 include expensing of £396,000 of deal fees previously capitalised as goodwill under UK GAAP.
- In 2015, and given the Group’s intention to seek admission to AIM, a redemption premium due on KCP’s loan notes has been recognised and is held in the loan note amount due in under one year.

These were all accounting adjustments and none had a cash impact.

Reconciliation of net income for the years ended 28 February 2014 and 28 February 2013:

	Year ended 28 February 2014			Year ended 28 February 2013		
	UK GAAP £'000	Transition Adjustments £'000	IFRS £'000	UK GAAP £'000	Transition Adjustments £'000	IFRS £'000
Revenue	17,678	–	17,678	12,266	–	12,266
Cost of sales	(12,953)	–	(12,953)	(8,890)	–	(8,890)
Gross profit	4,725	–	4,725	3,376	–	3,376
Administrative expenses						
– recurring	(4,396)	(93)	(4,489)	(3,232)	71	(3,161)
Administrative expenses						
– exceptional items	(212)	–	(212)	–	(396)	(396)
Administrative expenses	(4,608)	(93)	(4,701)	(3,232)	(325)	(3,557)
Operating profit/(loss)	117	(93)	24	144	(325)	(181)
Financial expenses	(446)	20	(426)	(369)	(64)	(433)
Loss before tax	(329)	(73)	(402)	(225)	(389)	(614)
Taxation	21	71	92	28	27	55
Loss after tax for the period	(308)	(2)	(310)	(197)	(362)	(559)

Reconciliation of equity at 28 February 2015 and 28 February 2014:

	28 February 2015			28 February 2014		
	UK GAAP £'000	Transition Adjustments £'000	IFRS £'000	UK GAAP £'000	Transition Adjustments £'000	IFRS £'000
Assets						
Property, plant and equipment	2,066	(1,075)	991	1,630	(827)	803
Intangible assets	1,408	1,356	2,764	1,525	932	2,457
Deferred tax asset	42	(42)	–	–	–	–
Non-current assets	<u>3,516</u>	<u>239</u>	<u>3,755</u>	<u>3,155</u>	<u>105</u>	<u>3,260</u>
Inventories	5,326	–	5,326	4,222	–	4,222
Trade and other receivables	216	–	216	175	(18)	157
Cash and cash equivalents	916	–	916	708	–	708
Current assets	<u>6,458</u>	<u>–</u>	<u>6,458</u>	<u>5,105</u>	<u>(18)</u>	<u>5,087</u>
Total assets	<u><u>9,974</u></u>	<u><u>239</u></u>	<u><u>10,213</u></u>	<u><u>8,260</u></u>	<u><u>87</u></u>	<u><u>8,347</u></u>
Liabilities						
Other interest bearing loans and borrowings	(1,320)	–	(1,320)	(1,180)	(45)	(1,225)
Trade and other payables	(3,937)	(585)	(4,522)	(2,059)	(239)	(2,298)
Provisions	–	–	–	(34)	–	(34)
Current liabilities	<u>(5,257)</u>	<u>(585)</u>	<u>(5,842)</u>	<u>(3,273)</u>	<u>(284)</u>	<u>(3,557)</u>
Other interest bearing loans and borrowings	(4,369)	(201)	(4,570)	(4,227)	50	(4,177)
Other payables	(35)	–	(35)	–	(50)	(50)
Deferred tax liability	–	(55)	(55)	–	(166)	(166)
Non-current liabilities	<u>(4,404)</u>	<u>(256)</u>	<u>(4,660)</u>	<u>(4,227)</u>	<u>(166)</u>	<u>(4,393)</u>
Total liabilities	<u><u>(9,661)</u></u>	<u><u>(841)</u></u>	<u><u>(10,502)</u></u>	<u><u>(7,500)</u></u>	<u><u>(450)</u></u>	<u><u>(7,950)</u></u>
Net assets/(liabilities)	<u><u>313</u></u>	<u><u>(602)</u></u>	<u><u>(289)</u></u>	<u><u>760</u></u>	<u><u>(363)</u></u>	<u><u>397</u></u>
Equity attributable to equity holders of the parent						
Share capital	1,266	–	1,266	1,266	–	1,266
Retained earnings	(953)	(602)	(1,555)	(506)	(363)	(869)
Total equity	<u><u>313</u></u>	<u><u>(602)</u></u>	<u><u>(289)</u></u>	<u><u>760</u></u>	<u><u>(363)</u></u>	<u><u>397</u></u>

	28 February 2013			1 March 2012		
	UK GAAP £'000	Transition Adjustments £'000	IFRS £'000	UK GAAP £'000	Transition Adjustments £'000	IFRS £'000
Assets						
Property, plant and equipment	864	(554)	310	-	-	-
Intangible assets	1,643	512	2,155	-	-	-
Non-current assets	<u>2,507</u>	<u>(42)</u>	<u>2,465</u>	<u>-</u>	<u>-</u>	<u>-</u>
Inventories	3,611	-	3,611	-	-	-
Trade and other receivables	229	-	229	-	-	-
Cash and cash equivalents	656	-	656	-	-	-
Current assets	<u>4,496</u>	<u>-</u>	<u>4,496</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u><u>7,003</u></u>	<u><u>(42)</u></u>	<u><u>6,961</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
Liabilities						
Interest bearing loans and borrowings	(652)	(64)	(716)	-	-	-
Trade and other payables	(1,385)	-	(1,385)	-	-	-
Current tax payable	(21)	-	(21)	-	-	-
Provisions	-	-	-	-	-	-
Current liabilities	<u>(2,058)</u>	<u>(64)</u>	<u>(2,122)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other interest bearing loans and borrowings	(3,876)	-	(3,876)	-	-	-
Other payables	-	-	-	-	-	-
Provisions	(1)	(255)	(256)	-	-	-
Non-current liabilities	<u>(3,877)</u>	<u>(255)</u>	<u>(4,132)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u><u>(5,935)</u></u>	<u><u>(319)</u></u>	<u><u>(6,254)</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
Net assets	<u><u>1,068</u></u>	<u><u>(361)</u></u>	<u><u>707</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
Equity attributable to equity holders of the parent						
Share capital	1,266	-	1,266	-	-	-
Retained earnings	(198)	(361)	(559)	-	-	-
Total equity	<u><u>1,068</u></u>	<u><u>(361)</u></u>	<u><u>707</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

Consolidated Opening Balance Sheet

1 March
2012
£'000

Non-current assets

Property, plant and equipment
Intangible assets

—
—

—

Current assets

Inventories
Trade and other receivables
Cash and cash equivalents

—
—
—

—

Total assets

Current liabilities

Other interest bearing loans and borrowings
Trade and other payables
Current tax payable
Provisions

—
—
—
—

—

Non-current liabilities

Other interest-bearing loans and borrowings
Other payables
Deferred tax liability

—
—
—

—

Total liabilities

Net assets

—

Equity

Share capital
Retained earnings

—
—

—

Total equity

The acquisition of Gear4music Limited did not occur until 19 March 2012.

PART IV
ADDITIONAL INFORMATION

1. INCORPORATION, REGISTERED OFFICE AND BUSINESS

- 1.1 The Company was incorporated in England and Wales pursuant to the Act on 26 September 2011 as a private company limited by shares (registered number 7786708) under the name Hamsard 3269 Limited. Pursuant to a special resolution passed on 29 March 2012, the Company changed its name to Gear 4 Music (Holdings) Limited on 12 April 2012, and was re-registered as a public limited company and changed its name to Gear4music (Holdings) plc on 28 May 2015, pursuant to a special resolution passed on 27 May 2015. The Company trades under the name “Gear4music”.
- 1.2 The Company’s registered office and principal place of business is at Kettlestring Lane, Clifton Moor, York YO30 4XF. The telephone number of the Company’s registered office and principal place of business is 08433 155 0800.
- 1.3 The principal legislation under which the Company operates is the Act.
- 1.4 The Company’s principal activity is to act as the holding company for the Group, whose principal activity is as a retailer of musical instruments and music equipment.
- 1.5 The liability of the Company’s members is limited.
- 1.6 The Company has no administrative, management or supervisory bodies other than the Board and, as from Admission, its standing committees (the Remuneration Committee and the Audit Committee) both of which will have no members other than Directors. Details of each such committee’s proposed constitution and membership is set out in paragraph 16 of Part I of this document.

2. SHARE CAPITAL

- 2.1 The issued share capital of the Company as at the date of this document and as it is expected to be immediately prior to Admission and immediately following Admission is and will be as follows:

<i>Date</i>	<i>Class</i>	<i>Nominal value</i>	<i>Issued number</i>
As at 28 February 2015	A ordinary	£389,423	389,423
	B ordinary	£843,750	843,750
	C ordinary	£32,452	32,452
As at the date of this document	A Ordinary	£389,423	3,894,230
	B Ordinary	£843,750	8,437,500
	C Ordinary	£32,452	324,520
Immediately prior to Admission	A Ordinary	£389,423	3,894,230
	B Ordinary	£843,750	8,437,500
	C Ordinary	£64,904	649,040
	ordinary	£149,281	1,492,807
Immediately following Admission and issue of the Non-Eligible Shares	Shares	£2,015,634	20,156,339

- 2.2 The Placing will result in the allotment of 7,175,569 Subscription Shares. This will dilute Existing Shareholders by approximately 35.6 per cent.
- 2.3 As at 28 February 2015 there were, and as at the date of this document there are, (a) no shares not representing capital; and (b) no shares in the capital of the Company held by or on behalf of the Company or by any of its subsidiaries.

- 2.4 The Company has no issued shares that are not fully paid up or credited as fully paid up.
- 2.5 The Company was incorporated on 26 September 2011 with an issued share capital of £1 divided into one ordinary share of £1, which was issued fully paid to SSH Directors Limited, the subscriber to the memorandum of association of the Company. Since incorporation and up to the date of this document, the following changes in the amount of issued share capital of the Company have taken place:
- (a) On 19 March 2012, the Company redesignated its one issued ordinary share into one A ordinary share of £1.00 and allotted and issued the following shares:
- (i) 389,422 A ordinary shares of £1.00 each to Key Capital Partners for an aggregate purchase price of £383,423;
 - (ii) 843,750 B ordinary shares of £1.00 each to Andrew Wass for an aggregate purchase price of £843,750; and
 - (iii) 32,452 C ordinary shares of £1.00 each to Dean Murray for an aggregate purchase price of £32,452.
- (b) By a resolution of the Company passed on 28 May 2015, each issued and unissued A ordinary share, B ordinary share and C ordinary share (each of £1.00) was, by a special resolution of the Company, sub-divided into 10 A Ordinary Shares, 10 B Ordinary Shares and 10 C Ordinary Shares, respectively, having the rights set out in the articles of association of the Company adopted pursuant to that special resolution.
- (c) By a resolution of the Company passed on 28 May 2015 it was also resolved with immediate effect as follows:
- (i) that pursuant to section 551 of the Act, the Directors be generally and unconditionally authorised (in addition to all existing like authorities granted to the Directors) to exercise all powers of the Company to allot EIS Shares up to an aggregate nominal amount of £149,281, provided that this authority shall expire on 31 December 2015; and
 - (ii) subject to the passing of the resolution described in paragraph 2.5(c)(i) above, the Directors be generally empowered pursuant to section 570 of the Act to allot equity securities (as defined in section 560(1) of the Act) for cash pursuant to the authority conferred upon them by the resolution described in paragraph 2.5(c)(i) above as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities up to an aggregate nominal amount of £149,281 and shall expire on 31 December 2015.
- 2.6 By a resolution of the Company passed on 28 May 2015 it was resolved conditionally upon (but effective immediately prior to) Admission taking place on or prior to 3 July 2015, to pass the following resolutions, amongst other things, to create the Subscription Shares and to give the Directors authority to allot the Subscription Shares and further Shares on and from Admission as follows:
- (a) that pursuant to section 551 of the Act, the Directors be generally and unconditionally authorised to exercise all or any powers of the Company to allot Shares or grant rights to subscribe for or to convert any security into a Share:
- (i) up to an aggregate nominal amount equal to £568,277 in connection with the Placing (other than the EIS Shares);
 - (ii) up to an aggregate nominal amount equal to £9,645 in connection with the New EMI Plans;
 - (iii) up to an aggregate nominal amount equal to £10,079 in connection with the Warrant Instrument;
 - (iv) following Admission, up to an aggregate nominal amount equal to £671,878 (being equivalent to one-third of the nominal value of the Enlarged Share Capital); and
 - (v) following Admission and in connection with a rights issue, up to an aggregate nominal amount equal to £671,878 (being equivalent to a further one-third of the nominal value of the Enlarged Share Capital),

provided that (unless previously revoked, varied or renewed) these authorities shall expire on the earlier of the date of the next annual general meeting of the Company and 30 September 2016 (save that the Directors may before the expiry of such period make an offer or agreement which would or might require Shares to be allotted or rights to be granted to subscribe for or convert any security into a Share, after expiry of these authorities, and the Directors may allot the Shares or grant rights to subscribe for or convert any security into a Share in pursuance of such offer or agreement as if the authorisations conferred by this resolution had not expired). This authority is in addition to all existing authorities under section 551 of the Act;

- (b) that pursuant to section 570 of the Act, the Directors be generally empowered to allot equity securities (within the meaning of section 560(1) of the Act) for cash as if section 561(1) of the Act did not apply to any such allotment:
 - (i) pursuant to the authorities granted as described in paragraphs 2.6(a)(i), (ii) and (iii) above;
 - (ii) pursuant to the authority granted as described in paragraph 2.6(a)(iv) above in connection with a rights issue or other pre-emptive offer but otherwise limited to an aggregate nominal amount equal to £403,127 (being equivalent to 20 per cent. of the nominal value of the Enlarged Share Capital); and
 - (iii) pursuant to the authority granted as described in paragraph 2.6(a)(v) above, in connection with a rights issue,

provided that (unless previously revoked, varied or renewed) these powers shall expire on the earlier of the date of the next annual general meeting of the Company and 30 September 2016 (save that the Directors may before the expiry of such period make an offer or agreement which would or might require Shares to be allotted or rights to be granted after expiry of these powers and the Directors may allot the Shares or grant rights to subscribe for or convert any security into a Share in pursuance of such offer or agreement as if the powers conferred by this resolution had not expired). These powers are in addition to all existing powers under section 570 of the Act; and

- (c) the Company adopt the Articles in substitution for, and to the exclusion of, the existing articles of association of the Company.

2.7 Pursuant to the authorities referred to in paragraphs 2.5(c) and 2.6, it is anticipated that the EIS Shares will be allotted and issued at 8.00 a.m. on 2 June 2015, the VCT Shares will be allotted and issued with effect from Admission which is expected to occur at 8.00 a.m. on 3 June 2015 and the Non-Eligible Shares will be allotted with effect from Admission and issued at or about 9.30 a.m. on 3 June 2015.

2.8 The investment agreement entered into between (1) the Company, (2) the Managers (as defined therein) and (2) Key Capital Partners dated 19 March 2012 (as amended) provides, at clause 5.10, that Andrew Wass shall be allotted any unissued C ordinary shares immediately prior to an Exit Event (as defined therein, the definition of which “captures” Admission). Pursuant to a shareholder resolution passed on 27 May 2015, the Company authorised the allotment and issue of £32,452 C ordinary shares in the capital of the Company. Immediately prior to Admission, Chris Scott and Gareth Bevan will be allotted, in aggregate, 259,600 C Ordinary Shares pursuant to the exercise of their options under the Old Share Option Scheme. As such, immediately prior to Admission, 64,920 C Ordinary Shares shall be allotted and issued at par to Andrew Wass.

2.9 Save as set out in this paragraph 2, paragraph 18 of Part I of this document and paragraph 5 below:

- (a) the Company has not issued any convertible securities, exchangeable securities or securities with warrants;
- (b) there are no acquisition rights and/or obligations over authorised but unissued capital of the Company or any undertaking to increase the capital of the Company; and
- (c) no share or loan capital of the Company or any other member of the Group is under option or agreed, conditionally or unconditionally, to be put under option.

2.10 Statutory pre-emption rights in relation to the allotment of equity securities contained in section 561 of the Act have been disapplied by the Company’s shareholders to the extent set out in paragraph 2.6(b)

above. The provisions of section 561 of the Act, to the extent to which they are not disapplied pursuant to the Act, confer on the shareholders rights of pre-emption in respect of the allotment of equity securities (within the meaning of section 560 of the Act) which are, or are to be, paid up in cash.

3. SIGNIFICANT SUBSIDIARY UNDERTAKINGS

3.1 The Company is the holding company of the Group.

3.2 The following table contains a list of all of the subsidiary undertakings of the Company that are significant in terms of the assessment of the Company's assets and liabilities, financial position or profits and losses. Each such subsidiary undertaking is wholly owned (directly or indirectly) by the Company and incorporated in England and Wales and has its registered office at Kettlestring Lane, Clifton Moor, York YO30 4XF.

<i>Name of company</i>	<i>Principal activity</i>
Cagney Limited (company number 4493300)	Dormant company
Gear4music Limited (company number 3113256)	Retail of musical instruments and music equipment

4. NEW ARTICLES OF ASSOCIATION

The new Articles of Association as adopted (conditional on Admission) by special resolution dated 28 May 2015 contain provisions, amongst other things, to the following effect:

4.1 Objects

The Company has unrestricted objects.

4.2 Share capital

The Articles do not contain any restrictions on the Company's ability to:

- (a) consolidate and divide all or any of its share capital into shares of larger amounts than its existing shares; and
- (b) sub-divide its shares, or any of them, into shares with a smaller face value than the existing shares (subject, nevertheless, to the provisions of the Act).

The Company may by special resolution reduce its share capital and any capital redemption reserve and any share premium account or other undistributable reserve in any manner subject to any confirmation or consent required by law. The Company may issue shares which are to be redeemed or are liable to be redeemed at the option of the Company or the shareholders. Subject to the provisions of the Act and the rights of holders of any class of shares, the Company may purchase its own shares, including redeemable shares and the board may determine the terms, conditions and manner of such redemption.

4.3 Voting

Subject to any special terms as to voting upon which any shares for the time being may be held, on a show of hands every member who is present in person (which, in the case of a corporation, shall be deemed to be the case if a duly appointed representative is present in person) or by proxy shall have one vote, and on a poll every member present in person or by proxy, shall have one vote for every share in the capital of the Company held by him.

A proxy need not be a member of the Company. The appointment of a proxy shall (unless the board otherwise decides where it wishes to permit the delivery of proxies by means of electronic communication) be in writing under the hand of the appointor or of his attorney authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign it.

At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is duly demanded before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll. Subject to the provisions of the Act, a poll may be demanded by: (i) the chairman of the meeting; or (ii) at least five members present in person or by proxy and entitled to vote; or (iii) any member or members present in person or by proxy and representing, in aggregate, not less than one-tenth of the total voting rights of all members having the right to attend and vote at the meeting (excluding any voting rights attached to any shares in the Company held as treasury shares); or (iv) any member or members present in person or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums, in aggregate, equal to not less than one-tenth of the total sum paid up on all shares conferring that right. In addition, the chairman may demand a poll before all, some or any of the resolutions are put to a vote on a show of hands.

A shareholder is also not entitled to attend or vote at meetings of the Company in respect of any shares held by him in relation to which he or any other person appearing to be interested in such shares has been duly served with a notice under section 793 of the Act and, having failed to comply with such notice within the period specified in such notice (being not less than 28 days from the date of service of such notice or 14 days where the shares represent at least 0.25 per cent. of their class), is served with a disenfranchisement notice. Such disenfranchisement will apply only for so long as the notice from the Company has not been complied with or until the Company has withdrawn the disenfranchisement notice, whichever is the earlier.

4.4 **General meetings**

The Company shall in each year hold a general meeting as its annual general meeting in addition to any other meeting(s) in that year and such annual general meeting shall be held within six months of the Company's accounting year end. Subject to the provisions of the Act, the annual general meeting shall be held at such time and place as the directors may determine.

The board may convene a general meeting in accordance with the Act whenever it thinks fit. A general meeting shall also be convened on such requisition, or in default may be convened by such requisitionists, as provided by sections 303 to 305 of the Act.

Subject to the provisions of the Act, an annual general meeting shall be called by not less than 21 clear days' notice, and all other general meetings shall be called by not less than 14 clear days' notice.

The notice shall specify the place, date and time of meeting, and, in the case of special business, the general nature of that business. Every notice shall contain a reasonably prominent statement that a member entitled to attend and vote is entitled to appoint one or more proxies to attend, speak and vote instead of him and that a proxy need not be a member of the Company. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution (as the case may be).

Shorter notice than that specified above may be deemed to have been given in the case of an annual general meeting by all the members entitled to attend and vote at the meeting; and in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right.

The accidental omission to give notice of a meeting or send any other notice or circular relating to it or (in cases where proxies are sent out with the notice) the accidental omission to send such proxy to, or the non-receipt of notice of a meeting or other notice or circular relating to it or such proxy by, any person entitled to receive such notice shall not invalidate the proceedings at that meeting.

At any general meeting the chairman may make any arrangement and impose any requirement or restriction which he considers appropriate to ensure the security and orderly conduct of a general meeting including, without limitation, requirements for evidence of identity to be produced by those attending the meeting, the searching of their personal property and the restriction of items that may

be taken into the meeting place. The chairman is entitled to refuse entry to a person who refuses to comply with these arrangements, requirements or restrictions.

4.5 **Dividends**

Subject to the provisions of the Act, the Company may by ordinary resolution from time to time declare dividends to be paid to the members according to their rights and interests in the profits available for distribution, but no dividend shall be declared in excess of the amount recommended by the Board and no dividend shall be paid otherwise than out of profits available for the purpose in accordance with the provisions of the Act.

The directors may from time to time pay such interim dividends as appear to the directors to be justified by the profits of the Company and are permitted by the Act.

Unless and to the extent that the rights attached to any shares or the terms of issue of any shares otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid on the shares during any portion or portions of the period in respect of which the dividend is paid. No amount paid on a share in advance of calls shall be treated as paid on the share.

The payment by the board of any unclaimed dividend or other moneys payable on or in respect of a share into a separate account shall not constitute the Company a trustee in respect of it and any dividend unclaimed after a period of 12 years from the date such dividend is payable shall be forfeited and shall revert to the Company.

Where, in respect of any shares, any registered holder or any other person appearing to be interested or have been interested in the shares of the Company fails to comply with any notice given by the Company under Article 27.2, then, provided that the shares concerned represent at least 0.25 per cent. in number of the issued shares in the capital of the Company, the Company may withhold dividends or other moneys payable on such shares.

4.6 **Variation of rights**

Subject to the provisions of the Act, all or any of the rights for the time being attached to any class of shares for the time being issued may (whether or not the Company is being wound up) be varied or abrogated with the consent in writing of the holders of not less than three-quarters in nominal value of the issued shares of that class (excluding any shares held as treasury shares) or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of the class. To any such separate general meeting all the provisions of the Articles as to general meetings of the Company shall apply (with such changes as are necessary or appropriate in the circumstances), but so that the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of the class (excluding any shares of that class held as treasury shares), that every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, that any holder of shares of the class present in person or by proxy may demand a poll and that at any adjourned meeting of such holders one holder present in person or by proxy (whatever the number of shares held by him) shall be a quorum and, for the purposes of the relevant Article, one holder present in person or by proxy may constitute a meeting.

The rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the Articles or in the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* with them.

4.7 **Transferability**

Subject to such of the restrictions of the Articles as may be applicable, any member may transfer all or any of his certificated shares by an instrument of transfer in the usual or common form or in any other form which the board may approve. Title to any uncertificated shares shall, unless the CREST Regulations otherwise provide, be effected by means of a relevant system.

The instrument of transfer of a certificated share shall be signed by or on behalf of the transferor and (in the case of a partly paid share) the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of the share. All instruments of transfer, when registered, may be retained by the Company.

The board may, in its absolute discretion and without assigning any reason, decline to register any transfer of any certificated share that is not a fully paid up share (save where to do so would disturb the market in the shares of that class on the London Stock Exchange) or of a share on which the Company has a lien. The Company may refuse to register a transfer of an uncertificated share to the extent it is permitted to do so by the CREST Regulations (save where to do so would disturb the market in the shares of that class on the London Stock Exchange).

No transfer of any share shall be made to a minor, bankrupt or person who is mentally disordered or a patient for any purpose of any statute relating to mental health.

The board may also decline to register any transfer of a certificated share (save where to do so would disturb the market in the shares of that class on the London Stock Exchange) unless:

- (a) the instrument of transfer, duly stamped, is lodged with the Company accompanied by the certificate for the shares to which it relates, and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of share; and
- (c) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four.

In the case of transfer of shares in certificated form by a financial institution, the lodgement of share certificates will only be necessary if and to the extent that certificates have been issued in respect of the shares in question.

If the board declines to register a transfer it shall send to the transferee notice of the refusal, together with the reasons for the refusal, as soon as practicable and in any event within two months of the date on which:

- (a) the letter of allotment or instrument of transfer was lodged with the Company (in the case of shares in certificated form); or
- (b) the instrument attributable to the Operator (as defined in the CREST Regulations) was received by the Company (in the case of shares held in uncertificated form).

No fee shall be charged by the Company for registering any transfer, probate, letters of administration, certificate of death or marriage, power of attorney, stop notice, order of court or other instrument or any instruction given pursuant to the CREST Regulations relating to or affecting the title to any share or otherwise making any entry in the register of members relating to any share.

Where, in respect of any shares, any registered holder or any person appearing to be interested or have been interested in such shares fails to comply with any notice given by the Company under Article 27.2, then, provided that the shares concerned represent at least 0.25 per cent. in number of the issued shares in the capital of the Company, the Company may prohibit transfers of such shares or agreements to transfer any of such shares (save in certain circumstance).

4.8 **Directors of the Company**

- (a) Number of directors and shareholding qualification.
- (b) Unless and until otherwise determined by ordinary resolution of the Company, the directors (disregarding alternate directors) shall be not less than two and not more than eight in number.
- (c) No shareholding qualifications for directors shall be required. A director who is not a member shall nevertheless be entitled to attend and speak at general meetings.

(d) *Appointment and removal of directors*

Subject to the provisions of the Articles, the Company may by ordinary resolution appoint any person to be a director, either to fill a casual vacancy or as an addition to the existing board, but so that the total number of directors shall not at any time exceed any maximum number fixed by or in accordance with the Articles.

Without prejudice to the power of the Company by ordinary resolution in pursuance of any of the provisions of the Articles to appoint any person to be a director, the board shall have power at any time and from time to time to appoint any person to be a director, either to fill a casual vacancy or as an addition to the existing board, but so that the total number of directors shall not at any time exceed any maximum number fixed by or in accordance with the Articles. Any director so appointed by the board shall hold office only until the next following annual general meeting and shall then be eligible for reappointment but shall not be taken into account in determining the directors or the number of directors who are to retire by rotation at such meeting.

The Company may by special resolution, or by ordinary resolution of which special notice has been given in accordance with the provisions of the Act, remove any director before the expiration of his period of office and may (subject to the provisions of the Articles) by ordinary resolution appoint another person in his place. Any person so appointed shall be subject to retirement at the same time as if he had become a director on the day on which the director in whose place he is appointed was last appointed as director. In default of such appointment the vacancy arising upon the removal of a director from office may be filled as a casual vacancy.

Subject to the provisions of the Articles, at every annual general meeting one-third of the directors for the time being or, if their number is not a multiple of three, then the number nearest to but not less than one-third shall retire from office.

(e) *Remuneration of directors*

The remuneration, by way of fees, of the directors, for their services as officers of the Company (excluding amounts payable under any other provision of these Articles) shall be determined by the board but shall not exceed in aggregate the sum of £200,000 per year per director (which figure shall be subject to upward only adjustment in line with any percentage increase in the retail prices index (as defined in section 989 of the Income Tax Act 2007)) or such greater sums as the Company may from time to time determine by ordinary resolution.

Each director may be paid or reimbursed in respect of his reasonable travelling, hotel and incidental expenses of attending and returning from meetings of the board or committees of the board or general meetings or separate meetings of the holders of any class of shares or of debentures of the Company and shall be paid all expenses properly and reasonably incurred by him in the conduct of or in connection with any activities undertaken in or about the Company's business or in the discharge of his duties as a director or in connection with the attendance of any spouse or civil partner of his on any occasion where such spouse or civil partner accompanies a director for the purpose of advancing the business or interests of the Company. Any director who, by request, goes or resides abroad for any purposes of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) or may receive such other benefits as the board or any committee authorised by the board may determine and such extra remuneration or benefits shall be in addition to any remuneration or benefits provided for by or pursuant to any other Article.

(f) *Directors' interests*

A director may hold any other office or place of profit with the Company (except that of auditor) in conjunction with his office of director or act by himself or his firm in a professional capacity (except that of auditor) for such period, subject to the provisions of the Act, and upon such terms as the board may determine, and may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine,

and such extra remuneration shall be in addition to any remuneration provided for by or pursuant to any other provision of the Articles.

A director may be or become a director or other officer of or otherwise interested in, any company promoted by the Company or in which the Company may be interested or as regards which it has any power of appointment. He shall not be liable to account to the Company or the members for any remuneration, profit or other benefit received by him as a director or officer of or from his interest in such other company and no such transaction will be liable to be avoided.

A director shall not vote or be counted in the quorum on any resolution of the board concerning his own appointment as the holder of any office or place of profit with the Company or any other company in which the Company is interested (including the arrangement or variation of the terms of such appointment, or its termination).

A director who is in any way, directly or indirectly, interested in a proposed transaction or arrangement with the Company, or in a transaction or arrangement that has been entered into by the Company, must declare the nature and extent of his interest to the directors. The declaration must be made at a meeting of the board, or by written notice, or by general notice, in accordance with the Act. In the case of a proposed transaction or arrangement, the declaration must be made before the Company enters into the proposed transaction or arrangement. In the case of an existing transaction or arrangement, the declaration must be made as soon as reasonably practicable.

A director who has, or can have, an interest, direct or indirect, that conflicts, or possibly may conflict, with the interests of the Company (including, without limitation, in relation to the exploitation of any property, information or opportunity, whether or not the Company could take advantage of it, but excluding any situation which cannot reasonably be regarded as likely to give rise to a conflict of interest), must declare the nature and extent of his interest to the board as soon as reasonably practicable. The board may resolve to authorise the potential conflict situation on such terms as it may determine. A director shall not be liable to account to the Company for any profit, remuneration or other benefit resulting from such conflict situation.

Save as otherwise provided by the Articles, a director shall not vote (nor be counted in the quorum) on any resolution of the board in respect of any contract, arrangement or other proposal in which he (together with any person connected with him) has to his knowledge a material interest and, if he shall do so, his vote shall not be counted but subject to the provisions of the Act and in the absence of some other material interest, this prohibition shall not apply to, amongst others, any of the following matters:

- (i) any transaction for giving to such director any guarantee, security or indemnity in respect of money lent by him or obligations undertaken by him at the request or for the benefit of the Company or any of its subsidiaries;
- (ii) any transaction for the giving by the Company or any of its subsidiaries of any guarantee, security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries in respect of which such director has himself given an indemnity or which he has guaranteed or secured in whole or in part; and
- (iii) any transaction concerning any other company (not being a company in which such director and persons connected with him to his knowledge own one per cent. or more) in which he is interested, directly or indirectly, whether as an officer, shareholder, creditor or otherwise.

(g) *Powers and duties of the board*

The business of the Company shall be managed by the board, which may exercise all such powers of the Company as are not by the Act or by the Articles required to be exercised by the Company in general meeting, subject to the provisions of the Act and the Articles and to any directions given by the Company in general meeting by special resolution.

The board may establish local or divisional boards or agencies for managing any of the affairs of the Company, either in the United Kingdom or elsewhere, and may appoint any persons to be members of such local or divisional boards, or any managers or agents, and may fix their remuneration. The board may delegate to them any of the powers, authorities and discretions vested in or exercisable by the board, and may also give power to sub-delegate, and may authorise the members of any such local or divisional board or any of them to fill any vacancies on the Board (and to act notwithstanding vacancies) and to fix their own remuneration.

(h) *Borrowing powers*

Subject as provided in the Articles and to the provisions of the Act, the board may exercise all the powers of the Company to borrow money and to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of the Company and (subject to the Act) to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

The board shall restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiary undertakings (if any) so as to secure (but as regards subsidiary undertakings only in so far as by the exercise of such rights or powers of control as the board can secure) that the aggregate principal amount from time to time outstanding of all borrowings by the Group (exclusive of borrowings owing by one member of the Group to another member of the Group other than amounts to be taken into account pursuant to the Articles) shall not, without the previous sanction of an ordinary resolution of the Company, at any time exceed an amount equal to two and one half times the aggregate of the amount paid up or credited as paid up on the issued share capital of the Company and the amount standing to credit of the reserves but after making certain adjustments as set out in Article 42.

(i) *Indemnity*

Subject to the provisions of the Act, every director and every director of each of the associated companies of the Company shall be entitled to be indemnified by the Company in relation to those duties including any liability incurred by him in defending any proceedings, civil or criminal, which relate to an officer or employee of the Company or in which he is acquitted or in connection with any application under any statute for relief from liability in respect of any such act or omission in which relief is granted by the Court.

4.9 **Distribution of assets on liquidation**

The board shall have power in the name and on behalf of the Company to present a petition to the Court for the Company to be wound up.

If the Company shall be wound up, the liquidator may, with the authority of a special resolution of the Company or any other sanction required by the Act or the Insolvency Act 1986, divide amongst the members in specie or in kind the whole or any part of the assets of the Company as he sees fit, those assets to be set at such values as he deems fair. The liquidator may also vest the whole or part of the assets of the Company in trustees on trust for the benefit of the members.

4.10 **Uncertificated shares**

The board may determine that any class of shares may be held in uncertificated form and that title to such shares may be transferred by means of a relevant system or that shares of any class should cease to be held and transferred as aforesaid. The Company shall not issue certificates in respect of uncertificated shares.

4.11 **Pensions and gratuities**

Subject to the Act, the board on behalf of the Company or any committee authorised by the board may exercise all powers of the Company to grant or pay pensions, annuities, gratuities and superannuation or other allowances or benefits to any persons who are or have at any time been

directors of the Company or the relations, connections or dependants of any director or former director and, for the purpose of providing any such benefit or allowance, shall have power to contribute to any scheme or fund or to pay premia in respect of such scheme or fund.

4.12 **Untraced shareholders**

Subject to various notice requirements, the Company may sell any of a shareholder's shares in the Company if, during a period of 12 years, at least three dividends on such shares have become payable and no dividend has been claimed during that period in respect of such shares and the Company has received no communication from such shareholder.

If any securities of the Company are traded on the London Stock Exchange or dealt in on AIM, the Company must first give notice in writing to the Quotations Department of the London Stock Exchange of its intention to sell such shares.

The net proceeds of sale shall belong to the Company and, upon their receipt, the Company shall become indebted to the former owner of, or person entitled by transmission to, the shares for an amount equal to the net proceeds. Such debt shall be a permanent debt of the Company, shall not accrue any interest and the Company shall be deemed to be a debtor and not a trustee in respect of that amount for such member. The net proceeds of sale may either be employed in the business of the Company or invested in such investments (other than shares of the Company or its holding company, if any) as the directors may from time to time think fit and the Company shall not be required to account to the former member to such shares for interest or other moneys earned from such proceeds.

4.13 **Purchase of own shares**

Subject to the provisions of the Act and the Articles and to any confirmation or consent required by law, the Company may from time to time purchase its own shares (including any redeemable shares) provided that if there are in issue any convertible shares of the Company then no purchase by the Company of any of its own shares shall take place unless it has been sanctioned by a special resolution passed at a separate class meeting of the holders of each class of convertible shares.

4.14 **General**

Save as disclosed in this paragraph 4, the Articles do not:

- (a) require any action that is necessary to change the rights of holders of shares in the Company where the conditions are more significant than is required by law;
- (b) contain any provision that would have the effect of delaying, deferring or preventing a change of control of the Company;
- (c) contain any provision governing the ownership threshold above which shareholder ownership must be disclosed; and
- (d) impose any condition governing changes in the capital that is more stringent than is required by law.

5. INCENTIVE PLANS

5.1 Share incentives

The Company has resolved to adopt the New EMI Plans with effect from Admission. The Company intends to grant EMI options under the Employee EMI Plan at the time of Admission. No immediate option grants are proposed under the Director EMI Plan.

(a) *Employee EMI Plan*

The Board will assume responsibility for the operation of the Employee EMI Plan. The Board may grant share options over Shares (each an “Award”) to eligible employees under the Employee EMI Plan.

Grants under the Employee EMI Plan may be subject to Company performance conditions, which must have been met at the time of grant in order for the Company to make grants in any particular year. Performance conditions may also apply to the exercise of options the subject of an Award, although the Board intends only to apply such exercise conditions in exceptional circumstances.

Subject to continued employment, Awards will normally be deemed to have been exercised at the end of the relevant vesting period. For Awards granted on Admission, the vesting period will be three years. For all other Awards granted, the vesting period will be two years.

It is intended Awards under the Employee EMI Plan will be satisfied by the issue of new Shares with the exercise price determined by the Board, currently expected to be the nominal value of a Share.

Eligibility

The Board will have the discretion to select participants in the Employee EMI Plan from eligible employees of the Group.

Eligible employees will generally have been employed by the Group for a period of more than three years at the time of Award (or any shorter period, at the discretion of the Board). However, final discretion over participation in any year will rest with the Board.

Timing of Awards

It is intended that initial Awards will be granted to eight key employees at the time of Admission over Shares with a value of £32,500, based on the Placing Price. An additional pool of Shares with a value of £17,500, based on the Placing Price, will remain available for grant to any new key recruits made by the Group over a 12 month period following Admission, at the discretion of the Board.

It is intended any future Awards will generally be made within the 42 day period following the announcement of the Company’s annual trading results, provided the fully diluted Earnings Per Share (“EPS”) of the Company has increased by a minimum of 12 per cent. over the 12 month period prior to that announcement. This period may be extended for initial Awards to run from the date of Admission to the date of announcement of the maiden annual trading results.

The Board will retain the discretion to grant Awards outside of the 42 day period in such circumstances as they determine, subject to the AIM Rules for Companies.

Limit on the grant of Awards

An Award may not be made under the Employee EMI Plan if the result of making the Award would be that the aggregate number of Shares issued or committed to be issued under Awards under the Employee EMI Plan, the Director EMI Plan or under options or awards made in the preceding 10 year period post-Admission under any other share incentive schemes adopted by the Group would exceed 10 per cent. of the Company’s issued ordinary share capital at that time.

Exercise of Awards

The Board may determine the basis on which Awards may become exercisable.

With the exception of the initial Awards on Admission, Awards will generally become exercisable on the second anniversary of the date of grant but may be exercisable earlier in the event of a change of control of the Company, or at the discretion of the Board, for example in relation to persons who cease to be employed by the Group. It is intended Awards granted on Admission will become exercisable on the third anniversary of the date of grant.

Awards will be deemed automatically exercised at the end of the normal vesting period, provided the Company is able to fund the associated cash bonus without breaching the rules on financial assistance contained in the Act. Any awards not deemed automatically exercised will lapse.

Currently, no performance conditions are expected to apply to the exercise of Awards under the Employee EMI Plan, although the rules of the plan do give the Board the discretion to attach performance conditions, should it determine to do so.

Regulatory and tax issues on vesting

The Award holders are liable to pay all income tax and employee national insurance that would arise on the exercise of any Awards, excluding any employer's national insurance contribution.

The Company intends to grant a cash bonus to option holders which will vest at the time of exercise of their Awards, and be paid in the month of exercise (provided the Company is permitted to make such payment without breaching the rules on financial assistance contained in the Act), 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 Award shall not be exercised unless the issue of Shares on such exercise is lawful and in compliance with the AIM Rules, the Company's share dealing code and all other relevant regulations and enactments, including the Act.

Leavers

An Award shall generally cease to be capable of exercise immediately on cessation of employment for any reason.

The Board can, at its discretion, establish a different basis to that described above for determining the period over which an Award remains capable of exercise and the number of Awards which are capable of exercise following cessation of employment for any reason.

Corporate events

In the event of certain change of control events (including any scheme of arrangement under the Act) or any person becoming bound or entitled to acquire Shares by exercising rights of compulsory acquisition under sections 974 to 991 of the Act, the Award holder shall be entitled to exercise his Award in full within specified time periods following the change of control or at any time while that person remains so bound or entitled and upon the date upon which such person ceases to be so bound or entitled all the options, if unexercised, shall cease to be exercisable and shall lapse.

In addition, in the event of a resolution being passed for the winding up of the Company, the Award holder shall be entitled at any time prior to the commencement of, and conditional upon such winding up, to exercise his Award in full.

Adjustments of Awards

If there is a variation of the share capital of the Company (including a capitalisation, rights issue, open offer, consolidation, sub-division or reduction of capital), the Board may make such adjustments as it considers appropriate to the exercise price and/or number of shares in an Award.

Awards not pensionable

No Awards or benefits under the Employee EMI Plan are pensionable.

(b) *Director EMI Plan*

The Remuneration Committee will assume responsibility for the operation of the Director EMI Plan. The Remuneration Committee may grant share options over Shares (each an "Award") to eligible employees under the Director EMI Plan.

Awards under the Director EMI Plan may be subject to performance conditions, determined at the discretion of the Remuneration Committee.

Subject to continued employment, Awards will normally become exercisable for a period of 14 days at the end of the relevant vesting period, to the extent any performance conditions have been met. The vesting period will be two years from the date of Award.

It is intended Awards under the Director EMI Plan will be satisfied by the issue of new Shares, with the exercise price determined by the Remuneration Committee, currently expected to be the nominal value of a Share.

Eligibility

Executive directors of the Company will be eligible to participate in the Director EMI Plan, although actual participation in any year will be at the discretion of the Remuneration Committee.

An executive director who participates in the Director Cash Plan shall not be eligible to participate in the Director EMI Plan in the same financial year.

Timing of Awards

No Awards are intended to be made under the Director EMI Plan on Admission.

It is intended any future Awards will be made within the 42 day period following the announcement of the Company's annual trading results. The Remuneration Committee will retain the discretion to grant Awards outside that period in such circumstances as they determine, subject to the AIM Rules for Companies.

Limit on the grant of Awards

An Award may not be made under the Director EMI Plan if the result of making the Award would be that the aggregate number of Shares issued or committed to be issued under Awards under the Director EMI Plan, Employee EMI Plan or under options or awards made in the preceding 10 year period post-Admission under any other share incentive schemes adopted by the Group would exceed 10 per cent. of the Company's issued ordinary share capital at that time.

Exercise of Awards

The Remuneration Committee may determine the basis on which Awards may become exercisable. The Remuneration Committee can choose to apply performance conditions to the exercise of Awards if it determines such conditions are appropriate.

Awards will generally become exercisable on the second anniversary of the date of grant, to the extent any performance conditions have been met, but may be exercisable earlier in the event of a change of control of the Company, or at the discretion of the Remuneration Committee, for example in relation to persons who cease to be employed by the Group.

Awards will be exercisable for a period of 14 days following the end of the vesting period.

Discretionary cash bonus

The Company also intends to grant a discretionary cash bonus to Award holders over 25 per cent. of their annual salary at the time of Award, deferred for a period of two years, subject to the achievement of any performance conditions, set at the discretion of the Remuneration Committee.

The cash bonus will lapse on cessation of employment for any reason unless the Remuneration Committee determines, in its discretion to allow leavers to retain their bonus entitlement.

Regulatory and tax issues on vesting

The Award holders are liable to pay all income tax and employee national insurance that would arise on the exercise of any Awards, excluding any employer's national insurance contributions.

An Award shall not be exercisable unless the issue of Shares on such exercise is lawful and in compliance with the AIM Rules, the Company's share dealing code and all other relevant regulations and enactments, including the Act.

Leavers

An Award shall generally cease to be capable of exercise immediately on cessation of employment for any reason.

The Remuneration Committee can, at its discretion, establish a different basis to that described above for determining the period over which an Award remains capable of exercise and the number of Awards which are capable of exercise following cessation of employment for any reason.

Corporate events

In the event of certain change of control events (including any scheme of arrangement under the Act) or any person becoming bound or entitled to acquire Shares by exercising rights of compulsory acquisition under sections 974 to 991 of the Act, the Award holder shall be entitled to exercise his Award in full within specific time periods following the change of control or at any time while that person remains so bound or entitled and upon the date upon which such person ceases to be so bound or entitled all the options if unexercised shall cease to be exercisable and shall lapse.

In addition, in the event of a resolution being passed for the winding up of the Company, the Award holder shall be entitled at any time prior to the commencement of, and conditional upon such winding up, to exercise his Award in full.

Adjustments of Awards

If there is a variation of the share capital of the Company (including a capitalisation, rights issue, open offer, consolidation, subdivision or reduction of capital), the Remuneration Committee may make such adjustments as it considers appropriate to the exercise price and/or number of shares in an Award.

Awards not pensionable

No Awards or benefits under the Director EMI Plan are pensionable.

5.2 **Cash incentives**

The Company has resolved to adopt the Director Cash Plan with effect from Admission. No immediate award grants are proposed under this plan.

The Remuneration Committee will assume responsibility for the operation of the Director Cash Plan. The Remuneration Committee may grant cash bonus awards (each a "Cash Award") to eligible employees under the Director Cash Plan.

Cash Awards under the Director Cash Plan may be subject to performance conditions, determined at the discretion of the Remuneration Committee.

Subject to continued employment, Cash Awards will normally vest at the end of the relevant vesting period, to the extent any performance conditions have been met. The vesting period will be two years from the date of award.

It is intended Cash Awards under the Director Cash Plan will be satisfied by the payment of a cash bonus as soon as practicable following vesting. PAYE and NIC will be withheld from this cash payment through payroll withholding at the time payment is made.

The cash bonus payable will be determined using a formula based on the market value of a Share on the vesting date. However, participants in the Director Cash Plan will have no entitlement to receive any Shares at any time under this plan.

Eligibility

Executive directors of the Company will be eligible to participate in the Director Cash Plan, although actual participation in any year will be at the discretion of the Remuneration Committee.

An executive director who participates in the Director EMI Plan shall not be eligible to participate in the Director Cash Plan in the same financial year.

Timing of Cash Awards

No Cash Awards are intended to be made under the Director Cash Plan on Admission.

It is intended any future Cash Awards will be made within the 42 day period following the announcement of the Company's annual trading results. The Remuneration Committee will retain the discretion to grant Cash Awards outside that period in such circumstances as they determine.

Vesting of Awards

The Remuneration Committee may determine the basis on which Cash Awards may vest. The Remuneration Committee can choose to apply performance conditions to the vesting of Cash Awards if it determines such conditions are appropriate.

Cash Awards will generally vest on the second anniversary of the date of grant, to the extent any performance conditions have been met, but may vest earlier in the event of a change of control of the Company, or at the discretion of the Remuneration Committee, for example in relation to persons who cease to be employed by the Group.

Regulatory and tax issues on vesting

The Cash Award holders are liable to pay all income tax and employee national insurance that would arise on the vesting of any Cash Awards, excluding any employer's national insurance contributions.

Leavers

A Cash Award shall generally cease to be capable of vesting immediately on cessation of employment for any reason.

The Remuneration Committee can, at its discretion, establish a different basis to that described above for determining the period over which a Cash Award remains capable of vesting and the number of Cash Awards which are capable of vesting following cessation of employment for any reason.

Corporate events

In the event of certain change of control events (including any scheme of arrangement under the Act) or any person becoming bound or entitled to acquire Shares by exercising rights of compulsory acquisition under sections 974 to 991 of the Act, the Cash Award shall vest in full within specific time periods following the change of control or at any time while that person remains so bound or entitled and upon the date upon which such person ceases to be so bound or entitled all the options if unvested shall lapse.

In addition, in the event of a resolution being passed for the winding up of the Company, the Cash Award shall vest immediately prior to the commencement of, and conditional upon such winding up.

Cash Awards not pensionable

No Cash Awards or benefits under the Director Cash Plan are pensionable.

6. ADDITIONAL INFORMATION ON THE DIRECTORS

6.1 In addition to a directorship in the Company, the current directorships of the Directors and partnerships in which any of them is currently a partner, and directorships held by them and partnerships in which any Director has been a partner during the five years preceding the date of this document are, as at the date of this document, as follows:

<i>Name</i>	<i>Current directorships/partnerships</i>	<i>Past directorships/partnerships</i>
Ken Ford	Tamago Global Limited Darwin Strategic Limited De Monchy Trading Limited De Monchy Aromatics Limited Scientific Digital Imaging PLC Nakama Group PLC Principal Residential Properties Limited Lewis Communications Limited Lewis Communications (Holdings) Limited Brainjuicer Limited Flying Kiwi Inns Limited Brainjuicer Group plc Flying Kiwi (Holdings) Limited Mintonview Limited Hybridan LLP	FTG Finance Services Limited Astro Lighting Limited Atlantic Coal PLC 7 Safe Limited
Andrew Wass	Cagney Limited Gear4music Limited	Gear for Video Limited Object Photography Limited
Christopher Scott	Gear4music Limited	OC Realisations 2011 Limited
Gareth Bevan	Gear4music Limited	–
Dean Murray	AC Realisations Limited Bhid Group Limited Fly Receivables Limited (in liquidation) French Connection Group plc M.S Team Limited Sabotage Limited (in liquidation) Yumi International Limited	AC Realisations (2007) Limited Flyers Group plc Neville Johnson Limited Neville Johnson Holdings Limited Neville Johnson Group Limited Neville Johnson Offices Limited Sabotage EBT Limited
Peter Armitage	Key Capital Partners LLP Key Capital Partners (Investments) LLP Key Capital Partners (carried interest) LLP Key Capital Partners (carried interest) VIII LLP Key Capital Partners (Investments) VIII LLP Key Capital Partners (Nominees) Limited WHP (Holdings) Limited Adventoris Limited	Neville Johnson Holdings Limited JDP Building & Maintenance Services Limited TSC Foods Group Limited TSC Foods EBT Limited

- 6.2 Save as disclosed in paragraphs 6.3, 6.4 and 6.5 below, as at the date of this document, no Director:
- (a) has any previous names;
 - (b) has any unspent convictions in relation to indictable offences;
 - (c) has been declared bankrupt or has entered into any individual voluntary arrangements;
 - (d) has been a director of any company at the time of, or within the 12 month period immediately preceding, any receivership, compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with such company's creditors generally or any class of creditors of such company;
 - (e) has been a partner of any partnership at the time of, or within the 12 month period immediately preceding, any compulsory liquidation, administration or partnership voluntary arrangement of such partnership;
 - (f) has been the owner of any asset or a partner in any partnership which has been placed in receivership whilst he was a partner in that partnership, or within the 12 month period immediately preceding such events which have been the subject of a receivership;
 - (g) has been publicly criticised by statutory or regulatory authorities (including recognised professional bodies); or
 - (h) has been disqualified by a court from acting as a director of any company or from acting in the management or conduct of the affairs of any company.

6.3 Ken Ford was a partner of Teather & Greenwood Limited Partnership ("Teather & Greenwood LP"). By Board Notice 431 dated 16 July 1997, the Securities and Futures Authority ("SFA") gave notice that disciplinary proceedings brought against Teather & Greenwood Limited Partnership and Mr Ford relating to breaches of the Securities and Investment Board Principles 2 and 9 had been concluded by settlement with the following outcome:

- (a) Teather & Greenwood LP was reprimanded, fined £50,000 and agreed to pay a contribution of £10,000 towards the SFA's costs; and
- (b) Mr Ford was reprimanded, fined £8,000 and agreed to pay a contribution of £2,000 towards the SFA's costs.

The SFA took into account that Teather & Greenwood LP had previously conducted a full internal review of its compliance procedures and had implemented a remedial action plan. The SFA also took into account that neither Teather & Greenwood LP nor Mr Ford had previously been the subject of disciplinary action, both cooperated with the SFA and no clients had been disadvantaged. Mr Ford was also reprimanded by the Securities Institute as a result.

6.4 Dean Anthony Murray is a director of Fly Receivables Limited and Sabotage Limited, both of which are in liquidation.

Fly Receivables Limited entered administration on 2 February 2012 and subsequently entered liquidation on 25 January 2013. It is estimated that the unsecured claims are in the sum of £4.7 million. Reports filed at Companies House as at 24 January 2014 indicate that the liquidators have recovered approximately £88,000.

Sabotage Limited entered administration on 2 February 2012 and subsequently entered liquidation on 25 January 2013. It is estimated that the unsecured claims are in the sum of £157,000. Reports filed at Companies House as at 24 January 2014 indicate that the liquidators have recovered approximately £900.

6.5 Chris Scott was a director of OC Realisations 2011 Limited (previously the Officers Club 1979 Limited). The business and certain assets of that company were sold in a trade sale to an independent competitor, Blue Inc. shortly after OC Realisations 2011 Limited entered administration on 29 March 2011. It is estimated that OC Realisations 2011 Limited has unsecured claims in the sum of approximately £4,148,000. Reports filed at Companies House as at 7 March 2014 state that the only assets transferred from the administration are in the sum of approximately £1,569,000.

7. INTERESTS IN THE SHARES

7.1 Directors

- (a) The interests of the Directors and persons connected with them (as defined in section 252 of the Act) in the issued share capital of the Company (all of which, unless otherwise stated, are beneficial) were as at the date of this document and are expected to be, immediately following Admission, as follows:

<i>Name</i>	<i>As at the date of this document</i>		<i>Immediately following Admission</i>	
	<i>Number of shares</i>	<i>% of share capital</i>	<i>Number of Shares</i>	<i>% of Enlarged Share Capital</i>
Ken Ford	–	–	35,971	0.18%
Andrew Wass ⁽¹⁾	8,437,500 B Ordinary Shares	66.67	8,286,593	41.11%
Christopher Scott	–	–	120,462	0.6%
Gareth Bevan	–	–	120,462	0.6%
Dean Murray	324,520 C Ordinary Shares	2.56	324,520	1.61%
Peter Armitage ⁽²⁾	–	–	–	–

(1) Pursuant to the investment agreement relating to the Company dated 19 March 2012 (as amended), 64,920 C Ordinary Shares will be issued fully paid to Andrew Wass immediately prior to Admission. Further details are set out in paragraph 2.8 above.

(2) Peter Armitage is a member of certain partnerships and a director of certain companies affiliated with KCP.

- (b) As at the date of this document, the following options were held over the Shares pursuant to the Old Share Option Scheme by the Directors.

<i>Name</i>	<i>Number of C Ordinary Shares under option</i>	<i>Exercise price</i>
Christopher Scott	129,800	£0.10
Gareth Bevan	129,800	£0.10

No options will be in existence or held by the Directors immediately following Admission. It is intended that following Admission options will be granted under the Director EMI Scheme as referred to in paragraph 5 above.

- (c) Save as disclosed in this paragraph 7, none of the Directors or any connected person (within the meaning of section 252 of the Act) of a Director has any interest, whether beneficial or non-beneficial, in the share capital of the Company or any of its subsidiaries.

7.2 Major Shareholders

Other than the interests of the Directors disclosed in paragraph 7.1 above and save as set out below, the Company is not aware of any person who, directly or indirectly, was, as at the date of this document, or will be, immediately following Admission, interested in 3 per cent. or more of the issued share capital or the voting rights attaching to the issued share capital of the Company.

<i>Name of Shareholder</i>	<i>As at the date of this document</i>		<i>Immediately following Admission</i>	
	<i>Number of shares</i>	<i>% of share capital</i>	<i>Number of Shares</i>	<i>% of Enlarged Share Capital</i>
Key Capital Partners (Nominees) Limited	3,894,230	30.77	4,829,482 ⁽¹⁾	23.96
Octopus Investment Limited	–	–	1,028,058	5.10
Artemis Investment Management Limited	–	–	935,252	4.64
Seneca Partners Limited	–	–	928,058	4.60

⁽¹⁾ The number of Shares held by KCP immediately following Admission includes 935,252 Placing Shares subscribed pursuant to the Placing.

7.3 As from Admission there will be no differences between the voting rights enjoyed by the Shareholders detailed in paragraph 7.2 above and those enjoyed by any other holder of the Shares.

7.4 Save as disclosed in this paragraph 7, the Company is not aware of:

- (a) any persons who control, as at the date of this document, or who will control, on Admission, directly or indirectly, the Company; nor
- (b) of any arrangements, the operation of which may at a subsequent date result in a change of control of the Company,

in each case where “control” means owning 30 per cent. or more of the share capital or the voting rights attaching to the share capital of the Company.

7.5 None of the Directors nor any member of their immediate families (being their spouse, civil partner and minor children) has any interest in any financial product (including, without limitation, a contract for difference or a fixed odds bet) whose value in whole or in part is determined, directly or indirectly, by reference to the Shares.

8. SERVICE AGREEMENTS AND REMUNERATION OF THE DIRECTORS

8.1 Executive Directors

Each Executive Director entered into a service agreement with the Company on the dates shown below, and their current annual salaries (which are subject to an annual review) are as follows:

<i>Name</i>	<i>Employer</i>	<i>Date of service agreement</i>	<i>Current salary (£ per year)</i>
Andrew Wass	Gear4music	19 March 2012	128,134
Christopher Scott	Gear4music	8 January 2013	97,957
Gareth Bevan	Gear4music	8 January 2013	76,417

Each Executive Director has entered into a new service agreement with the Company, conditional on Admission, the principal terms of which are set out below.

- (a) Andrew Wass

Mr Wass’s period of continuous employment with the Group began on 2 April 2001. Mr Wass’s employment will continue unless either the Company or Mr Wass terminates the agreement by giving not less than 12 months’ prior written notice.

Upon notice being received, the service agreement provides the Company with the right to place Mr Wass on garden leave and/or to pay him in lieu of notice. The agreement sets out a non-exhaustive list of examples for which the Company may summarily dismiss Mr Wass (for example, if he is convicted of a criminal offence, fraud or dishonesty, he becomes bankrupt, or if he becomes of unsound mind). Mr Wass’s proposed annual salary is £150,000. He is also entitled to the following benefits: 25 days’ of holiday per year, plus bank holidays; a contribution

of six per cent. of his salary from the Company to his personal pension arrangement; a car allowance of £22,000 per year; private medical insurance; and 20 weeks' sick pay at full pay and benefits. In addition, a bonus payment may be made to Mr Wass at the Company's discretion.

There are a number of post-termination restrictive covenants in place for a period of 12 months following the termination of Mr Wass's employment.

(b) Christopher Scott

Mr Scott's period of continuous employment with the Group began on 15 October 2012. Mr Scott's service agreement is near-identical in form to Mr Wass's, save for his salary is £135,000, his notice period is six months' and he is not entitled to a pension contribution, a car allowance or private medical insurance.

(c) Gareth Bevan

Mr Bevan's period of continuous employment with the Group began on 2 July 2012. Mr Bevan's service agreement is near-identical in form to Mr Scott's, save for his salary is £100,000.

8.2 Non-Executive Directors

Each Non-Executive Director has entered into a non-executive appointment letter with the Company conditional on Admission in respect of the provision to the Company of their services as follows:

<i>Name</i>	<i>Date of letter of appointment</i>	<i>Proposed committee memberships</i>	<i>Proposed fees (£ per year)</i>
Ken Ford	28 May 2015	Audit Committee and Remuneration Committee	£32,500
Dean Murray	28 May 2015	Audit Committee and Remuneration Committee	£30,000
Peter Armitage	28 May 2015	–	£30,000

8.3 Ken Ford has been appointed, conditional upon Admission, as a Non-Executive Director and Chairman of the Company. Each conditional letter of appointment is in a similar format. Each of the Non-Executive Directors' appointments is terminable by either party giving to the other one month's prior written notice. The Company may terminate the appointments immediately if, among other things, the relevant director: (i) commits a material breach of his obligations under the letter, (ii) has a bankruptcy order made against him or compounds with or enters into any arrangements with his creditors, (iii) is disqualified from holding office as a director or (iv) becomes unable to perform his duties to the reasonable satisfaction of the Board.

8.4 Save as disclosed in paragraphs 8.1, 8.2 and 8.3 above, there are no service contracts, existing or proposed, between any Director and the Company or any of the Company's subsidiaries providing for benefits upon termination of employment.

8.5 Each Director, other than Ken Ford and Peter Armitage, was in office for the whole of the last completed financial year of the Company.

9. UK TAXATION

The following paragraphs, which are intended as a general guide based on current legislation and HMRC practice as at the date of this document, summarise advice received by the Directors about the UK tax position of Shareholders who are resident or ordinarily resident in the United Kingdom for tax purposes and who beneficially hold their shares as investments (otherwise than under an individual savings account ('ISA')). Any Shareholder who is in doubt as to his or its tax position, or who is subject to tax in a jurisdiction other than the United Kingdom, is strongly recommended to consult his or its professional advisers.

The information in this document is based upon current tax law and practice and other legislation and any changes in the legislation or in the levels and bases of, and reliefs from, taxation may affect the value of an investment in the Company.

9.1 **EIS and VCT**

HMRC has provided clearance that the Company qualifies as a qualifying company for the purposes of EIS and VCT provisions. Should the law regarding EIS or VCT change then any reliefs or qualifying status previously obtained may be lost.

If the Group ceases to carry on the business outlined in this document or acquires or commences a business which is not insubstantial to the Group's activities and which is a non-qualifying trade for EIS and VCT relief during the three year period from the last allotment of Shares, this could prejudice the qualifying status of the Company (as referred to above) under the EIS and VCT scheme. This situation will be closely monitored with a view to preserving the Company's qualifying status but this cannot be guaranteed. Circumstances may arise where the Directors believe that the interests of the Company are not best served by acting in a way that preserves the EIS relief (including Capital Gains Tax) or VCT qualifying status. In such circumstances, the Company cannot undertake to conduct its activities in a way designed to secure or preserve any such relief or status claimed by any Shareholder.

If the Company does not employ all of the proceeds of an EIS/VCT share issue for qualifying trading purposes within 24 months of the date of issue of the shares, the EIS Shares would cease to be eligible shares and all of the EIS tax reliefs of investors would be withdrawn. In respect of Share subscriptions made by a VCT, the funds invested by the VCT would be apportioned pro rata and its qualifying holding would be equal to the VCT's funds that had been employed for qualifying trading purposes within the above time limits. Any remaining element of the VCT's investment would comprise part of its non-qualifying holding.

The Budget 2015 announced a number of changes to the qualifying conditions required to be met in order that companies are qualifying companies for the purposes of the EIS and VCT regimes, some of which, if operative prior to the subscription for Shares, may preclude the Company from being a qualifying company for EIS and VCT purposes. However, these changes were not included in the Finance Act 2015 and instead may be included in a future Finance Bill. It is therefore unlikely that this legislation would be enacted prior to Admission. In guidance issued by HMRC on 24 March 2015, it was highlighted that it is possible that the EU Commission could require recovery of EIS/VCT tax reliefs given in particular circumstances where investments exceed EU specified limits.

9.2 **Taxation of dividends**

Under current UK taxation legislation, no tax is withheld at source from dividend payments made by the Company. An individual Shareholder who is resident (for tax purposes) in the United Kingdom and who receives a dividend paid by the Company will currently be entitled to receive a tax credit equal to 1/9th of the cash dividend. The individual will be taxable upon the total of the dividend and the related tax credit (the "gross dividend") which will be regarded as the top slice of the individual's income. An individual Shareholder who is not liable to income tax at a rate greater than the basic rate (currently 20 per cent.) will pay tax on the gross dividend at the dividend ordinary rate, currently 10 per cent. Accordingly, the tax credit will be treated as satisfying the individual's liability to income tax in respect of the dividend and there will be no further tax to pay. To the extent that the gross dividend (taken together with other taxable income) exceeds the individual's threshold for the higher or additional rate of income tax the individual will, to that extent, pay tax on the gross dividend at the dividend higher or additional rate (currently 32.5 per cent. and 37.5 per cent. respectively). Accordingly, a Shareholder who is a higher or additional rate tax payer will have further income tax to pay at the rate of 22.5 per cent. or 27.5 per cent. on the gross dividend (equivalent to 25 per cent. or 30.6 per cent. respectively of the dividend received). Tax credits are generally no longer repayable to Shareholders with no income tax liability or whose liability to income tax does not exceed the amount of tax credit.

9.3 **Non-UK resident Shareholders**

Shareholders who are resident in countries other than the UK may be entitled to repayment of all or a proportion of the tax credit in respect of dividends paid to them. This will depend upon the provisions of the double tax treaty (if any) between the country in which the Shareholder is resident and the United Kingdom.

Shareholders not resident in the UK should consult their own tax adviser on the application of such provisions and the procedure for claiming relief.

9.4 **Taxation on capital gains for Shareholders**

If a Shareholder who is resident in the UK for tax purposes disposes of all or any of his or its Shares, he or it may, depending on the Shareholder's particular circumstances, incur a liability to taxation on chargeable gains.

9.5 **Stamp duty and stamp duty reserve tax ("SDRT")**

The statements below are intended as a general guide to the current position. They do not apply to certain intermediaries who are not liable to stamp duty or SDRT, or to persons connected with depositary arrangements or clearance services, who may be liable at a higher rate.

The allotment and issue of the Subscription Shares will not give rise to a liability to stamp duty or SDRT.

As from 28 April 2014, transfers of shares in AIM quoted companies are no longer subject to stamp duty or SDRT. For this to apply to transfers of shares, AIM must continue to be recognised by HMRC as a recognised growth market and the shares must not be listed on any other market.

10. **MATERIAL CONTRACTS**

Save as set out below, no member of the Group has entered into any contract (not being a contract entered into in the ordinary course of business) (i) within the two years immediately preceding the date of this document which is or may be material or (ii) at any other time and which contains any provision under which any member of the Group has any obligation or entitlement which is material to the Group as at the date of this document.

10.1 **Nominated adviser and broker agreement**

- (a) On 28 May 2015, a nominated adviser and broker agreement was entered into between the Company and Panmure Gordon under which the Company appointed Panmure Gordon to act as the Company's nominated adviser and broker for the purposes of the AIM Rules (the "Nomad Agreement").
- (b) The Nomad Agreement is conditional only upon Admission becoming effective by not later than 8.00 a.m. on 3 June 2015 or such other time and/or date as the Company and Panmure Gordon may agree, not being later than 8.00 a.m. on 3 July 2015.
- (c) The Nomad Agreement provides for the Company to pay an annual fee to Panmure Gordon of £50,000 and can be terminated by either party on not less than three months' notice, such notice not to be given within 12 months of Admission. The Nomad Agreement also contains warranties and an indemnity from the Company in favour of Panmure Gordon, such warranties and indemnity are in a form which is customary for an agreement of this kind.

10.2 **Placing Agreement**

- (a) On 28 May 2015, the Placing Agreement was entered into between the Company, the Directors, the Sellers and Panmure Gordon under which Panmure Gordon agreed, on and subject to the terms and conditions of that agreement, as agent for the Company to use its reasonable endeavours to procure subscribers for the Subscription Shares and as agent for

the Sellers to use its reasonable endeavours to procure purchasers for the Sale Shares, in each case at the Placing Price.

- (b) The obligations of Panmure Gordon under the Placing Agreement are, other than relating to the placing of EIS Shares, conditional, amongst other things, upon Admission becoming effective not later than 8.00 a.m. on 3 June 2015 (or such other time and/or date as the Company and Panmure Gordon may agree, not being later than 8.00 a.m. on 3 July 2015).
- (c) Panmure Gordon is entitled to terminate the Placing Agreement in certain circumstances prior to Admission, including in the event of a material breach of either the Placing Agreement or any of the warranties contained in it and in certain *force majeure* circumstances.
- (d) The Company has agreed to pay Panmure Gordon a commission of 3.75 per cent. of the aggregate value at the Placing Price of certain of the Subscription Shares and a corporate finance fee of £250,000 (excluding VAT). The Sellers have agreed severally to pay Panmure Gordon a commission of 3.75 per cent. of the aggregate value at the Placing Price of the Sale Shares. The Company will meet all costs, fees and expenses of the application for Admission and the legal and other professional fees and expenses of Panmure Gordon.
- (e) The Placing Agreement contains warranties given to Panmure Gordon by the Company and the Directors as to the accuracy of the information contained in this document and other matters relating to the Group and its business. The Placing Agreement also contains a general indemnity from the Company in favour of Panmure Gordon. Such warranties and indemnity are in a form which is customary for an agreement of this kind.

10.3 Lock-in Agreement

- (a) On 28 May 2015, the Lock-in Agreement was entered into between the Company, the Locked-in Shareholders and Panmure Gordon, under which the Locked-in Shareholders severally agreed, conditional upon Admission occurring not later than 8.00 a.m. on 3 June 2015 (or such other date as the Company and Panmure Gordon may agree, not being later than 8.00 a.m. on 3 July 2015), not to dispose (save in certain specific circumstances) of any interest in Shares for a period, in the case of Key Capital Partners, of 12 months following Admission and, in the case of any other Locked-in Shareholder (save in certain specific circumstances), from the date of Admission up to and including the date one calendar month after the date of publication of the Company's consolidated audited accounts for the financial year ending 29 February 2016.
- (b) In addition, the Locked-in Shareholders have also agreed for a further period of 12 months (save in certain specific circumstances) only to dispose of an interest in Shares through the Company's broker at the relevant time.

10.4 Relationship Agreement

- (a) On 28 May 2015, the Relationship Agreement was entered into between the Company, Andrew Wass and Panmure Gordon. The Relationship Agreement is conditional upon Admission occurring not later than 8.00 a.m. on 3 June 2015 (or such other date as the Company and Panmure Gordon may agree, not being later than 8.00 a.m. on 3 July 2015). Under the Relationship Agreement Andrew Wass has, *inter alia*, agreed:
 - (i) to ensure that all transactions between him (and certain of his related persons) and the Group are conducted at arm's length and on normal commercial terms;
 - (ii) not to take any action that would have the effect of preventing the Company from complying with its obligations under the AIM Rules for Companies;
 - (iii) not to propose a shareholder resolution of the Company which is intended to circumvent the proper application of the AIM Rules for Companies; and
 - (iv) not to exercise any voting rights attaching to the Shares in his control or any other rights and powers of control by virtue of his holding of Shares to procure any amendment to the Company's articles of association which would be inconsistent with or undermine

or breach any provision of the Relationship Agreement to the detriment of the Company or any member of its Group.

- (b) The Relationship Agreement shall continue in force until such time as (i) Andrew Wass ceases to hold or control directly or indirectly shares that carry at least 25 per cent. in aggregate of the voting rights attaching to shares of the Company, (ii) any other shareholder directly or indirectly has control over 25 per cent. or more of the voting rights attaching to shares of the Company and does not enter into an agreement with the Company on the same or substantially equivalent terms and conditions as contained in the Relationship Agreement or (iii) the share capital of the Company ceases to be admitted to trading on AIM or the main market for listed securities of the London Stock Exchange.

10.5 Warrant Instrument

- (a) On 28 May 2015, the Warrant Instrument was entered into between the Company and Panmure Gordon. The Warrant Instrument is conditional upon Admission occurring not later than 8.00 a.m. on 3 June 2015 (or such other date as the Company and Panmure Gordon may agree, not being later than 8.00 a.m. on 3 July 2015),
- (b) Under the Warrant Instrument, the Company agrees to issue warrants to Panmure Gordon over 100,782 Shares, being equivalent to 0.5 per cent. of the Enlarged Share Capital. The warrants are exercisable in whole or in part at any time from the date one calendar month after the date of publication of the Company's consolidated audited accounts for the financial year ending 29 February 2016 (save in certain limited circumstances but in any event the period shall not commence less than 12 months from the date of Admission) up to the fifth anniversary of Admission at an exercise price equal to the Placing Price. The warrants are not transferable, save in certain limited circumstances.

11. INFORMATION ON THE SELLERS

The following persons are the Sellers:

<i>Name</i>	<i>Business address</i>	<i>Number of Sale Shares</i>	<i>Position/office/material interest in last three years with the Company or any of its predecessors or affiliates</i>
Andrew Wass	Kettlestring Lane Clifton Moor York YO30 4XF	215,827	Chief Executive Officer
Christopher Scott	Kettlestring Lane Clifton Moor York YO30 4XF	9,338	Chief Financial Officer
Gareth Bevan	Kettlestring Lane Clifton Moor York YO30 4XF	9,338	Chief Commercial Officer

12. WORKING CAPITAL

In the opinion of the Directors, having made due and careful inquiry and after taking into account the net proceeds of the Placing receivable by the Company, the Company and the Group has sufficient working capital for its present requirements that is for at least the 12 months from Admission.

13. LEGAL AND ARBITRATION PROCEEDINGS

No member of the Group is, nor has been, involved in the previous 12 months in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) which may have, or have had in the recent past (being in the previous 12 months), a significant effect on the Company's and/or Group's financial position or profitability.

14. SIGNIFICANT CHANGE

Save as disclosed in this document, there has been no significant change in the financial or trading position of the Group since 28 February 2015, being the date up to which the Company's latest audited accounts were prepared.

15. TRANSACTIONS WITH RELATED PARTIES

- 15.1 Details of related party transactions entered into by members of the Group during the period covered by the financial information set out in Part III of this document are set out in note 22 to that information. In respect of the period from 28 February 2015 to the date of this document, 10 per cent. interest continued to accrue on the Loan Notes, totalling £92,151. KCP also charged Gear4music £8,925 in respect of ongoing investment monitoring and management charges during that period.
- 15.2 Save as referred to above, there were no material related party transactions that were entered into by members of the Group during the period covered by the financial information in Part III of this document or during the period from 28 February 2015 to the date of this document.

16. CONSENTS

- 16.1 KPMG LLP, which is a member firm of the Institute of Chartered Accountants in England and Wales, has given and has not withdrawn its written consent to the inclusion in this document of its report set out in Part III of this document and the references to its name in the form and context in which they appear and has authorised the contents of such Part of this document.
- 16.2 Panmure Gordon (UK) Limited, which is authorised and regulated by the Prudential Regulation Authority and the FCA, has given and has not withdrawn its written consent to the inclusion in this document of the references to its name in the form and context in which they appear.

17. FINANCIAL INFORMATION

The Company's auditor is KPMG LLP, whose registered office is 15 Canada Square, London E14 5GL. KPMG has audited, without qualification, the Group's consolidated accounts for the three year financial period ended 28 February 2015, in accordance with generally accepted auditing standards in the UK. KPMG LLP is a member firm of the Institute of Chartered Accountants in England and Wales.

18. EXPENSES AND NET PROCEEDS

- 18.1 The gross proceeds of the Placing receivable by the Company are expected to be approximately £10 million and receivable by the Sellers are expected to be approximately £0.3 million.
- 18.2 Total expenses of, or incidental to, the Placing and Admission which are payable by the Company (including placing commissions of approximately £550,000 payable by the Company to Panmure Gordon) are estimated to amount to approximately £1 million (excluding value added tax) and such expenses payable by the Sellers are estimated to amount to approximately £12,000 (excluding value added tax).
- 18.3 On the basis of the information set out in paragraphs 18.1 and 18.2 above, the net proceeds of the Placing receivable by the Company are expected to be approximately £9 million and receivable by the Sellers are expected to be approximately £0.3 million.

19. TAKEOVER BIDS

19.1 Mandatory bids

The Takeover Code applies to the Company. Under the Takeover Code, if an acquisition of interests in Shares were to increase the aggregate holding of an acquirer and persons acting in concert with it to an interest in Shares carrying 30 per cent. or more of the voting rights in the Company, the acquirer and, depending upon the circumstances, persons acting in concert with it, would be required (except with the consent of the Panel) to make a cash offer for the outstanding Shares. A similar obligation to make such a mandatory offer would also arise on the acquisition of an interest in Shares

by a person holding (together with persons acting in concert with it) an interest in Shares carrying between 30 and 50 per cent. of the voting rights in the Company if the effect of such acquisition were to increase that person's percentage of the voting rights.

19.2 Squeeze-out

Under the Act, if a "takeover offer" (as defined in section 974 of the Act) is made for Shares and the offeror were to acquire, or unconditionally contract to acquire, not less than 90 per cent. in value of the shares to which the offer relates (the "Offer Shares") and not less than 90 per cent. of the voting rights attached to the Offer Shares, within three months of the last day on which its offer can be accepted, it could acquire compulsorily the remaining 10 per cent. It would do so by sending a notice to outstanding Shareholders telling them that it will acquire compulsorily their Offer Shares and then, six weeks later, it could execute a transfer of the outstanding Offer Shares in its favour and pay the consideration to the Company, which would hold the consideration on trust for outstanding Shareholders. The consideration offered to the Shareholders whose Offer Shares are acquired compulsorily under the Act must, in general, be the same as the consideration that was available under the takeover offer.

19.3 Sell-out

The Act also gives minority Shareholders a right to be bought out in certain circumstances by an offeror who has made a takeover offer. If a takeover offer related to all the Shares and at any time before the end of the period within which the offer could be accepted the offeror held or had agreed to acquire not less than 90 per cent. of the Shares to which the offer relates, any holder of Shares to which the offer related who had not accepted the offer could by a written communication to the offeror require it to acquire those Shares. The offeror is required to give any Shareholder notice of his right to be bought out within one month of that right arising. The offeror may impose a time limit on the rights of the minority Shareholders to be bought out, but that period cannot end less than three months after the end of the acceptance period. If a Shareholder exercises his or her rights, the offeror is bound to acquire those Shares on the terms of the offer or on such other terms as may be agreed.

19.4 General

No person has made a public takeover bid for the Company's issued share capital since the date of its incorporation.

20. MISCELLANEOUS

20.1 No person (excluding professional advisers otherwise disclosed in this document and persons who are trade suppliers) has received, directly or indirectly, from the Company within the 12 months immediately preceding the date on which application for admission to trading on AIM was made or entered into contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from the Company on or after Admission any of the following:

- (a) fees totalling £10,000 or more;
- (b) securities in the Company with a value of £10,000 or more calculated by reference to the Placing Price; or
- (c) any other benefit with a value of £10,000 or more at the date of Admission.

20.2 Application for trading of the Shares is not being and is not currently intended to be sought on any other stock exchange other than AIM.

20.3 The shares in the capital of the Company in issue at the date of this document are, and the Placing Shares in issue immediately following Admission will be, in registered form. Temporary documents of title will not be issued under the Placing. It is expected that share certificates will be despatched to those persons requesting delivery of their Placing Shares in certificated form, at the risk of the persons entitled to them, by 10 June 2015. Where holders of Placing Shares request that Placing Shares be delivered to them in uncertificated form, it is expected that such Placing Shares will be credited to their CREST accounts on no later than 3 June 2015.

20.4 The Placing Shares will be issued at 139 pence per Share. This represents a premium of 129 pence per share to the nominal, or “par”, value of £0.10 for each Share.

21. AVAILABILITY OF THIS DOCUMENT

Copies of this document are available free of charge from the Company’s registered office and at the offices of Panmure Gordon at One New Change, London EC4M 9AF during normal business hours on any weekday (Saturdays, Sundays and English public holidays excepted) from the date of this document until one month after Admission.

28 May 2015

