Gear4music

Gear4music (Holdings) plc
Annual report and accounts 2020

INSPIRING PERFORMANCE

REVENUE* £m

£120.3m

+2%

2020	120.3
2019	118.2
2018	80.1

GROSS MARGIN %

25.9%

+310bps

2020	25.9
2019	22.8
2018	25.4

EBITDA** £m

£7.8m

+239%

2020	7.8
2019	2.3
2018	3.5

CASH AT YEAR END £m

£7.8m

+47%

2020	7.8
2019	5.3
2018	3.5

WEBSITE VISITORS m

28.4

+5%

2020	28.4
2019	27.1
2018	16.9

CONVERSION RATE %

3.29%

-11bps

2020	3.29
2019	3.40
2018	3.25

The Group delivered on its 2020 priority of returning to profit, reflecting significant commercial and operational progress:

- Gross margins improved by 310bps by focusing investment into higher margin stock, strengthened own-brand product ranges, and redirected marketing investment into higher margin products.
- Operational investment ensured a robust infrastructure was in place ahead of the peak trading period, with capacity headroom available for further strong growth.
- Over £7.5m cash at the year end will support a refocus on growth orientated projects and delivering further commercial improvements during the next financial year.

Unless stated, 2019 comparative information is on a 13 months basis following a change in the accounting reference date to 31 March, and as such may not be directly comparable.

* 2020 revenue is the 12m period to 31 March 2020; 2019 comparative revenue in the 12m period to 28 February 2019 was £109.9m as previously disclosed.

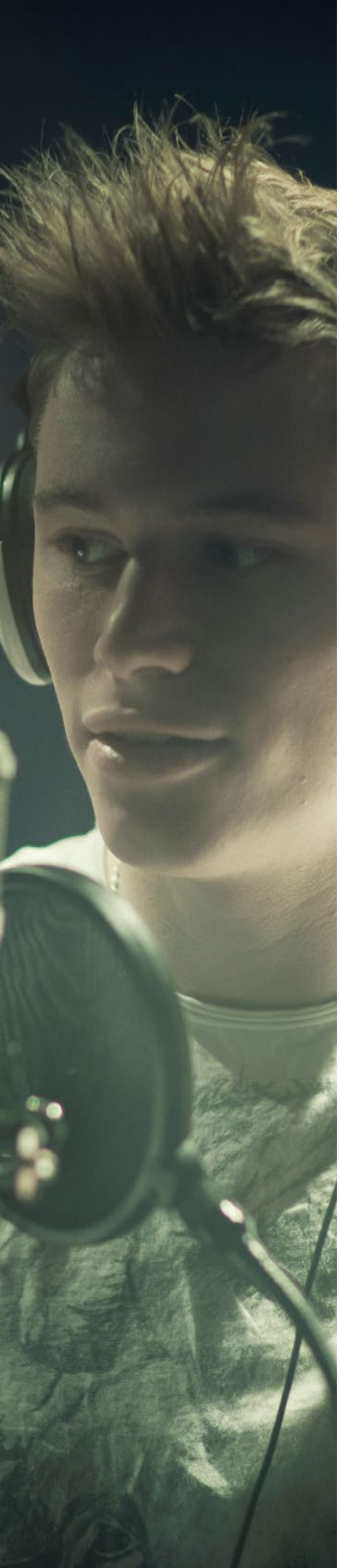
** 2020 profit figures stated on an IFRS 16 basis, includes £1.4m of property rents no longer included in operating costs.

Strategic Report

Corporate Governance

Financial Statements

FOR MORE ABOUT GEAR4MUSIC GO TO:
WWW.GEAR4MUSICPLC.COM



OUR PURPOSE

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

WHO WE ARE

Operating in a £4.9bn European market, Gear4music is the UK's largest retailer of musical instruments and music equipment, having grown revenues from £24m in 2015 to £120m in 2020.

OUR PRODUCT RANGE IS HITTING ALL THE RIGHT NOTES

OUR NUMBERS

NUMBER OF ACTIVE CUSTOMERS

807,000

+11%

SKUs LISTED

54,200

+5%

NUMBER OF WEBSITES

20

NUMBER OF LANGUAGES

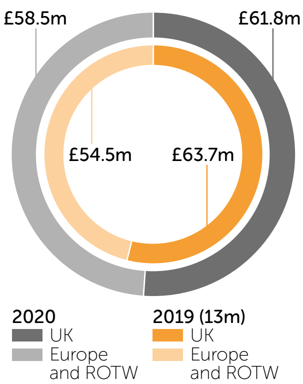
15

NUMBER OF CURRENCIES

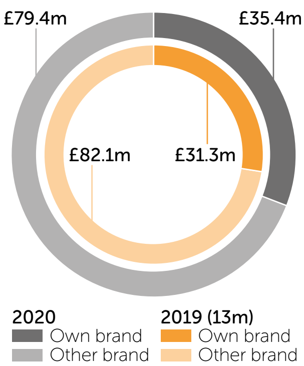
9

Gear4music is an e-commerce retailer selling over 54,200 SKUs across all major categories of musical instruments and music equipment. Products are sourced from over 880 manufacturers, and range from kazoos costing less than £1, to digital pianos, drum kits and guitars costing thousands of pounds.

REVENUE BY GEOGRAPHY



PRODUCT SPLIT



OUR PRODUCT RANGE

GUITARS
Electric, acoustic and bass guitars, and related accessories

27%
of product sales

KEYS
Acoustic and digital pianos, keyboards and synthesisers

22%
of product sales

LIVE AND PA
PA equipment, speakers, stands and microphones

19%
of product sales

STUDIO
Mixers, headphones, microphones, monitors and interfaces

13%
of product sales

DRUMS
Electric and acoustic, and other percussion instruments

11%
of product sales

ORCHESTRAL
Strings, brass, woodwind and accessories

7%
of product sales

LEADING BRANDS

OTHER BRANDS

YAMAHA, Roland, Fender, CASIO, SENNHEISER, MACKIE, SHURE, Marshall, Focusrite, Gibson, KORG, MAPEX, behringer, NI

OWN BRANDS

Gear4music, SubZero, RED SUB, playLITE, Archer, WHD, Rosedale, Hartwood, CG

A BUSINESS FOR MUSICIANS RUN BY MUSICIANS

"The business has bounced back strongly from what was a challenging year in FY19. The Directors have delivered on the strategies they outlined to improve gross margins, manage costs, and increase operational capacity.

KEN FORD
CHAIRMAN

I am delighted to report that the business has bounced back strongly from what was a challenging year in FY19. The Directors have delivered on the strategies they outlined to improve gross margins, manage costs, and increase operational capacity ahead of the FY20 peak period, and the results reported today bear testament to success on each front.

As a leading specialist e-commerce retailer operating in a fragmented niche market, Gear4music has a track record of delivering revenue growth, and the opportunities undoubtedly remain significant. The focus, however, in FY20 was on improving gross margin, profits and restoring stakeholder confidence, and this has been achieved with a £5.5m increase in EBITDA to £7.8m and a £3.7m increase in pre-tax profits. Alongside its increased cash position at the period end, the Group's banking facilities have been renegotiated, providing a significant increase in working capital headroom to support further growth of the business.

Gear4music listed on AIM in 2015 with annual revenues of £24m and today, five years later, report revenues in excess of £120m. This has been achieved through a strategy founded on best-in-class customer service, e-commerce excellence, international expansion, and supply chain evolution.

These results reflect significant effort on the part of the Executive and Senior Management team, and would not be possible without the hard work, passion and dedication of all our colleagues across the business.

COVID-19

Since the outbreak of COVID-19, our priority has been to safeguard the health and safety of all employees. We took all the necessary and reasonable precautions to keep our staff safe, which included facilitating remote working and implementing extensive measures in our warehouses to enable social distancing, whilst ensuring our operations could continue with minimal impact.

I am pleased to report there has been very little disruption to order processing and fulfilment throughout the lockdown period, and the exceptionally high customer demand has been managed effectively.

I would like to thank all employees for swiftly adapting to this different working environment, which has allowed us to continue processing orders and successfully serve our customers.

CORPORATE GOVERNANCE

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

In 2018 the Group adopted and embraced the 2018 QCA Corporate Governance Code, and in 2019 refined these themes in accordance with Section 172(1) of the Companies Act 2006. Enhanced disclosures are included in various sections of this year's Annual Report, and available on the Group's Plc website www.gear4musicplc.com/investors/overview/.

CURRENT TRADING AND OUTLOOK

The financial performance and trading momentum the business has achieved during the year is testament to our strategic delivery and the efforts of all our staff, and has ensured that the business is in a solid position to increase its market share further in the UK and across Europe.

COVID-19 has brought significant changes to the retail market for musical instruments and equipment, with an accelerated shift away from physical store sales towards online. As a result, Gear4music has seen an exceptional and sustained increase in demand for its products over the first quarter to date.

Looking ahead, the Directors are confident that our customer proposition, operational infrastructure and strong balance sheet will enable the Group to achieve its business objectives during the current financial year and beyond, and are excited to embark on the next leg of our growth journey.

KEN FORD
CHAIRMAN
22 June 2020

OUR VALUES, PEOPLE AND CULTURE

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

We strongly believe in growing our talent by recruiting only the best people, identifying individual strengths, and providing development opportunities with the scope for career progression as a result. Our diverse workforce is the best part of Gear4music: different cultures, knowledge and skills makes it a fantastic place to work, and many of our employees are musicians in their spare time.

SEE PEOPLE AND CULTURE ON PAGE **28**

"Gear4music has a track record of delivering growth, and the opportunities undoubtedly remain significant."

KEN FORD
CHAIRMAN

FIVE REASONS TO INVEST

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

KEY STRENGTHS	REASONS
1. TRACK RECORD OF SUCCESS — LONG-TERM REVENUE AND MARKET SHARE GROWTH SEE STRATEGY IN ACTION ON PAGE 20	• Revenues have increased every year since launch in 2003 • We are the UK's largest retailer of musical instruments and music equipment • Strong European growth validates website roll-out strategy • Email database of 0.65m registered users, with active customers increasing by 11% on a comparable 12-months to end of March basis
2. BESPOKE AND PROPRIETARY E-COMMERCE PLATFORM DELIVERS COMPETITIVE ADVANTAGE SEE STRATEGY IN ACTION ON PAGE 18	• End-to-end solution encompassing all aspects of trading operations • 44 in-house software developers providing cost-effective development • Currently supports 20 websites in 15 languages and 9 currencies • Ability to rapidly respond to changing customer behaviours and expectations • Capability to expand into new markets • Capacity to handle significantly increased volumes and website traffic • Additional functionality in continuous development
3. SPECIALIST KNOWLEDGE FACILITATES STRONG RELATIONSHIPS WITH CUSTOMERS AND SUPPLIERS	• Strong, committed and experienced management team • Employees with in-depth specialist knowledge • Expertise means Gear4music is trusted by major musical instrument and music equipment brands • Offers a wide range of choice to customers and provides specialist advice during and after the sales process
4. WELL-DEVELOPED PRODUCT RANGES	• Over 54,200 products from over 880 brands • Reputation for quality and value for money • Long-term relationships with the major branded musical instrument and music equipment manufacturers • A strong own-brand offering developed over 17 years, with a reputation for 'good' and 'better' quality products at affordable prices, whilst providing enhanced margin opportunities • Over 3,400 own-brand SKUs • Enhanced margin opportunities as volumes increase
5. EFFICIENT LOGISTICS SYSTEMS SEE STRATEGY IN ACTION ON PAGE 20	• Proven and scalable distribution capabilities • Operates from three modern facilities with a combined 284,000 square feet footprint • The most appropriate courier delivery services are automatically selected from more than 9,400 permutations depending on the weight, size, value and destination of the goods being purchased

SIGNIFICANT MARKET OPPORTUNITIES

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

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

OUR BUSINESS OVERVIEW

Gear4music is about making quality music gear more accessible and affordable for all musicians. Our mission is to be the best musical instrument and equipment retailer in Europe and we believe we can achieve this by leveraging technology to deliver an industry-leading customer experience, providing the products our customers want, delivered to them quickly and efficiently.

Our specialist market knowledge has already helped us to be the largest retailer in the UK, and we continue to make good progress in Europe. A bespoke e-commerce platform allows us to efficiently operate 20 websites, in 15 languages and 9 currencies, and as we develop this platform further, widen our product ranges and increase our marketing reach and brand recognition, we strongly believe we can continue to grow our share of the £4.9bn European market and expand our reach beyond this.

UK

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

EUROPEAN MARKETS WORTH

£4.9bn

UK MARKET WORTH

£0.9bn

TOP EUROPEAN MARKETS

Country	Estimated market size (£m)*
Germany	1,371
France	991
UK	860
Italy	664
Netherlands	232
Austria	208
Spain	191
Switzerland	163
Sweden	123
Norway	95
Total size	4,897

* Management estimate.

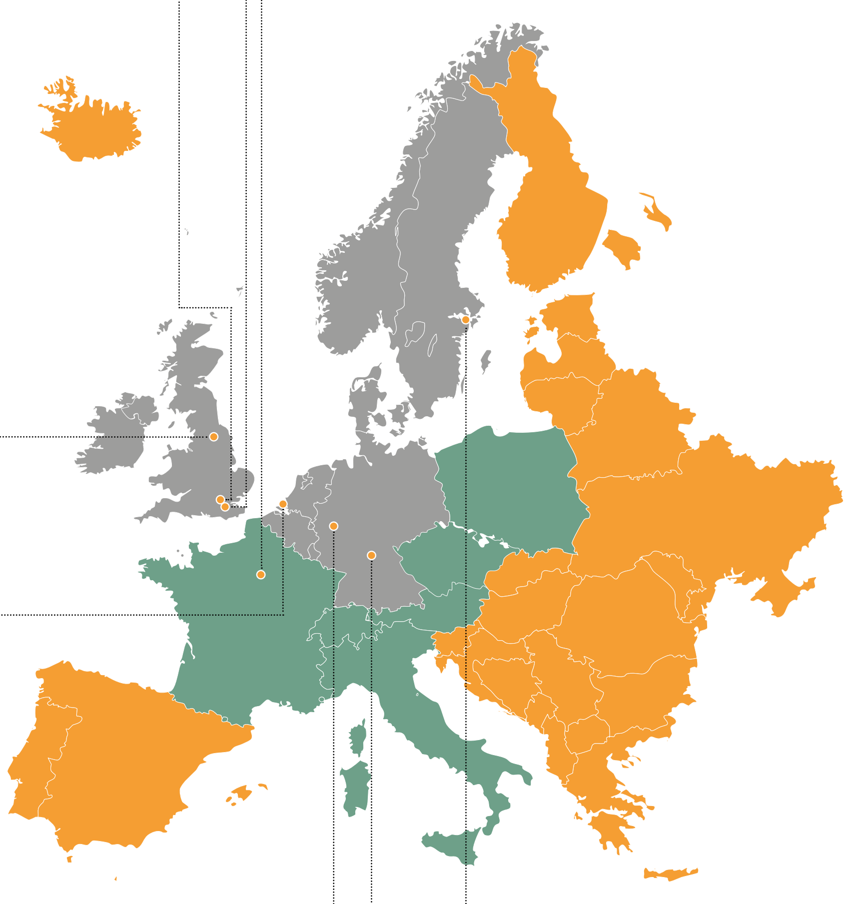
OPERATIONS | LOCATIONS (REVENUES)

Gear4music
York | UK
2020: £120m
2019: £110m
2018: £80m
+37%

S&T Audio (PMT)
London | UK
2019: £61m
2018: £49m
+22%

Andertons
Guildford | UK
2019: £47m
2018: £36m
+30%

Woodbrass
Paris | France
2019: £46m
2018: £45m
+1%



Luthman
Stockholm | Sweden
Ceased trading in October 2019
2018: £100m

Bax Shop
Goes | Netherlands
2019: £119m
2018: £110m
+8%

Musicstore
Cologne | Germany
2019: £127m
2018: £106m
+20%

Thomann
Burgebrach | Germany
2019: £868m
2018: £808m
+7%

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

Source: Music Trades

AN INSPIRING PERFORMANCE DURING FY20

"Our primary FY20 objectives were to restore gross margins and improve our operational strength, and with a 310bps gross margin improvement and a successfully executed peak trading period, we have achieved both of those objectives whilst continuing to grow the business.

ANDREW WASS
CHIEF EXECUTIVE OFFICER

BUSINESS REVIEW

Our primary FY20 objectives were to restore gross margins and improve our operational strength, and with a 310bps gross margin improvement and a successfully executed peak trading period, I am very pleased to report that we have achieved both of those objectives whilst continuing to grow the business.

Our FY21 objectives are to accelerate our market share growth, whilst continuing to improve profitability within a tightly controlled cost base. After a period of focusing our software development resources on upgrading backend systems and infrastructure during FY20, resources will be more focused on customer experience and growth orientated projects during FY21.

As a result of the actions we have taken, we have a significantly more robust commercial and operational foundation. We will continue to evolve and invest into our e-commerce platform, to ensure that alongside the significant commercial progress we are making, our industry-leading customer proposition is retained and refined to deliver long-term success.

OUR PEOPLE

We know that our success is predicated on the hard work and talent of our teams, but this has never been as important as now. Not only has every single member of our team had to adapt in their personal and work lives, but they have also delivered exceptionally high volumes and have maintained our high levels of service through these unprecedented times.

I would like to take this opportunity to thank our teams for their hard work and commitment.

MARGIN MOMENTUM

Improving margins has been critical in returning the business to profitability, and we have made significant progress as a result of the initiatives set out last year. We have focused on higher margin stock with more selective inventory investment, strengthened our own-brand product ranges to accelerate their growth relative to other brands, and redirected our marketing investment into higher margin products in order to increase their sales.

These measures have been supported by an ongoing review of our courier relationships to reduce delivery costs, and updating our returns policies to ensure they are competitive and commercially viable.

As these initiatives continue during FY21, we are confident that further margin improvements can be made over time, as we benefit from additional scale and increased financial resources.

FINANCIAL KPIs

	FY20	FY19 (13m)	Change
Revenue*	**£120.3m**	£118.2m	+2%
UK revenue*	**£61.8m**	£63.7m	-3%
International revenue*	**£58.5m**	£54.5m	+7%
Gross margin	**25.9%**	22.8%	+310bps
Gross profit	**£31.2m**	£26.9m	+16%
Total administrative expenses**	**£27.1m**	£26.9m	+1%
European administrative expenses**	**£2.5m**	£2.8m	-10%
EBITDA**	**£7.8m**	£2.3m	+239%
Cash at year end	**£7.8m**	£5.3m	+47%
Net debt	**£5.5m**	£7.5m	-27%

* See Note 2 of the financial statements

** FY20 figures are reported on an IFRS 16 basis; FY19 on an IAS 17 basis. FY19 EBITDA reported on an IFRS 16 basis is £3.7m.

COMMERCIAL KPIs

	FY20	FY19 (13m)	Change
Website visitors	**28.4m**	27.1m	+5%
Conversion rate	**3.29%**	3.40%	-11bps
Average order value	**£117**	£117	–
Active customers	**807,000**	727,000	+11%
Products listed	**54,200**	51,500	+5%

See page 23 for commercial KPI definitions.

OPERATIONAL STRENGTH

During the year we have built significantly more resilience into our distribution operations to cope with peak trading periods, alongside improvements in productivity and efficiency. We have strengthened our management teams, extended working hours, increased storage space, invested in new equipment, and developed upgraded software control systems.

We are confident that, with relatively modest further investment, the business will have sufficient capacity within its three distribution hubs to allow strong growth in the short and medium term.

DIGITAL STRATEGY

The ongoing development of our bespoke e-commerce platform has been the foundation of our success that has given us a sustained competitive advantage, and will continue to be a key part of our business strategy going forward.

During FY20 we made over 1,000 website and system deployments, including a new returns platform, enhanced product listing pages, and a wide range of operational system upgrades.

During FY21 we will deliver the next stages of our mobile website development and upgrade our customer communication and personalisation tools alongside further efficiency improvements.

Our longer-term digital strategy will include introducing a number of transformational ways customers will be able to buy products on Gear4music websites. This will start during FY21 with the launch of our solution to allow the sale and immediate download of digital products, such as music software and sample libraries.

Our FY21 objectives are to accelerate our market share growth, whilst continuing to improve profitability within a tightly controlled cost base.

ANDREW WASS
CHIEF EXECUTIVE OFFICER

GROSS PROFIT

£31.2m

+16%

EBITDA

£7.8m

+239%

BREXIT

With our European hubs and European buying operations now firmly established, we are well placed to navigate any further changes that are likely to become necessary following the completion of Brexit. However, subject to the outcome, revenue growth during any transition period may not be as strong. In the medium and longer term, we are confident that the Group will be well-positioned to capitalise on the opportunities presented in our European markets.

TRADING OUTLOOK

The COVID-19 lockdown has created an exceptional period of trading conditions for the Group. Our focus has been on protecting the health and safety of our employees, whilst ensuring customer service levels are maintained. Aside from the operational challenges which the business has navigated effectively, we have experienced exceptionally strong trading at the beginning of the current financial year.

With the shift from high street to online consumer shopping continuing to accelerate, we remain confident that our business is appropriately configured to achieve long-term profitable growth, and that we are in a strong position to build upon the excellent progress we have made during FY20.

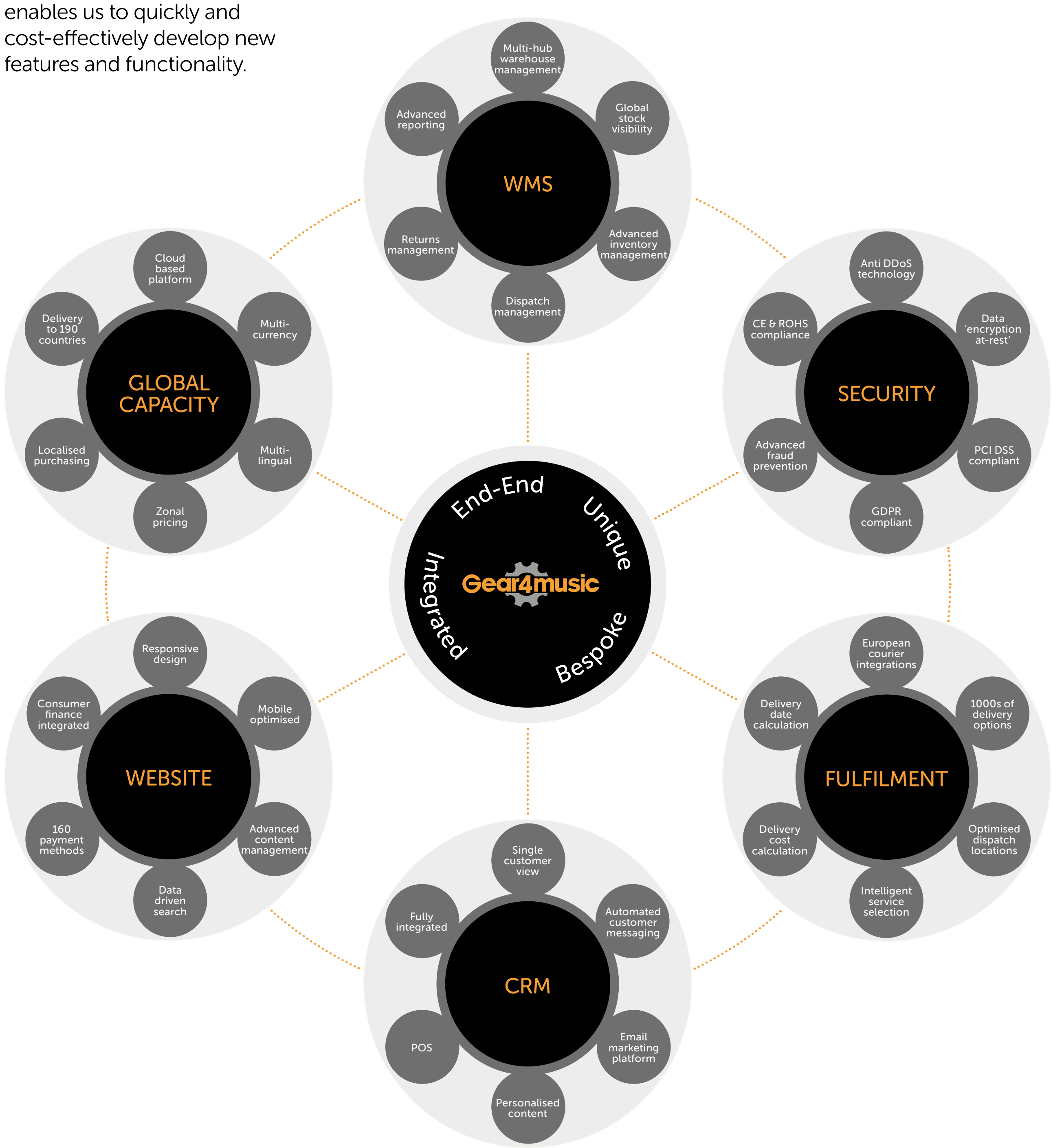
ANDREW WASS
CHIEF EXECUTIVE OFFICER
22 June 2020

> We remain confident that our business is appropriately configured to achieve long-term profitable growth, and that we are in a strong position to build upon the excellent progress we have made during FY20.

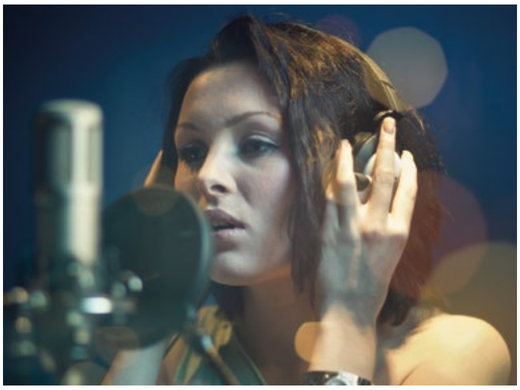
ANDREW WASS
CHIEF EXECUTIVE OFFICER

PLATFORM FEATURES

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



MORE ACCESSIBLE AND AFFORDABLE FOR ALL MUSICIANS



HOW WE WORK

WE BELIEVE A SUCCESSFUL...

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

STAFF

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

PRODUCTS

Our own-brand product ranges have taken over 17 years to develop, working with some of the best manufacturers from around the world to ensure we build on our reputation for great quality at affordable prices. In addition, we have built strong relationships with the industry's biggest brand names, including Yamaha, Roland, Fender and many more.

PREMISES

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

Our 50,000 square feet freehold Head office provides back-office facilities sufficient to support the business into the long term.

SYSTEMS

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

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

DELIVERY

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

OUR SERVICES

WE BELIEVE THAT ACHIEVING...

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

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

SPECIALIST STAFF

In FY20 we employed 466 people (FY19: 431) across three countries, and many have first-hand musical instrument and equipment knowledge, playing in bands and producing their own music. Ongoing product training is routinely undertaken to ensure staff have relevant and up-to-date knowledge to enable them to advise customers.

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

TOTAL NUMBER OF EMPLOYEES

466

ACROSS THREE COUNTRIES

OUR CUSTOMERS

CUSTOMER OVERVIEW

Gear4music's customer base is primarily made up of private individuals (over 97%), from beginners and parents buying musical instruments and music equipment for their children, through to professional musicians.

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

On 31 March 2020 we had 0.65m people registered to receive our email communications, down from 0.89m at 31 March 2019 as a result of GDPR adoption.

Active customers of 807,000 (being customers who have purchased from Gear4music during the previous 12 months), is up 11% on FY19 (727,000).

As the Group continues to increase its European business it acquired a further 704,000 new customers in the period (FY19: 674,000), and 170,000 customers came back to us to place at least one follow-up order (FY19: 155,000).

Average order value in FY20 was £117, in line with FY19, having been £127 in FY18.

AT 31 MARCH 2020 WE HAD

0.65m

PEOPLE SUBSCRIBED ON OUR EMAIL DATABASE

OUR PRODUCTS

PRODUCT RANGE

BRANDED PRODUCTS

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

OWN-BRAND PRODUCTS

Ongoing development of Gear4music's own-brand product range has been a focus since Gear4music.com was launched in 2003, and now covers a wide and varied range with over 3,400 products listed.

AT THE YEAR END WE LISTED OVER

54,200

PRODUCTS FROM OVER

880

MANUFACTURERS

OWN-BRAND PRODUCT RANGE

3,400

PRODUCTS LISTED

Gear4music's strategy is built around...

THREE PILLARS OF GROWTH

OUR STRATEGIC PRIORITIES

1. E-COMMERCE EXCELLENCE

EVOLVE

GROWTH STRATEGY

EVOLVE	Bespoke platform
IMPROVE	Efficiency and productivity
ACCELERATE	Digital marketing
ENHANCE	Customer experience

JONATHAN MEAGER
E-COMMERCE DIRECTOR

We will continue to develop our proprietary e-commerce platform to drive website traffic, increase conversion rates and maximise operational efficiencies. We'll use our bespoke technology, rich content and digital marketing initiatives to extend our reach into new and existing territories, and build customer trust by delivering a first-rate customer experience. We have some very exciting new developments planned for FY21 and FY22.

Our websites are driven by a bespoke and proprietary e-commerce platform, designed to maximise opportunities and deliver competitive advantage. It has the capacity to handle significantly increased volumes, and the capability to expand into new markets.

Having software development in-house helps deliver the cost-effective investment in platform development required to grow revenues and profitability. Investment enables us to respond to changing customer behaviours and expectations, by rapidly developing new features and functionality to drive website traffic, increase conversion rates and maximise operational efficiencies and reliability.

PROGRESS

With over 28 million website visitors in the period, conversion rates over 3%, and active customer numbers increasing to more than 807,000, and a 14% growth in repeat customers, our e-commerce strategy continues to prove highly effective.

Marketing activities continue to be heavily data driven and focused on return on investment, and in FY20 investment targeted higher-margin products. Marketing efficiency improved in FY20 as costs as a percentage of sales decreased from 8.2% in FY19 to 7.7% in FY20.

Our 4.8 TrustPilot rating from over 70,000 reviews is a reflection of our 'customer first' approach, the incredible efforts our teams make, and the attention to detail that is required to build customer trust and loyalty. We will continue to learn from our customers, and use our significant technical resources to design the new solutions required to satisfy an evolving market.

Our bespoke e-commerce platform is the cornerstone of our success and a major competitor differentiator, and our development team of 44 have worked tirelessly to design and deploy 1,054 updates and upgrades during the period.

WEBSITE VISITORS
28m
+5%

TRUSTPILOT RATING
4.8/5

IMPROVE ACCELERATE ENHANCE

OUR STRATEGIC PRIORITIES

2. SUPPLY CHAIN EVOLUTION

EVOLVE	Logistics capability
IMPROVE	Product margins
ACCELERATE	Own-brand development
ENHANCE	Products and services

GARETH BEVAN
CHIEF COMMERCIAL OFFICER

We will continue to extend our product ranges with a focus on margin-enhancing opportunities, and we will leverage our international buying teams to widen our procurement options. Further development of our highly successful own-brand ranges will remain a priority, dealing directly with factories and manufacturers to gain competitive advantage. A highly specialised purchasing team, combined with our market-leading European distribution capability and bespoke e-commerce platform makes our business entirely unique.

PROGRESS

At the year end we listed 54,200 products, which is up by 5% in 12 months, and we know there are opportunities to grow this significantly.

Whilst only representing 6% of listed SKUs, own-brand product sales accounted for 29% of revenue (FY19: 27%), and continue to grow impressively to £35.4m in the year.

SKUs LISTED
54,200
+5%

OWN-BRAND REVENUE
£35.4m
+13%

OUR STRATEGIC PRIORITIES

3. INTERNATIONAL EXPANSION

EVOLVE	Regional procurement
IMPROVE	Delivery options
ACCELERATE	Website localisation
ENHANCE	Localised service

ROB NEWPORT
OPERATIONS DIRECTOR

We continue to develop and improve our customer proposition in each of the territories we operate. We'll achieve this by further localising our websites to drive traffic and improve conversion, enhancing our multilingual customer service teams, expanding our international buying teams, and refining our delivery options to increase speed and convenience.

PROGRESS

With international sales increasing to £58.5m in what is a $16bn market, expanding internationally continues to be a key area of opportunity and focus for the Group. Localising our websites and customer experience is at the core of our growth strategy, and during the period we have expanded our multilingual customer service team, invested further into translation and marketing, and improved our local delivery and payment options.

In 2018 we opened our German showroom, which in addition to physically showcasing our products and building our brand in the locality, created buying opportunities from German distributors in Euros. Later that year we relocated our Swedish operation providing significant additional capacity to service the Scandinavian and Northern European markets.

INTERNATIONAL SALES
£58.5m
+7%

NUMBER OF DEPLOYMENTS IN THE YEAR

1,054

E-COMMERCE EXCELLENCE

BESPOKE SOFTWARE DEVELOPMENT

We have invested £12.1m over 14 years in developing our bespoke end-to-end e-commerce platform to meet our exact requirements. 'Front-end' websites are market-leading localised sites that have responsive design and are multilingual and multicurrency, supported by robust, flexible, fully integrated back-office systems.

READ MORE ON: PAGE 13

> Having software development in-house enables us to quickly and cost-effectively develop new features and functionality.

JONATHAN MEAGER
E-COMMERCE DIRECTOR

OUR BESPOKE PLATFORM CREATES COMPETITIVE ADVANTAGE

INTERNATIONAL EXPANSION

INTERNATIONAL REVENUE

£58.5m

+7%

EUROPEAN ADMIN EXPENSES

£2.5m

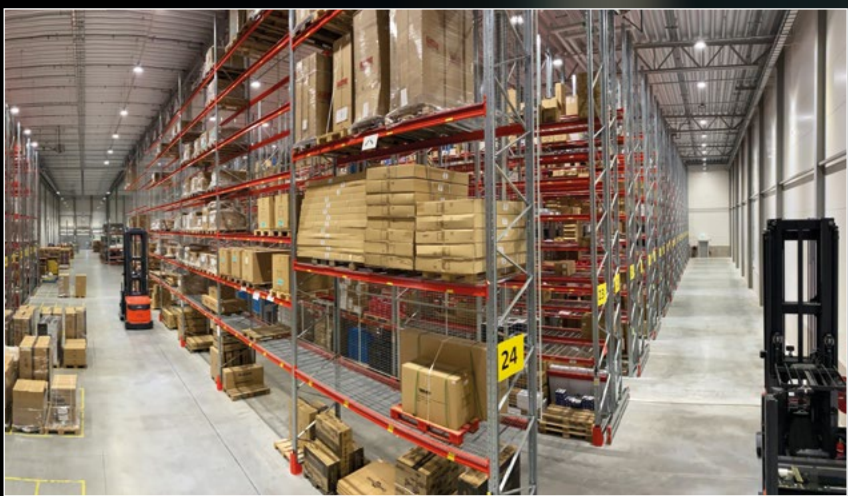
-10%

CASE STUDY: SCANDINAVIA

Our Swedish operation continues to grow. The distribution centre saw substantial growth over the last 12 months, including the biggest daily orders yet on Cyber Monday 2019. The move from our original property in September 2018 has enabled unrestricted growth and allowed us to work with our landlords to develop a purpose-built distribution centre close to Stockholm Arlanda Airport, a property that includes one of the largest music showrooms in Scandinavia.

Ahead of peak FY21, we have significantly extended our maximum daily order processing capacity in anticipation of continued seasonal sales increases. Stock levels continue to grow and will develop further, ahead of the end of the UK's transition period out of the EU, ensuring a significant majority of orders to Sweden, Norway, Denmark and Finland can be satisfied directly from our Swedish hub. Additionally in Summer 2020 we will complete our Swedish returns handling centre, enabling us to provide enhanced customer service through better value, faster processing of customer returns from across Scandinavia.

The Gear4music proposition in Sweden – great service and value with a local footprint – has been welcomed by our Scandinavian customers. Following the closure of a large local competitor in Autumn 2019, Gear4music remain well positioned to capitalise on the continued shift to online purchasing from many Swedish customers compared to our leading European competitors without a trading base in Scandinavia. A key part of the Gear4music opportunity in Sweden is access to courier delivery options which can only be unlocked by businesses with a local operating structure, and as we approach our fifth year of operation in Stockholm, the trading relationships we have built up continue to strengthen with improved commercial opportunities.



> Gear4music remain well positioned to capitalise on the continued shift to online purchasing from many Swedish customers compared to our leading European competitors without a trading base in Scandinavia.

ROB NEWPORT
OPERATIONS DIRECTOR

GREAT SERVICE AND VALUE WITH A LOCAL FOOTPRINT

WE MEASURE OURSELVES AGAINST A NUMBER OF KPIs

that reflect the key trading trends and are linked to our strategic pillars of growth.

FINANCIAL

REVENUE £m

£120.3m

+2%

2020	120.3
2019	118.2
2018	80.1

(+9% on a 12m basis)

GROSS MARGIN %

25.9%

+310bps

2020	25.9
2019	22.8
2018	25.4

CASH £m

£7.8m

+47%

2020	7.8
2019	5.3
2018	3.5

COMMERCIAL

MARKETING COST

as a % of revenues

7.7%

-50bps

2020	7.7
2019	8.2
2018	8.3

UNIQUE VISITORS m

28.4m

+11%

2020	28.4
2019	27.1
2018	16.9

CONVERSION %

3.29%

-11bps

2020	3.29
2019	3.40
2018	3.25

AVERAGE ORDER VALUE (£)

£116.74

–

2020	116.74
2019	117.39
2018	127.33

SKUs LISTED

54,200

+5%

2020	54,200
2019	51,600
2018	44,700

CUSTOMER

CUSTOMER EXPERIENCE

TrustPilot rank

4.8/5

2020	4.8

PROPORTION OF REPEAT CUSTOMERS %

21.0%

-30bps

2020	21.0
2019	21.3
2018	22.1

DEFINITIONS

Unique visitors: A distinct person who visits a Gear4music site during a given period

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

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

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

OUR PROFIT FOCUS HAS PRODUCED A POWERFUL PERFORMANCE

Our focus in FY20 was on delivering solid revenue growth whilst materially improving profits and profitability, and the Group has delivered.

CHRIS SCOTT
CHIEF FINANCIAL OFFICER

As laid out at the start of the financial year, our focus in FY20 was on delivering solid revenue growth whilst materially improving profits and profitability, and the Group has delivered.

A key objective was to improve our operational strength and efficiency across the year and this was achieved as reflected in operating unhindered during the FY20 peak trading period.

IMPACT OF COVID-19

As we approached the end of our financial year, Europe was responding to COVID-19 and physical stores in our sector were temporarily closing. As an online retailer operating in a niche sector, we experienced exceptionally high levels of demand in the final two weeks of March and this has continued into April and May 2020, with the business continuing to operate efficiently throughout this period.

TRANSITION TO IFRS 16

The financial statements for FY20 have been prepared under the requirements of IFRS 16 for the first time. Implementation of IFRS 16 has had no effect on how the business is run, or on cash flows generated. It has, however, had an impact on the presentation of the income statement, assets and liabilities, and classification of certain cash flows.

IFRS 16 seeks to align the presentation of leased assets more closely to owned assets. In doing so, right-of-use assets and lease liabilities are brought onto the balance sheet, with the lease liabilities recognised at the present value of future lease payments.

To aid comparability with the prior period, adjusted financial information shown before the impact of IFRS 16 is shown in the table below. In summary the relative impact of IFRS 16 on the Group income statement has been to increase EBITDA by £1.4m, increase Operating profit by £0.2m, and decrease Profit before tax by £0.2m

	FY19 IAS 17 13m £m	FY19 Restated IFRS 16 13m £m	FY20 IFRS 16 12m £m
Revenue	**118.2**	118.2	120.3
Gross profit	**26.9**	26.9	31.2
Administrative expenses	**(24.6)**	(23.2)	(23.4)
EBITDA	**2.3**	3.7	7.8
Depreciation and amortisation	**(2.3)**	(3.5)	(3.7)
Operating profit/(loss)	**(0.0)**	0.2	4.1
Financial expenses	**(0.6)**	(1.0)	(1.0)
Profit/(loss) before tax	**(0.6)**	(0.8)	3.1

REVENUE

	FY20 12m £m	FY19 13m £m
UK revenue	**61.8**	63.7
International revenue	**58.5**	54.5
Revenue	**120.3**	118.2

Reported revenue increased by £2.1m (2%) compared to the 13-month period last year, and £10.4m (9%) compared to the 12 months to end February 2019 as published last year. This builds on 37% growth over comparable 12-month periods last year and 43% in FY18.

UK revenues were up 5% relative to the 12-month period to 28 February 2019, taking Gear4music's UK market share to an estimated 7.2% (FY19: 6.9%).

European growth continues to represent a significant opportunity and 12-month international revenue growth of 15% was further to 42% in FY19. Revenues from sales outside of Europe accounted for 1.3% of total revenue in both FY20 and FY19.

	FY20 12m £m	FY19 13m £m
Other-brand product revenue	**79.4**	82.1
Own-brand product revenue	**35.4**	31.3
Other revenue	**5.5**	4.8
Revenue	**120.3**	118.2

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

In FY20 own-brand revenue accounted for 29% of total revenue compared to 26% last year, with these sales generated from just 3,433 SKUs representing 6% of the total range (FY19: 3,218 SKUs).

Other-brand revenue growth was impacted by cutting out less profitable sales and focusing on higher margin products.

Other revenue comprises carriage income, warranty revenue, and commissions earned on facilitating point-of-sale credit for retail customers. The proportion of revenues coming from these sources increased to 4.6% of total revenue (FY19: 4.0%) as more customers are willing to pay for value-added paid delivery services.

GROSS PROFIT

	FY20 12m	FY19 13m	Change
Product sales (£m)	**114.8**	113.4	
Product profit (£m)	**35.1**	31.6	
Product margin	**30.5%**	27.8%	+270bps
Carriage costs (£m)	**8.8**	9.1	
Carriage costs as % of sales	**7.3%**	7.7%	-40bps
Gross profit (£m)	**31.2**	26.9	
Gross margin	**25.9%**	22.8%	+310bps

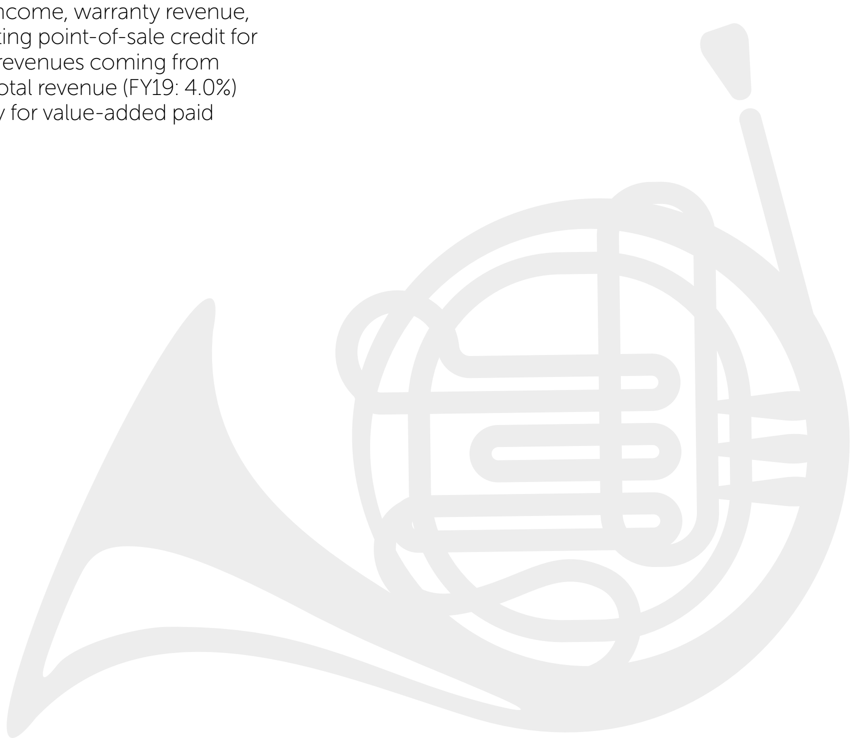
In FY19 we referenced the highly competitive nature of the UK market for other-brand products leading to low product margins. Our response in FY20 was to cut out lower margin sales and focus our efforts and resources on higher margin products.

Continued revenue growth and a step-up in gross margin combined to generate a £4.3m increase in gross profit in the year compared to the 13-month prior year period. Gross margin improved 310bps as a result of a 270bps improvement in product margins, driven by a marked improvement in other-brand margin, and sales mix effect of relatively more own-brand sales.

The Group benefits from buying scale relative to its UK competitors, and its ability to source other-branded products in Swedish Krona and Euros and receive product directly into its European distribution centres is an important part of our plans to mitigate the effects of Brexit.

The Group purchases its own-brand products in US Dollars and product margins can be impacted by exchange rate fluctuations. The Group has various mitigating tools and own-brand margins improved in FY20, having been stable in FY18 and FY19.

Gear4music includes 'costs of delivery' within cost of sales which is a different accounting treatment to some other e-commerce retailers. Delivery costs were £8.8m in the period and represented 7.3% of total revenue (FY19: 7.7%).



ADMINISTRATIVE EXPENSES AND OPERATING PROFIT

Reported operating profit has improved by £4.1m from a small operating loss last year to a £4.1m profit in FY20.

	FY20 12m £m	FY19 13m £m
UK administrative expenses	(24.6)	(24.1)
European administrative expenses	(2.5)	(2.8)
Total administrative expenses	(27.1)	(26.9)
Operating profit/(loss)	4.1	(0.0)

Total administrative expenses increased 1% on the FY19 13-month period, relative to a revenue increase of 2%.

The application of IFRS 16 results in property rents no longer being included within operating costs and being replaced by an additional depreciation charge. In FY20 this meant rents of £0.6m in the UK and £0.8m in Europe being replaced by an additional £1.2m depreciation charge.

Combined marketing and labour costs of £19.0m accounted for 70% of total administrative expenses (FY19: 72%).

Marketing costs in the year were £9.3m (FY19 13m: £9.8m) equating to 7.7% of revenues compared to 8.3% in FY19 as the business focused on improving return on investment, and targeting higher margin products.

Labour costs in FY20 increased to £9.7m representing a 2% increase on the FY19 13-month period, and an 11% increase in average cost per month, with headcount increasing by 35 (8%) to 466. Labour costs accounted for 8.1% of revenue in line with 8.1% in FY19.

FY20 EBITDA of £7.8m is £5.5m higher than last year of which £1.4m is due to the application of IFRS 16. Accounting for property rents no longer included in EBITDA, adjusted EBITDA of £6.4m is £4.1m (178%) ahead of FY19. These figures equate to a reported EBITDA margin of 6.4% and an adjusted margin of 5.3% compared to 1.9% last year and 4.3% in FY18.

Administrative expenses in FY19 included a £0.4m credit relating to the release of a rent accrual for the difference between cash paid and the average rent charge as expensed in relation to the leasehold distribution centre at Clifton Moor, York. The signing of a new lease in March 2018 triggered the release.

OTHER EXPENSES AND NET PROFIT

Net financial expenses of £1.0m (FY19: £0.6m) include £0.4m of IFRS 16 lease interest not in the FY19 comparative, £0.4m loans and borrowing interest (FY19: £0.3m) relating to property loans, import loan, and asset finance, and a £0.1m net foreign exchange loss (FY19: £0.2m loss).

The Group reports a profit before tax of £3.1m compared to a £0.6m loss last year, reflecting a £3.7m improvement.

Net profit of £2.6m (FY19 net loss: £0.2m) translates into a basic EPS of 12.4p and diluted EPS of 12.2p (FY19: -0.8p), the highest reported since IPO in 2015.

CASH FLOW

	FY20 12m £m	FY19 13m £m
Opening cash	5.3	3.5
Profit/(loss) for the year	2.6	(0.2)
Movement in working capital	(0.9)	0.1
Depreciation and amortisation	3.7	2.3
Financial expense	1.0	0.4
Other operating adjustments	1.0	0.0
Net cash from operating activities:	7.4	2.6
Net cash from investing activities:	(3.9)	(4.9)
Net cash from financing activities:	(1.0)	4.1
Increase in cash in the year	2.5	1.8
Closing cash	7.8	5.3

Cash increased by £2.5m over the year driven by a £2.8m improvement in profits.

The increase in stock of £3.4m (18%) is a year-end snapshot reflecting the business bringing in large volumes of stock in February and March 2020 ahead of COVID-19 lockdown.

Net outflow from investing activities of £3.9m includes £2.8m of software development (FY19: £2.7m) and £0.7m of tangible fixed additions. Depreciation and amortisation of £2.5m is added back in 'net cash from operating activities' with respect to these asset categories.

Net outflow from financing activities of £1.0m (FY19: £4.1m inflow) includes £0.9m of IFRS 16 property lease payments, offsetting increased reported cash from operating activities on add back of £0.9m of right-of-use asset depreciation.

BALANCE SHEET AND NET ASSETS

The Group has a strong and improved year-end balance sheet, with net assets of £21.6m (FY19: £18.7m), £7.8m cash (FY19: £5.3m), and net debt of £5.5m (FY19: £7.5m).

	31 March 2020 £m	31 March 2019 £m
Property, plant and equipment	11.2	10.8
IFRS 16 Right-of-use asset	9.0	–
Software platform	7.1	5.8
Other intangible assets	2.0	2.0
Total non-current assets	29.3	18.6
Stock	22.0	18.7
Cash	7.8	5.3
Other current assets	2.5	1.6
Total current assets	32.3	25.6
Trade payables	(10.1)	(7.5)
Loans and borrowings	(10.0)	(8.6)
Lease liabilities	(1.1)	–
Other current liabilities	(4.3)	(4.0)
Total current liabilities	(25.5)	(20.1)
Loans and borrowings	(3.4)	(4.3)
Lease liabilities	(9.5)	–
Other non-current liabilities	(1.6)	(1.1)
Total non-current liabilities	(14.5)	(5.4)
Net assets	21.6	18.7

On 1 April 2019 on the application of IFRS 16, right-of-use assets valued at £10.2m were recognised having netted off £0.8m of lease incentive accrual previously held on the balance sheet, and lease liabilities of £11.0m recognised. At 31 March 2020 right-of-use assets had been depreciated to £9.0m and the lease liability paid down to £10.1m.

The investment in our bespoke e-commerce platform in the period was £2.8m (FY19 13m: £2.7m) and focused more toward back-office functionality and resilience than in previous years, and in FY21 will return to focus on more growth orientated projects. Platform amortisation in the year was £1.5m compared to £1.2m in the FY19 13-month period, taking net book value to £7.1m (31 March 2019: £5.8m).

The Group had net debt of £5.5m at the year end (31 March 2019: £7.5m), including debt of £4.0m that relates to and is secured by the freehold head office revalued to £7.5m at 31 March 2020. Year-end net debt is made up of £2.1m of net debt payable under one year and £3.4m due over one year.

DIVIDENDS

The Board is confident in the prospects for the business and recognises the importance of retaining cash reserves to support future growth, and as such the Board does not consider it appropriate to declare a dividend at this time but will continue to review this position on an annual basis.

On behalf of the Board

CHRIS SCOTT
CHIEF FINANCIAL OFFICER
22 June 2020

A BUSINESS FOR MUSICIANS RUN BY MUSICIANS

OUR PEOPLE

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

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

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

A BUSINESS FOR MUSICIANS RUN BY MUSICIANS

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

We offer staff discounts on musical products and equipment and in FY20 estimate over 75% of our team made a relevant purchase.

RECRUITMENT AND RETENTION

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

As at 31 March 2020, 59 employees are participating in Group share option plans in recognition of their contribution to the continuing success of the business.

In FY20 our average headcount increased by 8% from 431 to 466, and our retention levels are good.

MENTAL HEALTH

We want to support positive mental health and the wellbeing of all our employees. We know that mental health affects everyone and want to build an environment where people feel comfortable to talk about mental health.

Initiatives in 2020 included:

- Certified Mental Health First Aid training for ten colleagues across our three UK sites;
- The creation of a new Mental Health and Wellbeing Policy;
- Additional HR support including employee welfare meetings, Wellness Action Plans as recommended by MIND, and stress risk assessment tools;
- Employee Assistance Programme with access to online resources, 24/7 helpline and counselling services;
- A commitment to continuously review our mental health support across the organisation and provide further initiatives in the future.

GENDER PAY GAP REPORT

As of April 2019, we are pleased to report that our mean gender pay gap (6.5%) has improved on last year (9.2%) and 2017 (12.6%).

- Women's hourly rate is 6.5% lower (mean) and 10.3% higher (median)
- Top salary quartile has 81.3% men and 18.7% women
- Upper middle salary quartile has 69.1% men and 30.9% women
- Lower middle salary quartile has 80.2% men and 19.8% women
- Lower salary quartile has 82.5% men and 17.5% women
- 0% of men and women received bonus pay

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

EXECUTIVE BOARD

ANDREW WASS
CEO

CHRIS SCOTT
CFO

GARETH BEVAN
CCO

OPERATIONAL BOARD

JONATHAN MEAGER
E-COMMERCE DIRECTOR
JOINED 2007

ROB NEWPORT
OPERATIONS DIRECTOR
JOINED 2016

CHARLOTTE MAHON
HR DIRECTOR
JOINED 2015

SENIOR MANAGEMENT

HEAD OF UK BUYING
JOINED 2018

HEAD OF DIGITAL MARKETING
JOINED 2015

SWEDISH COMMERCIAL MANAGER
JOINED 2016

GERMAN GENERAL MANAGER
JOINED 2017

UK LOGISTICS MANAGER
JOINED 2005

HEAD OF CUSTOMER SERVICE
JOINED 2005

SWEDISH LOGISTICS MANAGER
JOINED 2016

GERMAN LOGISTICS MANAGER
JOINED 2020

DEVELOPING OUR APPROACH TO SOCIAL RESPONSIBILITY

This section contains a summary of our progress in three key areas.

MODERN SLAVERY

We are committed to adopting and improving practices that ensure there is no slavery and human trafficking in our supply chain or any other part of our business. The products we sell are manufactured in many different countries, and we aim to ensure that these values are upheld across our supply chain.

To achieve this, we are committed to identifying and assessing areas of our business where there could be potential risks of modern slavery, be that directly or indirectly within our supply chain. We seek to develop and implement effective systems and controls to review and monitor compliance with our policy.

We sell many well-known other-branded products and in the year ending 31 March 2020 third-party brands accounted for 66% of our sales. We purchase these products from European-based suppliers, many of whom are part of larger global organisations. These organisations acknowledge and generally publish their commitment to anti-slavery practices.

Our own-brand products are sourced from manufacturers in several countries around the globe and are often manufactured to own specification and design. As of 31 March 2020, we had active relationships with over 50 manufacturers, predominantly in the Far East.

We conduct our own independent inspections of third-party facilities involved in the manufacture of our products. During these inspections we carry out extensive checks and produce written ‘factory inspection’ reports that are shared with the managers and/or owners of the facilities, and include formal recommendations to be actioned where appropriate.

We will stop using any factories that fail to meet the standards that we set. In the 29-month period since first publication of our policy, we have conducted 40 factory inspections.

ENVIRONMENT

As a growing company we have a responsibility to reduce our environmental impact, and we can achieve this through technology, continuous improvements in operational efficiency, and doing things in new ways.

Initiatives in 2020 included:

- Revamped packaging – in FY20 we developed a bespoke range of packaging including angled guitar boxes and cymbal boxes. These packaging solutions provide a more secure shipping solution resulting in fewer damaged items, and help reduce our environmental footprint through better trailer fill; reduce our usage of extra packaging materials to block and brace the product; improve line efficiency through better packing flow; and ultimately provide a better customer experience with less packaging waste.

- Alternative void fill solution – made from near 100% recycled materials and designed to significantly reduce the amount required to achieve the same result.
- Reduced paper use – Management estimate the impact of paperless trade integrations with couriers and paperless invoicing has led to saving of c.400 trees in 2019.

Our carbon intensity is reported in the Directors' report on page 45.

CHARITABLE PARTNERSHIPS

CHANGING LIVES

Music can make a real difference to people's wellbeing and we're supporting the Changing Lives charity by donating musical instruments to people in need.

COVID-19 has impacted all of our lives, and the need to stay at home has transformed how we live. Dealing with the implications of the pandemic is not easy, particularly for the most vulnerable and socially excluded. Not only do they deal with the stress of their circumstances, the opportunity for relief might not always be available. But light relief is an important element in preserving mental wellbeing.

Changing Lives is a charity that operates in the North of England and the Midlands. It provides compassionate shelter, support and other services, with more than 100 projects in the UK. Having been in operation for over 50 years, Changing Lives aims to help with homelessness, employment, women/children's support, and drug/alcohol dependency.

Their shelters are an essential part of people being able to build a future for themselves. Finding the roots of strengths and talents in their residents, Changing Lives combines recovery with building esteem and skills. Using the 'Theory of Change' process, Changing Lives gives people the chance to change their lives for the better. Almost 20% of staff at Changing Lives have also been through the process themselves.

Relief from the pressures of difficult times can be hard to find. We believe that learning to play music enriches people's lives, improves confidence, relieves stress, and helps build bonds between people. While there is no one-size-fits-all way to improve mental wellbeing, music has seen some strong scientific evidence for its ability to help improve mental health. This is something that we're well positioned to help with, and we're delighted to lend our support.

JESSIE'S FUND

Jessie's Fund enables thousands of children with life limiting illnesses or serious disabilities to be heard through the language of music.

By providing opportunities for them to access music therapy and to participate in musical activities, children who have few ways of communicating are given a voice.

Jessie's Fund was founded in memory of a bright and musical little girl who died at the age of nine. Based in her home city of York, the award-winning charity benefits children in hospices, special schools and hospitals all over the UK.

Gear4music is delighted to be in a supportive partnership with Jessie's Fund: as two York-based organisations, both with music at their core, and both with a wide geographical reach, we have much in common. With our help Jessie's Fund will be able to reach many more children for whom music can feel like a lifeline.

MUSIC FOR ALL

We continue to support our friends at Music For All – a charity that has a primary focus of 'making more musicians' by supporting musical education as well as helping individuals and community projects within the UK.

THE BOARD RECOGNISES

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

The Board takes overall responsibility for risk management, with a focus on evaluating the nature and extent of significant risks, and formulating mitigations around the risks required to be taken in order to deliver the strategic objectives. The Audit Committee has responsibility for overseeing the effectiveness of appropriate risk management processes and internal control systems. More detail on these processes is set out in the governance section.

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

FOR MORE INFORMATION:
WWW.GEAR4MUSICPLC.COM

OPERATIONS

Risk	Description	Mitigation
COVID-19	COVID-19 has had a significant and enduring impact on people, societies, business and national economies. It is difficult to predict the level and shape of consumer demand post-lockdown, and the short-term and permanent impact in different markets. COVID-19 has had a significant impact on retail and warehousing operations. Consumer confidence and disposable income may be lower and more difficult to forecast post-lockdown. Shopping habits may have changed post-lockdown. Operational capability and capacity could be impacted if one or more distribution centres were forced to close Supply chains and product availability could be adversely impacted.	The safety of our employees and customers has been and continues to be our priority. By quickly and effectively adapting our working practices, all of our distribution centres remained open through the crisis. A large proportion of our own-brand products are sourced from China and, as we do every year, we built up stock ahead of Chinese New Year and had sufficient stock on-hand to manage until factories reopened. We placed significant other-brand stock orders ahead of lockdown, and have maintained good availability across our ranges. Our supply chains do not appear to have been materially impacted at this stage. Early indications are that some of the shopping habits that consumers have displayed during lockdown, including channel shift to online, may persist post-lockdown. Gear4Music is financially robust and well placed to benefit from the transition to a 'new normal'.
UK'S DECISION TO LEAVE THE EU/'BREXIT'	Uncertainty in the UK and European economies ahead of the end of the transition period on 31 December 2020, could potentially impact on consumer confidence and the ability of the Group to maintain sales growth. Governments could influence cross-border controls, which could make it more difficult for us to move products across borders to customers and/or between our distribution centres. European competitors may gain an advantage over the Group if higher duties are imposed on UK imports into the EU, or currencies move adversely to the Group. Controls on the freedom of movement of people may impact the availability of European workers in the UK.	Developments continue to be monitored. We would look to minimise cross-border activity with our European operations fulfilling a higher proportion of European demand, and our UK operation focusing on the UK. The Group has trading subsidiaries in Sweden and Germany and, if and when appropriate, operational arrangements could be adapted and these entities become standalone businesses. The Group has established teams and significant capacity in its Swedish and German sites. Competitor activity and offerings are reviewed regularly to remain abreast of market developments and identify competitive advantages. Fluctuating exchange rates are regularly reviewed and operational and financial mitigations considered. Buying products and incurring proportionally more other costs in Euros and Krona partly mitigates the risk.

OPERATIONS CONTINUED

Risk	Description	Mitigation
RAPID GROWTH	The Group's business has grown rapidly. Operations and practices adopted at earlier stages of the Group's development may be inappropriate for a business of an increased size and scale. The Group may need to expand and enhance its infrastructure and technology and improve its operational and financial systems and procedures and controls in order to be able to match its growth. The Group may face challenges in matching the pace of its expansion with corresponding improvements and enhancements in its systems, controls and procedures. The Group will also need to expand, train and manage its growing employee base. .	The Plc and Operational Boards actively monitor and respond, so as to maintain systems and practices that are appropriate for the operations and scale of the Group. FY20 has been a period of consolidation with a high proportion of senior management time and software development resource dedicated to improving internal processes and controls, and overall Group resilience. The Group continues to recruit into key management positions. The Group has again expanded its Finance function providing greater capacity and better segregation of duties, further improving the control environment. .
NEW JURISDICTIONS	The Group's expansion into new jurisdictions may not be successful. Further expansion into markets outside the UK would expose the Group to a variety of risks, including different regulatory requirements, complications with staffing and managing foreign operations, variations in consumer behaviour, fluctuations in currency exchange rates, potential political and economic instability, potential difficulties in enforcing contracts and intellectual property rights, the potential for higher rates of fraud and adverse tax consequences. The Directors have limited experience of the legal and regulatory regimes of jurisdictions outside the UK and their consequences for the Group's business. In addition, the Group will likely have to compete in new jurisdictions with companies already operating in the relevant market and which may understand the local market better than the Group. To the extent that the Group overestimates the potential of a new geographic market, incorrectly judges the timing of the development of a new geographic market or fails to anticipate the differences between a new geographic market and the UK, the Group's attempt to expand into new geographic markets may be unsuccessful.	The Board will routinely direct Management to seek professional input into any such major developments. The Group has local subsidiaries in Sweden and Germany and recruited local management familiar with local laws and regulations. Any future advances into Europe will continue to be in a measured and capital efficient manner.
TECHNOLOGICAL CHANGES	Unless the Group is able to respond to technological advances it may not be able to effectively build and/or maintain a competitive advantage.	The Group continues to allocate a significant annual budget to software development: £2.8m in FY20 and have plans to increase this spend in FY21. Software development is in-house enabling the Group to assert greater control and drive cost efficiency to help mitigate such risks.
DISTRIBUTION CENTRES	Any disruption to a distribution centre's efficient operation may have an effect on the Group's business. Distribution centres may suffer prolonged power or equipment failures, failures in its information technology systems or networks or damage from fires, floods, other disasters or other unforeseen events which may not be covered by or may exceed the Group's insurance coverage. The Group operates three distribution centres and as such is not completely reliant on a single site.	The Group operates from three locations, mitigating the risk of over-dependence on any single location. The Group, in conjunction with its insurance broker, ensures sufficient and appropriate insurance cover is in place. This includes Business Interruption cover. The Group has a formal disaster recovery plan in place that details actions in specific situations.

OPERATIONS CONTINUED

Risk	Description	Mitigation
WAREHOUSING, ONWARD DISTRIBUTION TO CUSTOMERS AND LOGISTICS	The supply of product to customers in a timely manner is critical to the success of the Group. The Group therefore operates its own warehouses, run by senior management that have significant experience in the sector. Any rapid increase in revenue may require further expansion of current warehouse space. There is a risk that the Group may experience interruptions to the operation of these logistics and distribution networks that could prevent the timely or proper delivery of products, which could damage the Group's reputation, deter customers, prospective customers, suppliers and/or prospective suppliers.	There are regular reviews of capacity across locations and follow-up plans developed that the Board believes should allow the Group to fulfil an increasing number of orders from the existing sites and identify step-changes for consideration as and when required. The Group operates from three distribution centres, each with their own local logistics relationships, thereby reducing the dependency on any single site or local network. The Group maintains multiple delivery service providers to reduce the dependency on any single provider, and tracks service level agreements on an ongoing basis. This provides system flexibility to switch providers within a matter of days if required.
CHANGE TO SEARCH ENGINES' ALGORITHMS	Changes to search engines' algorithms or terms of service could cause the Group's websites to be excluded from or ranked lower in natural search results. Search engines frequently modify their algorithms and ranking criteria to prevent their natural listings from being manipulated, which could impair the Group's 'Search Engine Optimisation' ('SEO') activities. If the Group is unable to recognise and adapt quickly to such modifications in search engine algorithms, the Group could suffer a significant decrease in traffic and revenue.	The Group will continue to operate search engine optimisation activities that adhere to search engine guidelines.
DATA SECURITY AND IT RELIABILITY	The Group relies heavily on its IT infrastructure and e-commerce system. If any one or more of its websites were to fail or be damaged this could impact the Group's ability to trade. If the Group's IT and data security systems do not function properly there could be website slowdown or unavailability, loss of data, a failure by the Group to protect the confidential information of its customers from security breaches, delays in transaction processing, or the inability to accept and fulfil customer orders, which could affect the Group's business.	The Group seeks to mitigate this risk by investing in IT infrastructure including robust cloud-based backup systems. The Group has a disaster recovery plan in place which has been designed to minimise the impact of data loss or corruption from hardware failure, human error, hacking or malware.

BRAND AND PROPOSITION

Risk	Description	Mitigation
MARKET RECOGNITION	Developing and maintaining the reputation of, and value associated with, the Group's brands is of central importance to the ongoing success of the Group. Brand identity is a critical factor in retaining existing and attracting new customers. The Group is reliant on its natural search result rankings and paid advertising as it seeks to build market share and attract new customers. Any failure by the Group to offer high quality products across a range of instruments, manufacturers and price points, excellent customer service and efficient and reliable delivery, could damage its reputation and brands and could result in the loss of customer confidence and a reduction in purchases. Unfavourable publicity concerning the Group could damage the Group's brands and its business. If the Group fails to maintain its brands or if excessive expenses are incurred in this effort, the Group's business may be affected.	Rigorous monitoring of customer feedback helps ensure issues are identified and rectified on a timely basis. Own-brand products are carefully selected and rigorously tested prior to initial order.

BRAND AND PROPOSITION CONTINUED

Risk	Description	Mitigation
COMPETITION	The UK and European retail market for musical instruments and music equipment is competitive. A number of competitors may have financial resources greater than those of the Group. Amazon sells musical instruments and music equipment.	The Group has a track record of successfully competing on a wide range of factors including quality and range of products, price, product availability, product information, convenience, delivery options and service.

RESOURCES AND RELATIONSHIPS

Risk	Description	Mitigation
SUPPLY AND SALE OF THIRD-PARTY BRANDED PRODUCTS	The Group purchases products from a number of large global musical instrument and music equipment brand owners, and the Group's business depends on its ability to source a range of products from well-recognised brands on commercially reasonable terms. The relationships between the Group and the third-party brand owners are generally based on annual contracts that the Group seeks to renew each year. The third-party brand owners may cease selling products to the Group on terms acceptable to it, fail to deliver sufficient quantities of products in a timely manner, terminate their relationship with the Group and enter into agreements with the Group's competitors, or experience raw material or labour shortages or increases in raw material or labour costs. Any disruption to the availability or supply of products to the Group or any deterioration to the terms on which products are supplied to the Group could affect its business.	Whilst sales of third-party branded products accounted for approximately 66% of the Group's turnover in FY20 (FY19: 70%), the Directors do not consider that the Group is significantly reliant on any one or more major brand/brand owner. The Directors believe that the relative size of the Group, its purchase volumes and the strength of its relationship with the brand owners, built over a prolonged period in many cases, make it unlikely that any such arrangements would be terminated.
RELIANCE ON SUB-CONTRACT MANUFACTURERS	The Group sub-contracts manufacture of its own-brand musical instruments and equipment to independent third-party businesses in Southeast Asia. Any disruption to supply or issues such as poor product quality could have an adverse impact on the Group's reputation. The impact of any issues arising with sub-contractors' products is exacerbated by the lead times involved (12–16 weeks).	The Group has been successfully importing for over 17 years and has relationships with over 30 manufacturers providing re-sourcing options. The Board believes that the Group has robust take-on and ongoing monitoring procedures, covering areas such as quality control and delivery performance for new and existing manufacturers, that the Group seeks to adhere to rigidly.
DEPENDENCE ON KEY PERSONNEL	The loss of any key individual or the inability to attract appropriate personnel could impact upon the Group's future performance. Should the Group fail to retain or attract suitably qualified and experienced personnel, it may not be able to compete successfully.	The Senior Management team is compensated through a combination of market-rate salaries and longer-term share-based incentives to align their remuneration with the continued success of the Group. The Board continues to recruit into key management positions as and when positions are identified. An Operational Board meets on a regular basis to focus on all trading and commercial matters. Key man insurance is in place re: Andrew Wass, Gareth Bevan and Chris Scott.

ASSESSMENT OF PROSPECTS AND VIABILITY

The Directors are confident that the Group has sufficient financial resources, and in 2020 the business has demonstrated continued revenue growth and markedly improved profitability. As such the Group is well placed to manage its business risks and flourish.

The Group operates annual budgeting and monthly reforecasting cycles, linked to strategic review and planning. Weekly and monthly reporting is used to monitor, control and report on performance.

OPERATIONS

The Group's business activities and position in the market, together with the factors that are likely to affect future development and performance are set out in the Strategic Report on pages 1 to 35.

The Directors have considered the Group's growth prospects based on its product proposition and online offering in the UK and Europe, and concluded that potential growth rates remain strong as channel shift continues and customers move online. There is a diverse supply chain with no key dependencies and over 80% of Administrative expenses relate to marketing and labour costs.

FINANCES

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

At 31 March 2020 the Group had £7.8m cash (31 March 2019: £5.3m) and on 1 June 2020 the Group's bankers, HSBC, confirmed that the Group's import loan and overdraft facilities had been renewed at a combined £14m (FY19: £10m) for a further 12 months. The Directors are confident that the facilities will be renewed in 2021 and this has been factored in to their going concern assessment.

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

COVID-19

The Directors have carefully considered the impact of COVID-19 on the Group's financial position, liquidity and future performance.

All three distribution centres have remained open throughout the pandemic, and higher levels of orders have continued to be fulfilled. In the period post year end, sales have remained at materially elevated levels compared to business plan with improved margins, and we have also incurred lower marketing costs than we would typically expect.

Having duly considered all of these factors and having reviewed the forecasts for the coming year, the Directors have a reasonable expectation that the Group has adequate resources to continue trading for the foreseeable future.

DUTY TO PROMOTE THE SUCCESS OF THE COMPANY

Engaging with our stakeholders and acting in a way that promotes the long-term success of the Company, while taking into account the impacts of our business decisions on our stakeholders, are central to our strategic thinking and our statutory duties in accordance with Section 172(1) of the Companies Act 2006 ('s.172'). The content in this section constitutes our s.172 statement, as required under the Companies (Miscellaneous Reporting) Regulations 2018.

Our impact on, and engagement with, our key stakeholder groups are considered within the implementation of our Group strategy. Our principal stakeholder groups include: employees, customers, suppliers, the environment and our shareholders. How we engage with these groups is covered throughout the report.

The Board of Directors consider, both individually and together, that they have acted in the way that they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, having regard to the stakeholders and matters set out in s.172 (a–f of the Companies Act) in the decisions taken during the year. Our plan is designed to have a long-term beneficial impact on the Company and its stakeholders.

CHAIRMAN'S INTRODUCTION

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

QUOTED COMPANIES ALLIANCE CORPORATE GOVERNANCE CODE

Last year the Directors applied the Quoted Companies Alliance Corporate Governance Code (the 'QCA Code'), a proportionate, principles-based approach constructed around ten broad principles with accompanying guidance, and this section outlines how the Group operates in each of these key areas.

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

KEN FORD
CHAIRMAN AND NON-EXECUTIVE DIRECTOR

THE BOARD OF DIRECTORS AND COMMITTEES OF THE BOARD OF DIRECTORS

The Board, which is headed by the Chairman, comprises five Directors, of which three are Executive and two are Non-Executive, providing a broad range of relevant skills and experience. The Board considers Ken Ford and Dean Murray to be 'independent' Non-Executives under the criteria identified in the Code. Directors' profiles are detailed on page 42.

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

THE ROLE OF THE BOARD

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

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

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

The division of responsibilities between the Chairman and the Chief Executive Officer is clearly defined. The Chairman is responsible for ensuring the effectiveness of the Board and setting its agenda. The Chairman is not involved in the day-to-day running of the business. The Chief Executive Officer has direct charge of the Group on a day-to-day basis, and the Executive team has collective responsibility for the implementation of the Group's strategies and is accountable to the Board for the financial and operational performance of the Group.

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

The formal Board agenda includes an Executive report detailing the commercial, operational and financial performance of the Group. Further to formal Board meetings, the Board receives weekly key trend information covering all trading aspects of the business.

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

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

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

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

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

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

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

RE-ELECTION

At each Annual General Meeting one third (or whole number less than one third) of the directors retires by rotation, and in August 2019 this was Ken Ford, Chris Scott and Gareth Bevan.

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

SHAREHOLDER COMMUNICATIONS

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

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

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

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

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

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

INTERNAL CONTROLS

The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

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

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

The Board confirms that there are ongoing processes for identifying, evaluating and mitigating the significant risks faced by the Group. The processes have been in place from 1 March 2018 to the date of approval of the Annual Report and Accounts and is consistent with the guidance for directors on internal control issued by the Turnbull Committee.

The table below shows the number of Board meetings and Audit Committee and the Remuneration Committee meetings held in the period from 1 April 2019 to the date of approval of the Annual Report and Accounts. The table also show the attendance of each Director:

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

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

- clear responsibility on the part of line and financial management for the maintenance of good financial controls and the production of accurate and timely financial management information;
- the control of key financial risks through appropriate authorisation levels and segregation of accounting duties;
- a comprehensive budgeting process completed once a year that is reviewed and approved by the Plc Board;
- detailed monthly reporting of trading results including detailed profit and loss accounts, balance sheets and cash flows, with supporting variance analysis;
- reporting on any non-compliance with internal financial controls and procedures; and
- review of reports issued by the external auditor.

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

AUDIT COMMITTEE REPORT

OVERVIEW

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

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

MEMBERSHIP OF THE AUDIT COMMITTEE

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

ROLE AND OPERATION OF THE AUDIT COMMITTEE

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

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

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

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

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

EXTERNAL AUDITOR AND NON-AUDIT SERVICES

In FY20 Grant Thornton UK LLP were appointed auditors to the Company, replacing KPMG LLP.

Fees in relation to services provided by the external auditor in FY20 (Grant Thornton UK LLP) and FY19 (KPMG LLP) were:

	FY20 £000	FY19 £000
Audit fee	**90**	75
Other fees	**–**	–
Total fees	**90**	75

The Committee is satisfied with the independence and objectivity of the auditors, Grant Thornton UK LLP.

REMUNERATION COMMITTEE REPORT

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

MEMBERSHIP OF THE REMUNERATION COMMITTEE

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

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

The Remuneration Committee meets at least twice a year.

REMUNERATION POLICY

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

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

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

NON-EXECUTIVE DIRECTORS

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

Each of the Non-Executive Directors has a letter of appointment noting their appointment may be terminated with one month's notice.

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

DIRECTORS' INTERESTS

Details of the Directors' shareholdings are included in the Directors' report on page 44.

DIRECTORS' REMUNERATION

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

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

The remuneration of each of the Directors for the year ended 31 March 2020 is set out below. In FY20 Andrew Wass took a six-month voluntary pay reduction in light of FY19 financial performance. These values are included within the audited accounts.

	Basic salary £000	Benefits £000	Pensions £000	**Total FY20 (12 months) £000**	Total FY19 (13 months) £000
Executive					
Andrew Wass	114	2	3	**119**	252
Chris Scott	166	2	6	**174**	211
Gareth Bevan	154	1	5	**160**	201
Non-Executive					
Ken Ford	36	–	–	**36**	38
Dean Murray	33	–	1	**34**	35
Total	503	5	15	**523**	737

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

DIRECTORS' SHARE OPTIONS

Executive	Scheme	1 April 2019	Awarded during the period	Vested and exercised during the period	31 March 2020	Date granted
Andrew Wass	Director cash plan 2017	–	–	–	–	June 2017
	LTIP	45,000	–	–	45,000	Nov 2018
Chris Scott	CSOP	3,606	–	–	3,606	June 2017
	LTIP	45,000	–	–	45,000	Nov 2018
Gareth Bevan	CSOP	3,606	–	–	3,606	June 2017
	LTIP	52,500	–	–	52,500	Nov 2018

EMI AND DIRECTOR CASH PLAN

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

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

CSOP

There is a CSOP share incentive plan in place for Chris Scott and Gareth Bevan and equivalent discretionary cash bonus plan for Andrew Wass. The performance conditions have not been met and these Director options will lapse in FY21.

LTIP

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

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

PROVIDING LEADERSHIP TO THE GROUP

ERIC (KEN) FORD
CHAIRMAN AND
NON-EXECUTIVE DIRECTOR

Ken was previously Chief Executive of the quoted investment bank Teather & Greenwood. Ken brings over 36 years of City experience and a strong understanding of shareholder value, strategic planning and corporate transactions. Ken is a former Chairman of the Quoted Companies Alliance ('QCA') and is a Fellow of the Chartered Securities Institute.

Ken is currently Chairman of AIM-quoted company SDI Group plc and a Non-Executive Director of PrimaryBid Limited.

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

ANDREW WASS
CHIEF EXECUTIVE
OFFICER

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

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

CHRISTOPHER (CHRIS) SCOTT
CHIEF FINANCIAL OFFICER
AND COMPANY SECRETARY

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

GARETH BEVAN
CHIEF COMMERCIAL OFFICER

Gareth joined Gear4music in July 2012. He was previously at DV247, the largest UK-based musical equipment retailer at that time, where he was responsible for purchasing, sales and marketing. He has 21 years' experience in musical equipment retail.

DEAN MURRAY
NON-EXECUTIVE DIRECTOR

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

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

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

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

The Directors present their report and the audited financial statements for the year ended 31 March 2020.

PRINCIPAL ACTIVITY

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

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

An overview of the Group's operation is included in the Strategic Report section of the Annual Report and Accounts on pages 2 to 35. This report includes sections on strategy and markets and considers key risks and key performance indicators.

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

FINANCIAL RESULTS

Details of the Group's financial results and position are set out in the Consolidated Statement of Profit and Loss and Other Comprehensive Income, other primary statements and notes to the accounts on pages 52 to 79.

DIVIDENDS

The Directors do not recommend the payment of a dividend (FY19: nil).

GOING CONCERN

After making appropriate enquiries, the Directors have confidence that the Group has adequate resources to continue in operational existence for the foreseeable future. COVID-19 created operational challenges alongside exceptionally strong trading for the first two months of FY21. For these reasons, they continue to adopt the going concern basis in preparing the Annual Report and Accounts. This is described in more detail in Note 1.

DIRECTORS

The Directors who served on the Board and on Board Committees during the year are set out on page 29 and pages 38 to 43. One-third of the Directors are required to retire at the Annual General Meeting and can offer themselves for re-election.

Information on Directors' remuneration and share option rights is given in the Remuneration Committee report on page 41.

SIGNIFICANT SHAREHOLDERS

The Company is informed that at 31 May 2020, individual registered shareholdings of more than 3% of the Company's issued share capital were as follows:

	Number of shares	% of issued share capital
Andrew Wass	7,161,993	34.2%
AXA Investment Mgrs	2,486,419	11.9%
TB Amati Investment Funds	1,269,789	6.1%
FIL Limited	1,144,767	5.5%
Blackrock Investment Ltd	978,742	4.7%
Octopus Investment Ltd	841,039	4.0%
Canaccord Genuity Group Inc	799,968	3.8%

DIRECTORS' SHAREHOLDINGS

The beneficial interests of the Directors in the share capital of the Company at 31 March 2019 and 31 March 2020 were as follows:

	1 April 2019 Number of shares	31 March 2020 Number of shares	31 March 2020 % of issued share capital
Executive Directors			
Andrew Wass	7,161,993	7,161,993	34.2%
Gareth Bevan	114,760	114,760	0.6%
Chris Scott	104,840	104,840	0.5%
Non-Executive Directors			
Dean Murray	197,520	197,520	1.0%
Ken Ford	40,000	40,000	0.2%

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

All share option plans and are outlined in the Remuneration Committee report on page 41, and on pages 76 to 78.

The middle market price of the Company's Ordinary shares on 31 March 2020 was 172.5 pence (31 March 2019: 217.5 pence), and the range in the year was 142.5 pence to 280.0 pence, with an average price of 212.7 pence.

RESEARCH AND DEVELOPMENT

The Group capitalised £2.8m during the year (FY19: £2.7m) of software development costs relating to the in-house e-commerce software platform. Amortisation of the software platform totalled £1.6m in the period (FY19: £1.2m).

FINANCIAL INSTRUMENTS

The Group's policy and exposure to financial instruments is set out in Note 18.

QUALIFYING THIRD-PARTY INDEMNITY

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

EMPLOYEE INVOLVEMENT

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

DONATIONS
During the year ended 31 March 2020 the Group made no donations (FY19: £nil).

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

The number of creditor days outstanding at 31 March 2020 was 24 days (31 March 2019: 27 days). This is a weighted average by invoice value, with reference to actual invoice and payment dates.

GREENHOUSE GAS EMISSIONS
The disclosures required under 'Streamlined Energy and Reporting' ('SECR') are included below, and insight into initiatives to reduce the direct environmental impact of the Group are detailed on page 31.

	Year ended 31 March 2020	Period ended 31 March 2019
Scope 1 – Combustion of fuel and operation of facilities (kWh)	**9,392**	9,863
Scope 2 – Electricity, heat, steam, and cooling purchased for own use (kWh)	**4,108,558**	4,207,511
Total energy use (kWh)	**4,117,950**	4,217,374
CO_2e equivalent (kg CO_2e)	**1,052,392**	1,077,788
Intensity measurement – kg CO_2e per customer order	**0.93**	0.98

Note: These emissions were calculated using the methodology set out in HM Government's 'Environmental Reporting Guidelines: Including streamlined energy and carbon reporting guidance' (March 2019), and applies the conversion factors from Defra. This information has been prepared consistent with the guiding principles of the 'Climate Disclosure Standards Board' protocol. This information has not been independently audited. As required, only the impact of the Group's direct activities have been included. All material sources of emissions are reported.

CORPORATE GOVERNANCE
Details regarding the Group's corporate governance arrangements as required by the Companies (Miscellaneous Reporting) Regulations 2018, are detailed in the Governance section included in this Annual Report.

AUDITOR
Following a tender process, Grant Thornton UK LLP were appointed auditors to the Company, replacing KPMG LLP.

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

By order of the Board

CHRIS SCOTT
CHIEF FINANCIAL OFFICER
22 June 2020

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRSs as adopted by the EU') and applicable law and they have elected to prepare the Parent Company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the Parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.
The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

ANDREW WASS
DIRECTOR
22 June 2020

CHRIS SCOTT
DIRECTOR
22 June 2020

OPINION

OUR OPINION ON THE FINANCIAL STATEMENTS IS UNMODIFIED

We have audited the financial statements of Gear4music (Holdings) plc ('the Parent Company') and its subsidiaries (the 'group') for the year ended 31 March 2020, which comprise the Consolidated Statement of Profit and Loss and Other Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Company Balance Sheet, the Company Statement of Changes in Equity and notes to the financial statements and notes to the company balance sheet, each including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2020 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

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

THE IMPACT OF MACRO-ECONOMIC UNCERTAINTIES ON OUR AUDIT

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as COVID-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Group's future prospects and performance.

COVID-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the Group's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a Group associated with these particular events.

CONCLUSIONS RELATING TO GOING CONCERN

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

In our evaluation of the directors' conclusions, we considered the risks associated with the group's business model, including effects arising from macro-economic uncertainties such as COVID-19 and Brexit, and analysed how those risks might affect the group's resources or ability to continue operations over the period of at least 12 months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group will continue in operation.

Grant Thornton

OVERVIEW OF OUR AUDIT APPROACH

- Overall materiality: £240,000, which represents 0.2% of revenue;
- Key audit matters were identified as revenue recognition, capitalisation of internally generated development costs, valuation of goodwill and other intangible assets and Going Concern; and
- We performed full scope audit procedures on the financial information of the significant group components Gear4music (Holdings) plc and Gear4music Limited. We performed analytical procedures on the non-significant components, Gear4music Sweden AB, Gear4music GmbH and Gear4music Norway AS.

KEY AUDIT MATTERS

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

Key Audit Matter – Group	How the matter was addressed in the audit – Group
REVENUE RECOGNITION Under ISA (UK) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. The risk is assessed to be in relation to manual adjustments to revenue in the year, being the sales cut off provision, the warranty income provision and the returns provision. We have assessed this risk to reside primarily within these revenues as there in an increased risk of error in these transactions due to the judgements applied by management. There is an increased risk that these revenues did not occur if they have been recognised through a manual journal process. In respect of revenue recognised for the sale of goods, there is a risk that revenue is recognised before the risks and rewards of ownership have transferred to the customer. We therefore identified revenue recognition as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • Gaining an understanding of the design of the controls in place over significant revenue streams and performing a walkthrough test to confirm they were implemented as designed; • For a sample of months, testing the operating effectiveness of these controls • Evaluation of the group's revenue recognition accounting policies for consistency with the requirements of IFRS 15 'Revenue from Contracts with Customers'; • Testing a sample of revenue transactions across all material revenue streams and agreeing them invoice and proof of delivery to confirm that income has been appropriately recognised in accordance with the group's accounting policy; • Analytical procedures comprising comparison of revenue from the sales of goods and provision of services with equivalent revenue in the prior year and budget and corroborating explanations from management for unusual and significant variances; • Performing analysis of and sample tested credit notes raised throughout the year, and post year end, determining if these credit notes raised related to the reported year, and thus determine if the credit note provision in place was complete and accurate; • Reviewing and recalculating the warranty income adjustment, challenging management on the deferred income balance included in the financial statements; and • Performing cut off testing by sampling dispatches made close to the year end and agreeing through to proof of delivery to determine if the sale was recognised in the correct period. We have reviewed management's cut off provision in combination with this testing to ensure it is complete and accurate. The group's accounting policy on revenue recognition is shown in Note 1.15 to the financial statements and related disclosures are included in Note 2. **KEY OBSERVATIONS** Based on our work performed, we have not identified any material misstatements with respect to revenue recognition and manual adjustments to revenue, specifically the warranty, income and returns provisions.
CAPITALISATION OF INTERNALLY GENERATED DEVELOPMENT COSTS The group capitalises internally generated development costs. In the year ended 31 March 2020 £2.8m of these costs were capitalised within other intangible assets. There is a risk that the specific requirements under International Accounting Standard (IAS) 38 'Intangible Assets' regarding capitalisation of internally generated intangible assets are not met, due to the judgements applied by management and that the gross book value is materially misstated. We therefore identified capitalisation of internally generated development costs as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included but was not restricted to: • Gaining an understanding of the design of the controls in place over the capitalisation of internally generated development costs and performing a walkthrough to confirm they were implemented as designed; • Challenging management's capitalisation policy for intangible assets to ensure it is reasonable and in accordance with the relevant financial reporting framework; and • Testing on a sample basis the additions to intangible assets in the year to supporting documentation and evidencing that they have been appropriately capitalised; The group's accounting policies on capitalisation of internally generated development costs are shown in Notes 1.1 to the financial statements and related disclosures are included in Note 9 and Note 22. **KEY OBSERVATIONS** Based on our audit work, we have identified that the capitalisation of internally generated developments costs has been accounted for in accordance with the group's accounting policies. We have not identified any material misstatements with respect to capitalisation of these costs.

Key Audit Matter – Group	How the matter was addressed in the audit – Group
VALUATION OF GOODWILL AND OTHER INTANGIBLE ASSETS The group records goodwill and other intangible assets of £9.1m as at 31 March 2020. Management has undertaken its annual impairment review by determining the recoverable amount which is the higher of value in use and fair value less costs of disposal. Management have calculated value in use using a discounted cash flow model, allowing for the uncertain macro-economic environment. There are significant judgements in these calculations including forecasting future operating cash flows and estimating the discount rate used. We therefore identified valuation of goodwill and other intangible assets as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • Gaining an understanding of the design of the controls in place over the impairment of goodwill and other intangible assets and ensuring that they were implemented as designed; • For intangible assets, excluding goodwill, challenging management's assessment of their useful economic lives, developing an expectation of amortisation expense for the year and comparing against the amortisation charge recorded in the financial statements; • Challenging the assumptions included within management's calculation of the value in use, which included gaining an understanding of the key factors and judgements applied in determining future revenues, altered appropriately to allow for possible future impacts of the COVID-19 pandemic; • Challenging the number of the CGUs and the allocation of assets to the CGUs; • Challenging of the discount rates and growth rates used in the model; and • Performance of sensitivity analysis on the forecast cash flows and their impact on the carrying value of the intangible assets. The group's accounting policies on valuation of goodwill and other intangible assets are shown in Notes 1.9 to 1.12 to the financial statements and related disclosures are included in Note 9. **KEY OBSERVATIONS** Based on our audit work, we have identified that the valuation of goodwill and other intangible assets was accounted for in accordance with the group's accounting policies. We have not identified any material misstatements in the carrying value of goodwill and other intangible assets.
GOING CONCERN As stated in 'the impact of macro-economic uncertainties on our audit' section of our report, COVID-19 is one of the most significant economic events currently faced by the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty. This event could adversely impact the future trading performance of the company and as such increases the extent of judgement and estimation uncertainty associated with management's decision to adopt the going concern basis of accounting in the preparation of the financial statements. As such we identified going concern as a significant risk, which was one of the most significant assessed risks of material misstatement.	We undertook procedures to evaluate management's assessment of the impact of COVID-19 on the Group's Going Concern status. Our audit work included, but was not restricted to: • Obtaining management's forecasts covering the period to June 2021, including their assessment of the impact of COVID-19; • Evaluating the key assumptions applied in the forecast for reasonableness and determined whether they had been applied appropriately. We also considered whether the assumptions are consistent with our understanding of the business and with current lockdown restriction guidance; • Requesting that management prepare additional sensitised forecasts to model a range of downside scenarios and assessing these sensitised forecasts for reasonableness; • Obtaining confirmation that borrowing facilities have been renewed post year end; • Assessing management's determination of the impact of potential mitigating factors; • Assessing the reliability of management's forecasting by comparing the accuracy of actual historical financial performance to historic forecast information; and • Assessing the adequacy of the going concern disclosures included within the Financial Statements. **KEY OBSERVATIONS** Based on the procedures performed, we have not identified any issues regarding management's assessment of the impact of COVID-19 on the Group's Going Concern status.

We have not identified any key audit matters relating to the audit of the financial statements of the Parent Company.

OUR APPLICATION OF MATERIALITY

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

Materiality measure	Group	Parent
Financial statements as a whole	£240,000 which is 0.2% of revenue. The revenue benchmark is considered the most appropriate because it is a key performance indicator for the group's stakeholders and is less volatile than profit during the Group's growth phase.	£239,000 which is 1.6% of the Parent Company's total assets, capped at component materiality. This benchmark is considered the most appropriate because the activities of the Parent Company are primarily those of a holding company and its major activities relate to holding investments in the group's subsidiaries.
Performance materiality used to drive the extent of our testing	70% of financial statement materiality.	70% of financial statement materiality.
Communication of misstatements to the audit committee	£12,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£11,900 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our audit approach was a risk-based approach founded on a thorough understanding of the group's business, its environment and risk profile and in particular included:

- documenting our understanding of and evaluating the processes and controls relevant to the key audit matters outlined above;
- evaluation by the group audit team of identified components to assess the significance of that component and to determine the planned audit response based on a measure of materiality, considering each as a percentage of the group's total assets, liabilities, revenues and profit before tax;
- performing full scope audit procedures on the financial information of the Parent Company, Gear4music (Holdings) plc, and the group's largest subsidiary, Gear4music Limited. The financial information of the group's overseas subsidiaries were subject to analytical procedures;

The components subject to a comprehensive audit approach represent 99% of group revenue, with the components subject to analytical procedures representing 1% of group revenue. The accounting functions are performed centrally for all group components subject to full scope audit procedures and all such procedures have been undertaken by the group audit team.

OTHER INFORMATION

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

OUR OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006 IS UNMODIFIED

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the report of the directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the report of the directors have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT UNDER THE COMPANIES ACT 2006

In the light of the knowledge and understanding of the group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the report of the directors.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

RESPONSIBILITIES OF DIRECTORS FOR THE FINANCIAL STATEMENTS

As explained more fully in the statement of directors' responsibilities for the financial statements set out on page 46, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

USE OF OUR REPORT

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

MARK OVERFIELD BSC FCA
SENIOR STATUTORY AUDITOR
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Leeds

22 June 2020

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

	Note	Year ended 31 March 2020 £000	Period ended 31 March 2019 £000
Revenue		120,326	118,155
Cost of sales		(89,170)	(91,239)
Gross profit		31,156	26,916
Administrative expenses	3,4	(27,089)	(26,927)
Operating profit/(loss)		4,067	(11)
Financial expenses	6	(989)	(598)
Profit/(loss) before tax		3,078	(609)
Taxation	7	(488)	446
Profit/(loss) for the period		2,590	(163)
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Revaluation of property, plant and equipment	8	309	–
Deferred tax movements	11	(93)	(89)
Items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences – foreign operations		(37)	(9)
Total comprehensive income/(loss) for the period		2,769	(261)
Basic profit/(loss) per share	5	12.4p	(0.8p)
Diluted profit/(loss) per share	5	12.2p	(0.8p)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	Year ended 31 March 2020 £000	Period ended 31 March 2019 £000
Non-current assets			
Property, plant and equipment	8	**11,219**	10,766
Right-of-use assets	8	**8,962**	–
Intangible assets	9	**9,084**	7,827
		29,265	18,593
Current assets			
Inventories	12	**22,015**	18,661
Trade and other receivables	13	**2,501**	1,657
Cash and cash equivalents	14	**7,839**	5,304
		32,355	25,622
Total assets		**61,620**	44,215
Current liabilities			
Interest-bearing loans and borrowings	15	**(9,949)**	(8,555)
Trade and other payables	16	**(14,442)**	(11,533)
Lease liabilities	17	**(1,148)**	–
		(25,539)	(20,088)
Non-current liabilities			
Interest-bearing loans and borrowings	15	**(3,439)**	(4,272)
Other payables	16	**(107)**	(263)
Lease liabilities	17	**(9,519)**	
Deferred tax liability	11	**(1,407)**	(885)
		(14,472)	(5,420)
Total liabilities		**(40,011)**	(25,508)
Net assets		**21,609**	18,707
Equity			
Share capital	19	**2,095**	2,095
Share premium	19	**13,152**	13,152
Foreign currency translation reserve	19	**(34)**	3
Revaluation reserve	19	**1,674**	1,424
Retained earnings	19	**4,722**	2,033
Total equity		**21,609**	18,707

Notes 1 to 22 form part of these financial statements.

These financial statements were approved by the Board of Directors on 22 June 2020 and were signed on its behalf by:

ANDREW WASS
DIRECTOR
22 June 2020

CHRIS SCOTT
DIRECTOR
22 June 2020

Company registered number: 07786708

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £000	Share premium £000	Foreign currency translation reserve £000	Revaluation reserve £000	Retained earnings £000	Total equity £000
Balance at 28 February 2018	2,087	13,055	12	1,424	2,307	18,885
Loss for the period	–	–	–	–	(163)	(163)
Other comprehensive income	–	–	(9)	–	–	(9)
Issue of shares net of expenses	8	97	–	–	–	105
Share-based payments charge	–	–	–	–	(22)	(22)
Deferred tax adjustment re: share-based payments	–	–	–	–	(89)	(89)
Balance at 31 March 2019	2,095	13,152	3	1,424	2,033	18,707
Profit for the year	–	–	–	–	2,590	2,590
Other comprehensive income	–	–	(37)	–	(34)	(71)
Freehold property revaluation	–	–	–	309	–	309
Deferred tax impact of revaluation	–	–	–	(59)	–	(59)
Share-based payments charge	–	–	–	–	133	133
Balance at 31 March 2020	2,095	13,152	(34)	1,674	4,722	21,609

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 March 2020 £000	Period ended 31 March 2019 £000
Cash flows from operating activities			
Profit/(loss) for the period		2,590	(163)
Adjustments for:			
Depreciation and amortisation	3,8,9	3,687	2,293
Financial expense	6	989	349
Loss on sale of property, plant and equipment		11	34
Share-based payment charge		133	(22)
Taxation	7	488	(446)
		7,898	2,045
Decrease/(increase) in trade and other receivables	13	(844)	1,047
Increase in inventories	12	(3,354)	(1,606)
Increase in trade and other payables	16	3,273	497
		6,973	1,983
Tax paid	7	501	593
Net cash from operating activities		7,474	2,576
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		50	–
Acquisition of property, plant and equipment	8	(740)	(1,785)
Capitalised development expenditure	9	(2,820)	(2,703)
Acquisition of a business	9	(400)	(400)
Net cash from investing activities		(3,910)	(4,888)
Cash flows from financing activities			
Cash from share issue		–	105
Proceeds from new borrowings	15	1,565	5,030
Interest paid		(806)	(352)
Repayment of borrowings		(546)	(593)
Payment of lease liabilities		(1,205)	(105)
Net cash from financing activities		(992)	4,085
Net increase in cash and cash equivalents		2,572	1,773
Cash and cash equivalents at beginning of period		5,304	3,540
Foreign exchange gains		(37)	(9)
Cash and cash equivalents at end of period	14	7,839	5,304

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

GENERAL INFORMATION

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

The Group financial statements consolidate those of the Company and its subsidiaries (collectively referred to as 'the Group'). The Parent Company financial statements present information about the Company as a separate entity and not about its Group.

The principal activity of the Group is the retail of musical instruments and equipment.

The registered office of Gear4music (Holdings) plc (company number: 07786708), Gear4music Limited (company number: 03113256) and Cagney Limited (dormant subsidiary; company number: 04493300) is Holgate Park Drive, York, YO26 4GN.

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

1 ACCOUNTING POLICIES

1.1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with the AIM rules for Companies, and apply the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs') and make amendments where necessary in order to comply with Companies Act 2006. The Company has elected to prepare its Parent Company financial statements in accordance with FRS 102; these are presented on pages 80 to 86.

The Group's accounting policies are set out below and have been applied consistently in the consolidated financial statements, except in relation to IFRS 16 'Leases' as detailed below in Note 1.2.

Subjective judgements made by the Directors in the application of these accounting policies that could have significant effect on the financial statements are considered in Note 22.

Accounting period

The financial statements presented cover the year ended 31 March 2020 and the 13-month period ended 31 March 2019.

Measurement convention

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

1.2 ADOPTION OF NEW AND REVISED STANDARDS

Various new or revised accounting standards have been issued which are not yet effective.

The key standard affecting the Group is IFRS 16 Leases that is applicable to the Group for the year ending 31 March 2020 and was not early adopted by the Group.

IFRS 16 'Leases'

Overview

The Group has adopted IFRS 16 for accounting periods commencing 1 April 2019 replacing IAS 17 and applied the modified retrospective approach. Comparative figures have not been restated.

IFRS 16 impacts the Group's consolidated financial statements by recognising right-of-use assets representing its right to use the underlying assets and a corresponding lease liability representing its obligation to make lease payments.

Under IAS 17, the Group recognised operating lease expenses on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised. Lease incentives received or paid were recognised as an integral part of the total lease expense over the term of the lease. Rent prepayments were disclosed within prepayments, and deferred income in respect of landlord incentives on property leases was disclosed within trade and other payables.

Under IFRS 16 right-of-use assets are initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the lease commencement date and any lease incentives received or premiums paid. The right-of-use asset is depreciated on a straight-line basis over the life of the lease. Lease liabilities are measured at the present value of the remaining lease payments, discounted at an incremental borrowing rate which reflects the characteristics of the underlying assets at 1 April 2019. Interest is recognised on the lease liability, resulting in a higher interest expense in the earlier years of the lease term.

Under IFRS 16, rent charges are replaced by a depreciation charge for the right-of-use asset and an interest expense on the lease liability. The total expense recognised in the Income Statement over the life of the lease is unaffected by the new standard.

There is no impact on cash flows, although the presentation of the Cash Flow Statement has changed with an increase in cash flows from operating activities being offset by an increase in cash flows from financing activities.

The Group has four leased properties (in York, Manchester, Sweden and Germany). The impact of adopting IFRS 16 is as follows:

Transition to IFRS 16

On transition to IFRS 16 the range of incremental borrowing rates applied to lease liabilities recognised under IFRS 16 were:

Properties	3.9–4.2%

1 ACCOUNTING POLICIES CONTINUED

1.2 ADOPTION OF NEW AND REVISED STANDARDS CONTINUED

The following is a reconciliation of the financial statement line items from IAS 17 to IFRS 16 at 1 April 2019:

	IAS 17 Carrying amount at 31 March 2019 £000	Reclassification £000	Remeasurement £000	IFRS 16 Carrying amount at 1 April 2019 £000
Property, plant and equipment	10,766	10,177	–	20,943
Lease liabilities	(453)	(10,983)	–	(11,436)
	10,313	(806)	–	9,507

The following is a reconciliation of total operating lease commitments at 31 March 2019 (as disclosed in the financial statements to 31 March 2019) to the lease liabilities recognised at 1 April 2019:

	£000
Total operating lease commitments disclosed at 31 March 2019	12,748
Impact of discounting	(1,765)
Finance lease obligations (Note 15)	453
Total lease liabilities recognised under IFRS 16 at 1 April 2019	11,436

Notes relating to IFRS 16 are included at 1.2, 8, 15 and 17.

1.3 GOING CONCERN

The Group's business activities and position in the market are described in the Strategic Report.

An assessment of the Group's prospects and viability is detailed in the Strategic Report on page 36.

Having duly considered all of these factors and having reviewed the forecasts for the coming year, the Directors have a reasonable expectation that the Group has adequate resources to continue trading for the foreseeable future, and as such continue to adopt the going concern basis of accounting in preparing the financial statements.

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.

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

Functional currency

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

1 ACCOUNTING POLICIES CONTINUED

1.6 CLASSIFICATION OF FINANCIAL INSTRUMENTS ISSUED BY THE GROUP

In accordance with 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, 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 transaction price. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any expected credit losses. The Directors have concluded that any such credit losses are immaterial.

Trade and other payables

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

Cash and cash equivalents

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

Interest-bearing borrowings

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

1.8 PROPERTY, PLANT AND EQUIPMENT

Certain classes of property, plant and equipment as stated below are stated at cost less accumulated depreciation and accumulated impairment losses.

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

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

- Plant and equipment — 4–5 years' straight-line
- Fixtures and fittings — 20–25% on reducing balance
- Motor vehicles — 25% on reducing balance
- Computer equipment — 3–5 years' straight-line
- Freehold land and buildings — 50-years straight-line

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

Assets held under lease are depreciated over their expected useful lives on the same basis as owned assets.

Land and buildings are stated at fair value.

1 ACCOUNTING POLICIES CONTINUED

1.8 PROPERTY, PLANT AND EQUIPMENT CONTINUED

Revaluation

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

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

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

1.9 BUSINESS COMBINATIONS

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

The Group measures goodwill at the acquisition date as:

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

Costs related to the acquisition are expensed as incurred.

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

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

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

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

Other intangible assets

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

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

Amortisation

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

- Brand 10 years; and
- Software platform 3–8 years

1.11 INVENTORIES

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

A provision is made in respect of inventories as follows:

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

1 ACCOUNTING POLICIES CONTINUED

1.12 IMPAIRMENT EXCLUDING INVENTORIES AND DEFERRED TAX ASSETS

Financial assets (including receivables)

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

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

Non-financial assets

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

The recoverable amount of an asset or CGU 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 CGUs. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

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

1.13 EMPLOYEE BENEFITS

Defined contribution plans

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

Share-based payment transactions

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

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

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

1.14 PROVISIONS

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

1.15 REVENUE

Product sales and carriage income

To determine whether to recognise revenue, the Group follows a five-step process:

1 Identifying the contract with a customer
2 Identifying the performance obligations
3 Determining the transaction price
4 Allocating the transaction price to the performance obligations
5 Recognising revenue when/as performance obligation(s) are satisfied

1 ACCOUNTING POLICIES CONTINUED

1.15 REVENUE CONTINUED

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods to its customers.

Revenue from the sale of goods and carriage income are recognised when the customer receives the goods ordered at which point title and risk passes to third parties and revenue can be reliably measured.

Revenue is measured at the fair value of the consideration received, including freight charges and duty where applicable, excluding discounts, rebates, VAT and other sales taxes or duty. Returns are dealt with on receipt of the product into the warehouse which triggers an automatic credit, and an estimate for returns is provided for at the year end. This balance is held within accruals and deferred income (Note 16). The value of inventory for sales returns is included in inventory at the year end (Note 12).

Other revenue

Warranty income is recognised 'over time' under IFRS 15, by assuming an inputs method that measures progress by reference to costs incurred towards satisfying that performance obligation as compared to the total expected costs. A contract liability is recognised for consideration received in respect of unsatisfied performance obligations as deferred income in the statement of financial position (Note 16).

The Group offers retail point of sale credit on orders over £50, through agreements with external credit providers. The Group does not retain any credit risk and commissions are recognised within revenue on recognition of the credit sale. In the year ended 31 March 2020 this income totalled £285,000 (FY19: £240,000). No discount is offered on any sales made through these credit providers.

1.16 EXPENSES

Finance lease payments

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

Exceptional items

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

Government and other forms of grant

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

Financing income and expenses

Financing expenses comprise interest payable and 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 period comprises current and deferred tax

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

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

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

1.18 SEGMENTAL REPORTING

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

2 SEGMENTAL REPORTING

The Group's revenue and profit was derived from its principal activity which is the sale of musical instruments and equipment.

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

Revenue by Geography

	Year ended 31 March 2020 £000	Period ended 31 March 2019 £000
UK	**61,821**	63,672
Europe and Rest of the World	**58,505**	54,483
	120,326	118,155

Administrative expenses by Geography

	Year ended 31 March 2020 £000	Period ended 31 March 2019 £000
UK	**24,562**	24,113
Europe	**2,527**	2,814
	27,089	26,927

The majority of Group assets are held in the UK except for local right-of-use assets and property, plant and equipment in Sweden (31 March 2020: £4.5m) and Germany (31 March 2020: £2.7m).

Revenue by Product category

	Year ended 31 March 2020 £000	Period ended 31 March 2019 £000
Other-brand products	**79,416**	82,125
Own-brand products	**35,432**	31,289
Warranty income	**337**	296
Other	**5,141**	4,445
	120,326	118,155

3 EXPENSES

Included in profit/loss are the following:

	Year ended 31 March 2020 £000	Period ended 31 March 2019 £000
Depreciation of property, plant and equipment	**909**	1,039
Depreciation of right-of-use assets	**1,215**	–
Amortisation of intangible assets	**1,563**	1,254
Amortisation of government grants	**8**	37
Loss on disposal of property, plant and equipment	**11**	34
Rentals under operating leases – land and buildings	**–**	1,425
Rentals – plant and machinery	**23**	8
Auditor remuneration – audit of these financial statements	**40**	–
Auditor remuneration – audit of last year's financial statements	**–**	30
Auditor remuneration – this year's audit of financial statements of subsidiaries	**50**	–
Auditor remuneration – last year's audit of financial statements of subsidiaries	**–**	45
Auditor remuneration – other	**–**	–
Release of rent accrual	**–**	(421)

Auditor remuneration in FY20 relates to Grant Thornton UK LLP; auditor remuneration in FY19 related to KPMG LLP.

4 STAFF NUMBERS AND COSTS

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

	Year ended 31 March 2020 Number	Period ended 31 March 2019 Number
Administration	179	184
Selling and distribution	287	247
	466	431

The aggregate payroll costs of these persons were as follows:

	Year ended 31 March 2020 £000	Period ended 31 March 2019 £000
Wages and salaries	7,736	8,146
Equity-settled share-based payments (see Note 20)	133	(22)
Cash-settled share-based payments (see Note 20)	53	(11)
Social security costs	1,167	954
Contributions to defined contribution plans	659	480
	9,748	9,547

Directors' remuneration is detailed in the Remuneration Report on page 41 which forms part of these financial statements, and disclosed in Note 3 of the Notes to the Company Financial Statements on page 84.

5 EARNINGS PER SHARE

Diluted profit per share is calculated by dividing the net profit for the period attributable to Ordinary shareholders by the weighted average number of Ordinary shares outstanding during the period plus the weighted average number of Ordinary shares that would be issued on the conversion of CSOP and LTIP dilutive potential Ordinary shares (see Note 20) into Ordinary shares.

	Year ended 31 March 2020	Period ended 31 March 2019
Profit/(loss) attributable to equity shareholders of the Parent (£000)	2,590	(163)
Basic weighted average number of shares	20,945,328	20,926,717
Dilutive potential Ordinary shares	228,119	–
Diluted weighted average number of shares	21,173,447	20,926,717
Basic profit/(loss) per share	12.4p	(0.8p)
Diluted profit/(loss) per share	12.2p	(0.8p)

6 FINANCE INCOME AND EXPENSES

	Year ended 31 March 2020 £000	Period ended 31 March 2019 £000
Fair value movement	5	33
Total finance income	5	33

	Year ended 31 March 2020 £000	Period ended 31 March 2019 £000
Bank interest	389	352
IFRS 16 lease interest	442	–
Net foreign exchange loss	144	249
Unwinding of discount on deferred consideration	19	30
Total finance expense	994	631
Total net finance expense	989	598

7 TAXATION

RECOGNISED IN THE INCOME STATEMENT

	Year ended 31 March 2020 £000	Period ended 31 March 2019 £000
Current tax expense		
UK corporation tax	(77)	(584)
Overseas corporation tax	45	20
Adjustments for prior periods	91	(29)
Current tax expense/(credit)	59	(593)
Deferred tax expense		
Origination and reversal of temporary differences	266	123
Deferred tax rate change impact	82	–
Adjustments for prior periods	81	24
Deferred tax expense	429	147
Total tax expense/(credit)	488	(446)

The corporation tax rate applicable to the Company was 19% for the year ended 31 March 2020, and 19% for the period ended 31 March 2019. The Budget of 11 March 2020 reversed the expected reduction in corporation tax rate to 17% from 1 April 2020. The corporation tax rate has therefore remained at 19% and was substantively enacted on 17 March 2020. The deferred tax assets and liabilities at 31 March 2020 have been calculated based on that rate.

RECONCILIATION OF EFFECTIVE TAX RATE

	Year ended 31 March 2020 £000	Period ended 31 March 2019 £000
Profit/(loss) for the period	2,590	(163)
Total tax charge/(credit)	488	(446)
Profit/(loss) excluding taxation	3,078	(609)
Current tax at 19% *(2019: 19.0%)*		
Tax using the UK corporation tax rate for the relevant period:	584	(116)
Non-deductible expenses	22	(1)
Deferred tax rate change impact	82	(15)
Adjustments relating to prior year – deferred tax	81	24
Adjustments relating to prior year – current tax	91	(29)
R&D claim additional deduction	(420)	(252)
Impact of overseas tax rate	2	1
Deferred tax assets not recognised	46	(58)
Total tax charge/(credit)	488	(446)

8 TANGIBLE FIXED ASSETS

PROPERTY, PLANT AND EQUIPMENT

	Plant and equipment £000	Fixtures and fittings £000	Motor vehicles £000	Computer equipment £000	Land and buildings £000	Total £000
Cost						
At 1 March 2018	787	3,291	62	611	7,350	12,101
Additions	472	1,136	–	177	–	1,785
Disposals	–	(43)	–	(10)	–	(53)
Balance at 31 March 2019 and 1 April 2019	1,259	4,384	62	778	7,350	13,833
Additions	435	558	–	122	–	1,115
Disposals	(62)	–	–	–	–	(62)
Revaluation	–	–	–	–	150	150
Balance at 31 March 2020	**1,632**	**4,942**	**62**	**900**	**7,500**	**15,036**
Depreciation and impairment						
At 1 March 2018	444	1,230	15	358	–	2,047
Depreciation charge for the year	212	528	13	127	159	1,039
Disposals	–	(14)	–	(5)	–	(19)
Balance at 31 March 2019 and 1 April 2019	656	1,744	28	480	159	3,067
Depreciation charge for the period	252	520	8	129	–	909
Disposals	–	–	–	–	–	–
Revaluation	–	–	–	–	(159)	(159)
Balance at 31 March 2020	**908**	**2,264**	**36**	**609**	**–**	**3,817**
Net book value as at 31 March 2020	**724**	**2,678**	**26**	**291**	**7,500**	**11,219**
Net book value as at 31 March 2019	603	2,640	34	298	7,191	10,766

FREEHOLD PROPERTY REVALUATION

At 31 March 2020 the freehold office premises at Holgate Park were revalued at market value using information provided by an independent chartered surveyor. The valuation was carried out in accordance with the provisions of RICS Appraisal and Valuation Standards ('The Red Book').

The appraisal was carried out using Level 3 observable inputs including prices for recent market transactions for similar properties and incorporates adjustments for factors specific to the property in question, including plot size, location, encumbrances and current use.

If the property had not been revalued in FY18 and FY20 the net book value would have been £5,324,000.

RIGHT-OF-USE ASSETS

Assets leased under leases

At 31 March 2020, the net carrying amount of leased plant and equipment assets was £761,000 (31 March 2019: £526,000), and the accumulated depreciation against these leased assets was £193,000 (31 March 2019: £44,000).

Security

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

8 TANGIBLE FIXED ASSETS CONTINUED

RIGHT-OF-USE ASSETS CONTINUED

Leasehold properties

The Group has four leased properties: Distribution centres and showrooms in York, Sweden and Germany, and a software development office in Manchester.

As at 31 March 2020 the associated right-of-use assets are as follows:

	Land and buildings £000
Cost	
Balance at 1 April 2019	10,177
Additions	–
Balance at 31 March 2020	**10,177**
Depreciation	
At 1 April 2019	–
Depreciation charge for the year	1,215
Balance at 31 March 2020	**1,215**
Net book value as at 31 March 2020	**8,962**

Notes relating to IFRS 16 are included at 1.2, 8, 15 and 17.

9 INTANGIBLE ASSETS

	Goodwill £000	Software platform £000	Brand £000	Total £000
Cost				
At 1 March 2018	1,848	6,538	564	8,950
Additions	–	2,703	–	2,703
Balance at 31 March 2019 and 1 April 2019	1,848	9,241	564	11,653
Additions	–	2,820	–	2,820
Balance at 31 March 2020	**1,848**	**12,061**	**564**	**14,473**
Amortisation				
At 1 March 2018	–	2,234	338	2,572
Amortisation for the year	–	1,193	61	1,254
Balance at 31 March 2019 and 1 April 2019	–	3,427	399	3,826
Amortisation for the period	–	1,507	56	1,563
Balance at 31 March 2020	**–**	**4,934**	**455**	**5,389**
Net book value as at 31 March 2020	**1,848**	**7,127**	**109**	**9,084**
Net book value as at 31 March 2019	1,848	5,814	165	7,827

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

GOODWILL

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

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

Goodwill balances are denominated in Sterling:

	Year ended 31 March 2020 £000	Period ended 31 March 2019 £000
Gear4music Limited	**417**	417
Software development business	**1,431**	1,431
	1,848	1,848

9 INTANGIBLE ASSETS CONTINUED

IMPAIRMENT TESTING

In accordance with IAS 36 'Impairment of Assets', the Group reviews the carrying value of its intangible assets. A detailed review was undertaken at 31 March 2020 to assess whether the carrying value of assets was supported by the net present value in use calculations based on cash flow projections from formally approved budgets and longer-term forecasts.

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

A CGU is defined as the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups thereof. The Group is deemed to have a single CGU to which the goodwill, the software platform and the brand are allocated. An impairment review has been performed on this CGU. The recoverable amount of this CGU has been determined based on value-in-use calculations. In assessing value in use, a five-year forecast to 31 March 2025 was used to provide cash flow projections that have been discounted at a pre-tax discount rate of 10% (2019: 10%). The cash flow projections are subject to key assumptions in respect of revenue growth, gross margin performance, overhead expenditure, and capital expenditure. Management has reviewed and approved the assumptions inherent in the model:

- Revenue forecasts based on growth by geographical market, at a range of growth levels based on market size and estimate of opportunity, trends, and Management's experience and expectation;
- Product costs are assumed to be broadly flat and gross margins are forecast to slightly improve from 2020; and
- Wage increases are a function of recruitment and a person-by-person review of current staff, with a range of % increases.

No impairment loss was identified in the current year (2019: £nil). The valuation indicates significant headroom and therefore a terminal growth rate assumption has not been needed to be applied in order to support the valuation of this CGU. A number of reasonable sensitivities were put through the model, including changes to the discount rate (15%) and the results did not result in an impairment of the related goodwill or other intangible assets.

10 INVESTMENTS IN SUBSIDIARIES

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

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

All Group companies have 31 March financial year ends.

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

Cagney Limited and Gear4music Norway AS are dormant companies.

11 DEFERRED TAX ASSETS AND LIABILITIES

MOVEMENT IN DEFERRED TAX DURING THE YEAR

	At 1 April 2019 £000	Recognised in other comprehensive income £000	Recognised in income £000	At 31 March 2020 £000
Property, plant and equipment	(908)	(93)	(413)	(1,414)
Short-term timing differences	23	–	(16)	7
	(885)	(93)	(429)	(1,407)

Movement in deferred tax during the prior year

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

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

Losses of £1,507,000 are carried forward at 31 March 2020, equating to an unrecognised asset of £286,000.

12 INVENTORIES

	Year ended 31 March 2020 £000	Period ended 31 March 2019 £000
Finished goods	22,015	18,661

The cost of inventories recognised as an expense and included in cost of sales in the period amounted to £81.6m (£83.4m in the period ended 31 March 2019).

Management has included a provision of £80,000 (31 March 2019: £107,000), representing a 100% provision against returns stock subsequently found to be faulty, that is retained to be used for spare parts on the basis there is no direct NRV value, and a provision based on the expected product loss on dealing with returns stock.

13 TRADE AND OTHER RECEIVABLES

	Year ended 31 March 2020 £000	Period ended 31 March 2019 £000
Trade receivables	1,651	856
Prepayments	850	801
	2,501	1,657

CREDIT RISK AND IMPAIRMENT

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The carrying amount of trade receivables represents the maximum credit exposure. The Group does not take collateral in respect of trade receivables.

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

CUSTOMER RECEIVABLES

The Group faces low credit risk as customers typically pay for their orders in full on shipment of the product, with the only exception being a small number of education accounts with schools and colleges that have 30-day terms (1.9% of 2020 revenues; 1.8% of 2019 revenues).

FUNDS LODGED WITH PAYMENT PROVIDERS

Funds lodged with Amazon, Digital River, Klarna and V12 Retail Finance totalled £215,000 on 31 March 2020 (31 March 2019: £128,000) and are included in Trade debtors. Credit risk in relation to cash held with financial institutions is considered low risk, given the credit rating of these organisations.

14 CASH AND CASH EQUIVALENTS

	Year ended 31 March 2020 £000	Period ended 31 March 2019 £000
Cash and cash equivalents per balance sheet	7,839	5,304
Cash and cash equivalents per cash flow statements	7,839	5,304

15 INTEREST-BEARING LOANS AND BORROWINGS

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

	Year ended 31 March 2020 £000	Period ended 31 March 2019 £000
Non-current liabilities		
Bank loans	3,439	3,990
Finance lease liabilities	–	282
	3,439	4,272
Current liabilities		
Bank loans	9,949	8,384
Finance lease liabilities	–	171
	9,949	8,555
Total liabilities		
Bank loans	13,388	12,374
Finance lease liabilities	–	453
	13,388	12,827

15 INTEREST-BEARING LOANS AND BORROWINGS CONTINUED

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

The interest rate on 140-day import loans drawn under the import loan agreement is 2.45% per annum over HSBC's Sterling base rate, and on an overdraft if and when drawn, is 3.25% over base. Interest on import loans is paid at the maturity of the relevant loan. Interest on an overdraft would be paid monthly in arrears. Import loan and overdraft facilities were approved for renewal in June 2020 for a 12-month period.

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

- The first loan was for £3.73m and is a five-year loan with capital repayments scheduled over 20 years, and interest is 2.04% over LIBOR, and capital outstanding of £3.22m at 31 March 2020; and
- The second loan was for £1.80m and is a five-year loan with interest of 2.85% over LIBOR, and capital outstanding of £0.81m at 31 March 2020.

All borrowings are denominated in Sterling.

CHANGES IN LIABILITIES FROM FINANCING ACTIVITIES DURING THE YEAR

	Loans and borrowings £000
Balance at 1 April 2019	**12,374**
Changes from financing cash flows	
Proceeds from loans and borrowings	**1,565**
Repayment of borrowings	**(546)**
Total changes from financing cash flows	**1,019**
Other changes	
Interest expense (Note 6)	**380**
Interest paid	**(355)**
Movement in interest accrual (included in accruals and deferred income – Note 16)	**(25)**
Fair value movement on loans	**(5)**
Total other changes	**(5)**
Balance at 31 March 2020	**13,388**

CHANGES IN LIABILITIES FROM FINANCING ACTIVITIES DURING THE PREVIOUS YEAR

	Loans and borrowings £000	Finance lease liabilities £000	Total £000
Balance at 1 March 2018	8,506	23	8,529
Changes from financing cash flows			
Proceeds from loans and borrowings	4,495	–	4,495
Repayment of borrowings	(593)	–	(593)
Payment of finance lease liabilities	–	(105)	(105)
Total changes from financing cash flows	3,902	(105)	3,797
Other changes			
New finance leases	–	535	535
Interest expense (Note 6)	348	4	352
Interest paid	(309)	(3)	(312)
Movement in interest accrual (included in accruals and deferred income – Note 16)	(39)	(1)	(40)
Fair value movement on loans	(34)	–	(34)
Total other changes	(34)	535	501
Balance at 31 March 2019	12,374	453	12,827

Notes relating to IFRS 16 are included at 1.2, 8, 15 and 17.

16 TRADE AND OTHER PAYABLES

	Year ended 31 March 2020 £000	Period ended 31 March 2019 £000
Current		
Trade payables	**10,090**	7,464
Accruals and deferred income	**1,686**	1,915
Deferred consideration	**197**	393
Government grants	**8**	8
Other taxation and social security	**2,461**	1,753
	14,442	11,533
Non-current		
Accruals and deferred income	**99**	61
Deferred consideration	**–**	186
Government grants	**8**	16
	107	263

Accruals at 31 March 2020 include £97,000 (FY19: £62,000) relating to the estimated cash bonuses accrued relating to the CSOP scheme, and Director Cash Plan (see Note 20).

Deferred consideration is due in relation to the acquisition of a software business in January 2017 and comprised 15 quarterly instalments of £100,000 payable on 1 January/April/July/October. At 31 March 2020 two quarterly instalments remain outstanding (31 March 2019: six). These amounts are valued in the accounts at fair value and subsequently amortised.

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

The Directors consider the carrying amount of other 'trade and other payables' to approximate their fair value. The interest expense of £19,000 (FY19: £30,000) in relation to the unwinding of the discount is disclosed in Note 6.

Accruals at 28 February 2018 included £446,000 of rent accrued but not paid, being the difference in cash paid and the average rent charge as expensed, as per the commercial agreement reached with the landlord of the leasehold distribution centre at Clifton Moor, York. On 21 March 2018 the Group entered into a new 15-year lease with a 10-year clean break clause and this accrual was released in full resulting in a £421,000 credit that is included in administrative expenses in the period ended 31 March 2019.

17 LEASE LIABILITIES

Lease liabilities are presented in the statement of financial position as follows:

	31 March 2020 £000
Current	**1,148**
Non-current	**9,519**
	10,667

	Lease liabilities £000
Balance at 1 April 2019	453
Adoption of IFRS 16	10,983
Cash flows:	
Repayment	(1,205)
Proceeds	436
Total changes	(769)
Balance at 31 March 2020	10,667

The Group has leases for plant and machinery and four properties. Each lease is reflected in the statement of financial position as a right-of-use asset and a lease liability. The Group classifies its right-of-use assets in a consistent manner to its property, plant and equipment (see Note 8).

17 LEASE LIABILITIES CONTINUED

The table below describes the nature of the Group's leasing activities by type of right-of-use asset recognised on balance sheet:

Right-of-use asset	Number of right-of-use assets leased	Range of remaining term	Average remaining lease term	Number of leases with extension options	Number of leases with options to purchase	Number of leases with termination options
Property	4	2–9yrs	6.5yrs	–	–	1
Plant and equipment	10	1.5–3yrs	2yrs	–	10	–

The lease liabilities are secured by the related underlying assets. Future minimum lease payments at 31 March 2020 were as follows:

	Within 1 year £000	1–5 years £000	More than 5 years £000
Lease payments	1,751	6,367	4,368
Finance charge	415	1,133	271
Net present value	1,336	5,234	4,097

Notes relating to IFRS 16 are included at 1.2, 8, 15 and 17.

18 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, leases, cash and liquid resources and various items arising directly from its operations, such as trade receivables and trade payables, is to finance the Group's operations.

RISK MANAGEMENT FRAMEWORK

Regular reviews of strategic risks are performed by the Board.

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

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

(a) Liquidity risk

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

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

At 31 March 2020 the Group had £7.8m of cash and bank balances (31 March 2019: £5.3m).

				Contractual cash flows			
	Effective interest rate %	**Carrying amount Year ended 31 March 2020 £000**	**Face value Year ended 31 March 2020 £000**	**Within 1 year £000**	**1–2 years £000**	**2–5 years £000**	**Over 5 years £000**
Secured loans	**2.99**	**13,388**	**13,609**	**9,585**	**546**	**636**	**2,842**
Trade payables	**–**	**10,090**	**10,090**	**10,090**	**–**	**–**	**–**
		23,478	**23,699**	**19,675**	**546**	**636**	**2,842**

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

18 FINANCIAL INSTRUMENTS CONTINUED

RISK MANAGEMENT FRAMEWORK CONTINUED

(b) Credit risk

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

The Group faces low credit risk as customers typically pay for their orders in full on shipment of the product. There are a small number of education accounts with schools and colleges that have 30-day terms (1.9% of 2020 and 2019 revenues).

Funds lodged with Amazon, Digital River, Klarna and V12 Retail Finance totalled £215,000 on 31 March 2020 (31 March 2019: £128,000) and are included in Trade debtors. Credit risk in relation to cash held with financial institutions is considered low risk, given the credit rating of these organisations.

(c) Interest rate risk

The Group's bank borrowings incur interest at variables rates of between 2.45% and 3.25% above the bank's base rate or LIBOR, which exposes the Group to interest rate risk. Loans are with UK-based institutions and denominated in Sterling.

At 31 March 2020, the Group had cash reserves of £7.8m and could utilise these funds to part settle debts and mitigate any associated interest risk.

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

Profile

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

	Year ended 31 March 2020 £000	Period ended 31 March 2019 £000
Variable rate instruments		
Cash	(7,839)	(5,304)
Bank loans	13,388	12,374
	5,549	7,070
Fixed rate instruments		
Finance leases	–	453
Total net financial liabilities	5,549	7,523

Sensitivity analysis

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

	Year ended 31 March 2020 £000 Impact on closing equity/profit and loss	Period ended 31 March 2019 £000 Impact on closing equity/profit and loss
Increase of 50 basis points	(51)	(38)
Decrease of 50 basis points	51	38

(d) Foreign exchange risk

All borrowings are denominated in Sterling.

The Group sells into Europe and the Rest of the World in nine currencies including Sterling, Euros and more recently US Dollars. In the period ended 31 March 2020, 47% (2019: 44%) of total revenues were in non-Sterling currencies, of which 43% (2019: 48%) were in Euros. Where costs (including local tax liabilities) are incurred in these respective currencies, currency balances are retained and payments made in these currencies, thereby mitigating any associated currency loss. The scaling up of the Group's operations in Sweden and Germany has increased the proportion of liabilities denominated in Swedish Krona and Euros (see Note 2), further extending the natural hedge. Surplus foreign currency holdings are reviewed on a daily basis and balances in excess of known liabilities are converted into Sterling, restricting the period between the transaction and the point of conversion, thereby reducing the transactional risk.

18 FINANCIAL INSTRUMENTS CONTINUED

RISK MANAGEMENT FRAMEWORK CONTINUED

(d) Foreign Exchange Risk continued

The Group purchases own-brand instruments and equipment from the Far East, transacting in US Dollars. The lead time from committed order to receipt of stock is typically 12–16 weeks, during which time the Group bears currency risk. The Group also trades with one supplier (2019: one supplier) on a trade credit basis with terms of 60 days. The Group has the trading platform ability and sufficient price flexibility to be able to pass on some adverse currency variances should it choose, and the Group generates enhanced margins on these products such that a proportion of these losses could be absorbed. The Group 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.

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

	Year ended 31 March 2020 £000	Period ended 31 March 2019 £000
Trade and other receivables		
Sterling	**557**	309
US Dollar	**572**	88
Euro	**366**	356
Other European currencies	**155**	103
	1,650	856
Cash and cash equivalents		
Sterling	**6,452**	4,355
US Dollar	**1**	2
Euro	**523**	409
Other European currencies	**863**	538
	7,839	5,304
Trade payables		
Sterling	**7,246**	6,634
US Dollar	**1,430**	213
Euro	**943**	255
Other European currencies	**471**	362
	10,090	7,464
Local sales tax		
Sterling	**342**	522
Euro	**743**	690
Other European currencies	**1,205**	899
	2,290	2,111

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

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

Euro funds are retained to settle Euro denominated payables. US Dollar denominated trade payables are not currently bought forward against, but only represent a small exposure that can be otherwise managed, and the Group has started selling in US Dollars.

(e) Debt and capital management

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

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

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

18 FINANCIAL INSTRUMENTS CONTINUED

FAIR VALUES AND CARRYING VALUES OF FINANCIAL INSTRUMENTS

A comparison by category of the book values and fair values of the financial assets and liabilities of the Group at 31 March 2020 and 31 March 2019:

	31 March 2020		31 March 2019	
	Book value £000	**Fair value £000**	Book value £000	Fair value £000
Trade and other receivables	**2,396**	**2,396**	1,657	1,657
Cash and cash equivalents	**7,839**	**7,839**	5,304	5,304
Bank loans	**(13,609)**	**(13,388)**	(12,408)	(12,374)
Finance lease liabilities	**–**	**–**	(453)	(474)
Trade and other payables	**(14,246)**	**(14,246)**	(12,115)	(12,115)
Deferred consideration	**(200)**	**(197)**	(600)	(579)
	(17,820)	**(17,596)**	(18,615)	(18,581)

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

Trade and other payables and receivables

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

Cash and cash equivalents

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

Long-term and short-term borrowings

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

Derivative financial instruments

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

Deferred consideration

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

Fair value hierarchy

The table below analyses financial instruments 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).

	Level 1 £000	Level 2 £000	Level 3 £000
31 March 2020			
Bank loans	**–**	**(13,388)**	**–**
31 March 2019			
Bank loans	–	(12,374)	–

Reconciliation of Level 2 fair value:

	At 1 April 2019 £000	Net increase in bank debt £000	**At 31 March 2020 £000**
Bank loans	(12,374)	(1,014)	**(13,388)**

19 SHARE CAPITAL AND RESERVES

SHARE CAPITAL

	Year ended 31 March 2020 Number	Period ended 31 March 2019 Number
Authorised, called up and fully paid:		
Ordinary shares of 10p each	**20,945,328**	20,945,328

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

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

SHARE PREMIUM

	Year ended 31 March 2020 £000	Period ended 31 March 2019 £000
Opening	**13,152**	13,055
Issue of shares	**–**	97
Closing	**13,152**	13,152

Proceeds received in addition to the nominal value of the shares issued have been included in share premium, less registration and other regulatory fees and net of related tax benefits.

FOREIGN CURRENCY TRANSLATION RESERVE

	Year ended 31 March 2020 £000	Period ended 31 March 2019 £000
Opening	**3**	12
Translation loss	**(37)**	(9)
Closing	**(34)**	3

The foreign currency translation reserve comprises exchange differences relating to the translation of the net assets of the Group's foreign subsidiaries from their functional currency into the Parent's functional currency.

REVALUATION RESERVE

	Year ended 31 March 2020 £000	Period ended 31 March 2019 £000
Opening	**1,424**	1,424
Freehold property revaluation	**309**	–
Deferred tax	**(59)**	–
Closing	**1,674**	1,424

The revaluation reserve represents the unrealised gain generated on revaluation of the freehold office property on 28 February 2018 and 31 March 2020. It represents the excess of the fair value over deemed cost.

RETAINED EARNINGS

	Year ended 31 March 2020 £000	Period ended 31 March 2019 £000
Opening	**2,033**	2,307
Share-based payment charge/(credit)	**133**	(22)
Deferred tax	**(34)**	(89)
Profit/(loss) for the period	**2,590**	(163)
Closing	**4,722**	2,033

Retained earnings represents the cumulative net profits recognised in the consolidated income statement.

20 SHARE-BASED PAYMENTS

The Group operates share option plans for qualifying employees of the Group. Options in the plans are settled in equity in the Company and are subject to vesting conditions.

There were no new awards or vests made in the financial year ending 31 March 2020. In the financial period ending 31 March 2019 options granted under an Employees and Directors EMI scheme were exercised and settled in full, and a Director cash bonus plan was also settled in full.

At the start and end of the year there were three incentive schemes in place:

- a Directors' cash bonus plan relevant to Andrew Wass who, by virtue of his 34% shareholding, is cash rather than equity rewarded;
- a CSOP scheme; and
- an LTIP relevant to six senior employees including Andrew Wass, Chris Scott and Gareth Bevan.

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

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

EMPLOYEE EMI PLAN – EXERCISED AND SETTLED IN FULL IN FY19

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

DIRECTOR EMI PLAN – EXERCISED AND SETTLED IN FULL IN FY19

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

DIRECTOR CASH PLAN 1 – SETTLED IN FULL IN FY19

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

CSOP

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

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

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

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

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

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

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

DIRECTOR CASH PLAN 2

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

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

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

Awards will be settled in cash.

20 SHARE-BASED PAYMENTS CONTINUED

LTIP

In November 2018 a long-term management incentive plan to incentivise senior employees was set up, in a manner aligned with the interests of the Company's shareholders.

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

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

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

The share price hurdle being the average closing mid-price in the 30-day period following announcement of preliminary results. The Remuneration Committee has responsibility for matters relating to members of the Plan. The Executive Directors of Gear4music Limited are the participants in the Plan.

The terms and conditions of specific grants are as follows:

Grant date/employees entitled	Method of settlement accounting	Number of instruments	Vesting conditions	Contractual life of options
Employee EMI Award 1 – Equity settled award to eight key employees on IPO, granted by Parent on 3 June 2015	Equity	23,383	Continued employment	Settled
Employee EMI Award 2 – Equity settled award to one key employee, granted by Parent on 17 February 2016	Equity	1,845	Continued employment	Settled
Employee EMI Award 3 – Equity settled award to two key employees, granted by Parent on 26 May 2016	Equity	9,433	Continued employment	Settled
Employee EMI Award 4 – Equity settled award to 44 employees, granted by Parent on 31 May 2016	Equity	Initially 27,406; 23,590 at 28 Feb 2018	Continued employment	Settled
Director EMI Award 1a – Equity settled award to Chris Scott and Gareth Bevan, granted by Parent on 31 May 2016	Equity	19,956	EPS-based performance criteria and continued employment	Settled
Director Award 1b – Cash settled award to Andrew Wass, granted by Parent on 31 May 2016	Cash	Cash equivalent to monetary result for the other Directors	EPS-based performance criteria and continued employment	Settled
Employee CSOP Award 5 – Equity settled award to 75 employees, granted by Parent on 30 June 2017	Equity	7,248 granted; 5,337 at 31 Mar 2019 377 forfeit in year; now 4,960	Continued employment	30 June 2020
Senior Mgmt. CSOP Award 2a – Equity settled award to Chris Scott and Gareth Bevan and two others, granted by Parent on 30 June 2017	Equity	7,212	EPS-based performance criteria and continued employment	30 June 2020
Director Award 2b – Cash settled award to Andrew Wass, granted by Parent on 30 June 2017	Cash	Cash equivalent to monetary result for the other Directors	EPS-based performance criteria and continued employment	30 June 2020
Employee CSOP Award 6 – Equity settled award to 73 employees granted by Parent on 30 June 2018	Equity	7,403 granted; 6,553 at 31 Mar 2019 606 forfeit in year; now 5,947	Continued employment	30 June 2021
LTIP – Equity settled award to the six directors of Gear4music Limited	Equity	210,000	80% linked to share price 20% linked to revenue and profitability improvements All subject to continued employment	From August 2021 to August 2026

20 SHARE BASED PAYMENTS CONTINUED

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

	Weighted average exercise price 2020	Number of options 2020	Weighted average exercise price 2019	Number of options 2019
Outstanding at the beginning of the period	–	229,102	–	92,277
Forfeited during the period	–	(983)	–	(2,371)
Exercised during the period	–	–	–	(78,207)
Granted during the period	–	–	–	217,403
Lapsed during the period	–	–	–	–
Outstanding at the end of the period	–	228,119	–	229,102
Exercisable at the end of the period	–	–	–	–

No options were exercised in the year (FY19: 78,207 shares). The options outstanding at the year-end have a nil exercise price and a weighted average contractual life of 3.83 years (31 March 2019: 4.83 years).

The fair values of employee share option awards under the CSOP were calculated using a Black-Scholes model and awards under the LTIP on a Monte Carlo simulation model, based on the assumptions detailed below:

Date of grant	Share price on date of grant (pence)	Exercise price (pence)	Volatility (%)	Vesting period (years)	Dividend yield (%)	Risk free rate of interest (%)	Fair value (pence)
30 June 2017	720.0	0.0	52.6%	3	0%	0.43%	720.0
30 June 2017	720.0	0.0	52.6%	3	0%	0.43%	720.0
30 June 2018	719.5	0.0	30.6%	3	0%	0.73%	719.5
8 Nov 2018	563.0	0.0	44.5%	2–7	0%	0.92%	555.0

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

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

	Year ended 31 March 2020 £000	Period ended 31 March 2019 £000
Equity settled share-based payment expense	133	(22)
Cash-settled share-based payment expense	36	(11)
	169	(33)
Opening	148	181
	317	148
Recognised in equity	220	86
Recognised as a liability	97	62
	317	148

21 RELATED PARTIES

TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

The compensation of key management personnel is as follows:

	Year ended 31 March 2020 £000	Period ended 31 March 2019 £000
Key management emoluments including social security costs	474	621
Company contributions to money purchase pension plans	15	82
	489	703

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

Four directors are accruing retirement benefits under a money purchase scheme (2019: four).

21 RELATED PARTIES CONTINUED

SHARE-BASED PAYMENTS

EMI and Director Cash Plan – vested in financial period ended 31 March 2019

An EMI share incentive plan for Chris Scott and Gareth Bevan and equivalent discretionary cash bonus plan for Andrew Wass, vested in full in June 2018. Chris Scott received a bonus of £24,553 and Gareth Bevan a bonus of £25,443 to cover the income tax, National Insurance and exercise price of the award. Chris Scott and Gareth Bevan both received 9,978 shares. Andrew Wass exercised his entitlement under the Director Cash Plan to an equivalent award of £72,041, and this was settled in cash.

LTIP – awarded in financial period ended 31 March 2019

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

The initial subscription cost was covered by way of bonus in FY19 and Andrew Wass, Chris Scott, and Gareth Bevan received bonuses of £7,217, £7,217 and £8,350 respectively.

22 ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

JUDGEMENTS

- Direct software development costs are capitalised as intangible assets. Judgement is applied in assessing the flow of future economic benefit, and in identifying which costs are capitalised and which are written off as an expense. Alternative judgement could result in certain costs being expensed or capitalised;
- The useful life of tangible and intangible fixed assets – Management selected depreciation and amortisation periods appropriate to the assets held, and consistent with industry and accounting norm. Amortisation periods were independently reviewed as part of an intangible asset valuation exercise on IPO and are reviewed each year by the Directors. Different UELs could be applied that would change the P&L charge and Balance sheet carrying value;

In FY20 the Directors reviewed the amortisation period and reduced the period from eight to six years for capitalised amounts in FY20.

ESTIMATES

- An accrual for sales returns in the 30-day money back guarantee period is made based on historical returns and actual returns could vary from this estimate. As this 30-day period has passed prior to issuing the financial statements, hindsight shows this estimate is accurate.
- Warranty income is recognised 'over time' under IFRS 15, by assuming an inputs method that measures progress by reference to costs incurred towards satisfying that performance obligation as compared to the total expected costs. The proportion of costs compared to total expected costs in an estimate based on historical data for this performance obligation.
- An adjustment to revenue is calculated based on the expected delivery date for items delivered around the year end. This estimate is based on historical delivery dates with reference to courier statistics around the year end.

COMPANY BALANCE SHEET

	Notes	2020 £000	2020 £000	2019 £000	2019 £000
Fixed assets					
Investments	4		4,164		3,852
Current assets					
Cash in hand and at bank	6	25		19	
Debtors (including £10.30m (2019: £10.47m) due after more than one year)	5	10,326		10,488	
		10,351		10,507	
Creditors: amounts falling due within one year	7	(38)		(46)	
Net current assets			10,313		10,461
Total assets less current liabilities			14,477		14,313
Net assets			14,477		14,313
Capital and reserves					
Called up share capital	8		2,095		2,095
Share premium account	8		13,152		13,152
Profit and loss account b/f	8		(934)		(881)
Profit/(loss) in the period			164		(53)
Shareholders' funds			14,477		14,313

Notes 1 to 9 form part of these financial statements.

These financial statements were approved by the Board of Directors on 22 June 2020 and were signed on its behalf by:

ANDREW WASS
DIRECTOR
22 June 2020

CHRIS SCOTT
DIRECTOR
22 June 2020

Company registered number: 07786708

COMPANY STATEMENT OF CHANGES IN EQUITY

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Balance at 1 March 2018	2,087	13,055	(881)	14,261
Loss for the year	–	–	(30)	(30)
Issue of shares net of expenses	8	97	–	105
Share-based payments charge	–	–	(23)	(23)
Balance at 31 March 2019	2,095	13,152	(934)	14,313
Profit for the year	–	–	31	31
Share-based payments charge	–	–	133	133
Balance at 31 March 2020	2,095	13,152	(770)	14,477

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS (FORMING PART OF THE FINANCIAL STATEMENTS)

1 ACCOUNTING POLICIES

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

1.1 BASIS OF PREPARATION

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

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

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

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash flow statement and related notes; and
- Key management personnel compensation.

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

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

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

Accounting period

The financial statements presented cover the year ended 31 March 2020 and 13-month period ended 31 March 2019.

Measurement convention

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

Functional currency

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

1.2 GOING CONCERN

These financial statements are prepared on a going concern basis as explained on pages 36 and 57.

1.3 INVESTMENT IN SUBSIDIARIES

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

1.4 CLASSIFICATION OF FINANCIAL INSTRUMENTS ISSUED BY THE COMPANY

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

(a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and

(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

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

1.5 BASIC FINANCIAL INSTRUMENTS

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

Trade and other debtors

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

Trade and other creditors

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

1 ACCOUNTING POLICIES CONTINUED

1.5 BASIC FINANCIAL INSTRUMENTS CONTINUED

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Interest-bearing borrowings

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

Inter-company loans

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

1.6 IMPAIRMENT

Financial assets (including debtors)

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

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

Non-financial assets

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

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

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

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

1.7 PROVISIONS

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

1.8 EMPLOYEE BENEFITS

Defined contribution plans

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

Share-based payment transactions

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

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

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

Share-based payment costs which are borne by the Parent Company on behalf of employees employed by the subsidiary entity are recharged through the inter-company.

NOTES TO THE COMPANY FINANCIAL STATEMENTS (FORMING PART OF THE FINANCIAL STATEMENTS) CONTINUED

1 ACCOUNTING POLICIES CONTINUED

1.9 FINANCIAL INCOME AND EXPENSES

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

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

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

1.10 TAXATION

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

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

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

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

2 EXPENSES

Included in profit/loss are the following:

	Year ended 31 March 2020 £000	Period ended 31 March 2019 £000
Auditor remuneration – audit of financial statements	**40**	30

Auditor remuneration in FY20 relates to Grant Thornton UK LLP; auditor remuneration in FY19 related to KPMG LLP.

3 DIRECTORS' REMUNERATION

	Year ended 31 March 2020 £000	Period ended 31 March 2019 £000
Directors remuneration	**507**	656
Company contributions to money purchase pension schemes	**16**	81
	523	737

There are four directors (FY19: four) for whom retirement benefits are accruing under a money purchase pension scheme.

The aggregate remuneration of the highest paid Director was £174,000 during the year (FY19: 13-month period: £252,000), including Company pension contributions of £6,000 that were made to a money purchase scheme on their behalf.

4 FIXED ASSET INVESTMENTS

	Subsidiary undertakings £000
Cost	
At 1 April 2019	3,852
Capital contribution	312
At 31 March 2020	**4,164**

Investments in subsidiaries are carried at cost less impairments.

4 FIXED ASSET INVESTMENTS CONTINUED

The Company has the following investments in subsidiaries:

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

Cagney Limited and Gear4music Norway AS are dormant companies.

5 DEBTORS

DUE WITHIN ONE YEAR:

	Year ended 31 March 2020 £000	Period ended 31 March 2019 £000
Other debtors	26	16
	26	16

DUE AFTER MORE THAN ONE YEAR:

	Year ended 31 March 2020 £000	Period ended 31 March 2019 £000
Amounts owed by Group undertakings	10,300	10,472
	10,300	10,472

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

As at 31 March 2020, receivables from subsidiary undertakings were unimpaired and considered by management to be fully recoverable.

6 CASH AND CASH EQUIVALENTS

	Year ended 31 March 2020 £000	Period ended 31 March 2019 £000
Cash and cash equivalents per balance sheet	25	19

7 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Year ended 31 March 2020 £000	Period ended 31 March 2019 £000
Trade creditors	1	1
Accruals and deferred income	37	45
	38	46

8 SHARE CAPITAL AND RESERVES

Share capital	Year ended 31 March 2020 Number	Period ended 31 March 2019 Number
Authorised, called up and fully paid:		
Ordinary shares of 10p each	20,945,328	20,945,328

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

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS (FORMING PART OF THE FINANCIAL STATEMENTS) CONTINUED

8 SHARE CAPITAL AND RESERVES CONTINUED

SHARE PREMIUM

	Year ended 31 March 2020 £000	Period ended 31 March 2019 £000
Opening	13,152	13,055
Issue of shares	–	97
Closing	13,152	13,152

RETAINED EARNINGS

	Year ended 31 March 2020 £000	Period ended 31 March 2019 £000
Opening	(934)	(881)
Share-based payment charge	133	(23)
Profit/(loss) for the year	31	(30)
Closing	(770)	(934)

9 RELATED PARTIES

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

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

NOTES

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