23 June 2020

Gear4music (Holdings) plc
Audited results for the year ended 31 March 2020

"Strong return to profitability"

Gear4music (Holdings) plc, ("Gear4music" or "the Group") (LSE: G4M), the largest UK based online retailer of musical instruments and music equipment, today announces its financial results for the year ended 31 March 2020.

Highlights:

£m	12 months ended 31 March 2020	13 months ended 31 March 2019	Change
Revenue	120.3	118.2	+2%
Gross profit	31.2	26.9	+16%
EBITDA *	7.8	2.3	+239%
Net profit/(loss) *	2.6	(0.2)	

- Strong return to profitability
- Revenue up by 9% on a 12-month basis **
- Gross margin improved by 310bps to 25.9% (FY19: 22.8%)
- Cash at year end of £7.8m (31 March 2019: £5.3m)
- Active customers up 11% to 807,000
- Exceptionally strong trading in April and May 2020
- Confident of further profit improvement in FY21

Notes:

Unless stated, 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.

* FY20 profit figures stated on an IFRS16 basis, includes £1.4m of property rents no longer included in operating costs.

** FY20 revenue is the 12m period to 31 March 2020; FY19 comparative revenue is the 12m period to 28 February 2019 were £109.9m as previously disclosed.

Commenting on the results, Andrew Wass, Chief Executive Officer said:

"We set out at the start of FY20 seeking to execute our renewed strategy and return the Group to a more profitable growth trajectory. As a result of the efforts across our team and the excellent commercial and operational progress we have made over the past 12 months I am pleased to report that profits for the year are ahead of the board's expectations.

As previously announced, the commitment and hard work of our employees has enabled us to continue operating safely, whilst successfully serving our customers throughout the COVID-19 crisis.

With an increasing number of people throughout the COVID-19 lockdown recognising the benefits that playing, creating and recording music can bring, we have seen a significant increase in demand during this exceptional period. Positive sales trends with improved margins have continued into June, and we have also incurred lower marketing costs than we would typically expect.

The improvements we have made during FY20, and the exceptionally strong trading we have experienced during the lockdown period, mean we are financially stronger and better placed than ever to make the most of future growth opportunities within our market.

Therefore, whilst still early in the current financial year, the Board is confident of continued financial improvements during FY21 and look forward to the year ahead with optimism."

ENDS

Enquiries:

Gear4music Andrew Wass, Chief Executive Officer Chris Scott, Chief Financial Officer	+44 (0)20 3865 9668
N+1 Singer – Nominated Adviser and Broker Peter Steel/Justin McKeegan, Corporate Finance Tom Salvesen, Corporate Broking	+44 (0)20 7496 3000
Alma – Financial PR Rebecca Sanders-Hewett Helena Bogle	+44 (0)20 3405 0205 Gear4Music@almapr.co.uk

About Gear4music (Holdings) plc

Operating from a Head Office in York, and Distribution Centres and showrooms in York, Sweden and Germany, the Group sells own-brand musical instruments and music equipment alongside premium third-party brands including Fender, Yamaha and Roland, to customers ranging from beginners to musical enthusiasts and professionals, in the UK, Europe and, more recently, into the Rest of the World.

Having developed its own e-commerce platform, with multilingual, multicurrency websites delivering to over 190 countries, the Group continues to build its overseas presence.

This announcement contains inside information for the purposes of Article 7 of Regulation (EU) No. 596/2014.

Chairman's statement

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

Chief Executive's Statement

Financial KPIs

	FY20 (12m)	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 Admin expenses **	**£27.1m**	£26.9m	+1%
European Admin 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 Information
** FY20 figures are reported on an IFRS16 basis; FY19 on an IAS17 basis. FY19 EBITDA reported on an IFRS16 basis is £3.7m.

Commercial KPIs

	FY20 (12m)	FY19 (13m)	Change
Website visitors	**28.4m**	27.1m	+5%
Conversion rate	**3.29%**	3.40%	-11ps
Average order value	**£117**	£117	-
Active customers	**807,000**	727,000	+11%
Products listed	**54,200**	51,500	+5%

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.

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.

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

Chief Financial Officer's statement

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 on the FY20 financial statements

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 IFRS16

The financial statements for FY20 have been prepared under the requirements of IFRS16 for the first time. Implementation of IFRS16 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.

IFRS16 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 pre the impact of IFRS16 is shown in the table below. In summary the relative impact of IFRS16 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 IAS17 13m	FY19 Restated IFRS16 13m	**FY20** **IFRS16** **12m**
	£m	£m	**£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**	FY19 13m
	£m	£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**	FY19 13m
	£m	£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-branded products leading to low other-brand 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 or 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 margin 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	FY19 13m
	£m	£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 IFRS16 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 IFRS16. 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 IFRS16 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**	FY19 13m
	£m	£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 lock-down.

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 IFRS16 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	31 March 2019
	£m	£m
Property, plant and equipment	**11.2**	10.8
IFRS16 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 IFRS16, 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

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	*2,3*	**(27,089)**	(26,927)
Operating profit/(loss)		**4,067**	(11)
Financial expenses	*5*	**(989)**	(598)
Profit/(loss) before tax		**3,078**	(609)
Taxation	*6*	**(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	*7*	**309**	-
Deferred tax movements		**(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	*4*	**12.4p**	(0.8p)
Diluted profit/(loss) per share	*4*	**12.2p**	(0.8p)

The accompanying notes form an integral part of the consolidated financial report.

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	*7*	**11,219**	10,766
Right-of-use assets	*7*	**8,962**	-
Intangible assets	*8*	**9,084**	7,827
		29,265	18,593
Current assets			
Inventories	*9*	**22,015**	18,661
Trade and other receivables	*10*	**2,501**	1,657
Cash and cash equivalents	*11*	**7,839**	5,304
		32,355	25,622
Total assets		**61,620**	44,215
Current liabilities			
Interest-bearing loans and borrowings	*12*	**(9,949)**	(8,555)
Trade and other payables	*13*	**(14,442)**	(11,533)
Lease liabilities	*14*	**(1,148)**	-
		(25.539)	(20,088)
Non-current liabilities			
Interest-bearing loans and borrowings	*12*	**(3,439)**	(4,272)
Other payables	*13*	**(107)**	(263)
Lease liabilities	*14*	**(9,519)**	
Deferred tax liability		**(1,407)**	(885)
		(14,472)	(5,420)
Total liabilities		**(40,011)**	(25,508)
Net assets		**21,609**	18,707
Equity			
Share capital	*15*	**2,095**	2,095
Share premium	*15*	**13,152**	13,152
Foreign currency translation reserve	*15*	**(34)**	3
Revaluation reserve	*15*	**1,674**	1,424
Retained earnings	*15*	**4,722**	2,033
Total equity		**21,609**	18,707

The notes 1 to 16 form part of the consolidated financial report.

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

Andrew Wass — **Dated:** 22 June 2020
Director

Chris Scott — **Dated:** 22 June 2020
Director
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 adj. 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 consolidated financial report.

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	*7,8*	**3,687**	2,293
Financial expense	*5*	**989**	349
Loss on sale of property, plant and equipment		**11**	34
Share based payment charge		**133**	(22)
Taxation	*6*	**488**	(446)
		7,898	2,045
Decrease/(increase) in trade and other receivables	*10*	**(844)**	1,047
Increase in inventories	*9*	**(3,354)**	(1,606)
Increase in trade and other payables	*13*	**3,273**	497
		6,973	1,983
Tax paid	*6*	**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	*7*	**(740)**	(1,785)
Capitalised development expenditure	*8*	**(2,820)**	(2,703)
Acquisition of a business	*8*	**(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	*12*	**1,565**	5,030
Interest paid		**(806)**	(352)
Repayment of borrowings	*12*	**(546)**	(593)
Payment of lease liabilities	*14*	**(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	*11*	**7,839**	5,304

The accompanying notes form an integral part of the consolidated financial report.

Notes

(forming part of the financial statements)

General Information

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

The group financial statements consolidate those of the Company and its subsidiaries (collectively referred to as the "Group").

The 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 information set out in this announcement does not constitute statutory accounts as defined by section 434 of the Companies Act 2006.

It has been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards (IFRS) adopted for use in the European Union, including IFRIC interpretations issued by the International Accounting Standards Board, and in accordance with the AIM rules and is not therefore in full compliance with IFRS. Except for the adoption of IFRS 16, the principal accounting policies of the Group have remained unchanged from those set out in the Group's 2019 annual report. The financial statements have been prepared under the historical cost convention with the exception of land and buildings which are accounted for at fair value.

The results for the year ended 31 March 2020 have been extracted from the full accounts of the Group for that year which have not yet been delivered to the Registrar of Companies. Grant Thornton UK LLP has reported on the those accounts and their report is (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The financial information for the year ended 31 March 2019 is derived from the statutory accounts for that year, which have been delivered to the Registrar of Companies. KPMG LLP reported on those accounts and their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group.

The announcement will be published on the Company's website. The maintenance and integrity of the website is the responsibility of the directors. The work carried out by the auditors does not involve consideration of these matters. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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.

Accounting period

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

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 IAS17 and applied the modified retrospective approach. Comparative figures have not been re-stated.

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 IFRS16

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%

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 & 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 12)	453
Total lease liabilities recognised under IFRS 16 at 1 April 2019	**11,436**

Notes relating to IFRS16 are included at 1.2, 7, 12 and 14.

1.3 Going concern

The Directors are confident that the Group has sufficient financial resources, and in FY20 the business has demonstrated continued revenue growth and markedly improved profitability, and as such the Group is well placed to manage its business risks and flourish.

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.

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.

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.

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.

2 Segmental reporting

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

In accordance with IFRS 8 'Operating segments', the Group has made the following considerations to arrive at the disclosure made in these financial statements. IFRS 8 requires consideration of the 'Chief Operating Decision Maker ('CODM') within the Group. Operating segments have been identified based on the internal reporting information and management structures 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 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 Nos.	**Period ended 31 March 2019 Nos.**
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	**133**	(22)
Cash-settled share-based payments	**53**	(11)
Social security costs	**1,167**	954
Contributions to defined contribution plans	**659**	480
	9,748	9,547

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 (2019: 4) 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 (2019 13-month period: £252,000), including company pension contributions of £6,000 that were made to a money purchase scheme on their behalf.

4 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 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)

5 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
IFRS16 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

6 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)

7 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 & 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 & 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 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.

Leasehold properties

The Group has four leased properties: Distribution Centre 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 IFRS16 are included at 1.2, 7, 12 and 14.

8 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 & 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 & 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

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 Cash Generating Unit ("CGU") is defined as the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups thereof. The Group is deemed to have a single CGU to which the goodwill, the software platform and the brand are allocated. An impairment review has been performed on this CGU. The recoverable amount of this CGU has been determined based on value-in-use calculations. In assessing value in use, a five-year forecast to 31 March 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.

9 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.

10 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 dues 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.

11 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

12 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

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

The interest rate on 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

	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

	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 IFRS16 are included at 1.2, 7, 12 and 14.

13 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 (2019: £62,000) relating to the estimated cash bonuses accrued relating to the CSOP scheme, and Director Cash Plan.

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 1st of 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 (2019: £30,000) in relation to the unwinding of the discount is disclosed in note 5.

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.

14 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 IFRS16	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 on 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 7).

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	No of right-of-use assets leased	Range of remaining term	Average remaining lease term	No of leases with extension options	No of leases with options to purchase	No 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	1-5 years	More than 5 years
	£'000	£'000	£'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 IFRS16 are included at 1.2, 7, 12 and 14.

15 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. 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.

16 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: 4).

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.