Gear4music (Holdings) plc
Annual Report and Accounts **2022**

Gear4music

Setting the stage for growth...

Our purpose

Leveraging a market-leading bespoke e-commerce technology platform, a wide range of products including a unique own-brand offering, and expanding 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 £5.1bn European market, Gear4music is the UK's largest retailer of musical instruments and music equipment, having grown revenues from £24m in 2015 to £148m in 2022.

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

HIGHLIGHTS

We report strong revenue and profitability growth during FY22 compared against pre-pandemic levels. We retained a significant proportion of the exceptional gross margins that resulted from Covid lockdowns during FY21, and achieved a 44% improvement in EBITDA compared with FY20 despite the impact of Brexit. This clearly demonstrates our long-term strategy, focusing on profitable growth, is on track and working well.

We look forward to building on these accomplishments during FY23, supported by a pipeline of new growth orientated initiatives, e-commerce platform upgrades, and our recently launched AV.com website.

REVENUE £m

£147.6m
-6%

2022		147.6
2021	-6%	157.5
2020	+23%	120.3

GROSS MARGIN %

27.9%
-150bps

2022		27.9
2021	-150bps	29.4
2020	+200bps	25.9

EBITDA £m

£11.2m
-43%

2022		11.2
2021	-43%	19.8
2020	+44%	7.8

NET DEBT/CASH £m

£(24.2)m
£(26.9)m

2022		(24.2)
2021	£(26.9)m	2.7
2020	£(18.7)m	(5.5)

WEBSITE USERS m

28.8m
-20%

2022		28.8
2021	-20%	36.0
2020	+1%	28.4

CONVERSION RATE %

4.06%
+37bps

2022		4.06
2021	+37bps	3.69
2020	+77bps	3.29

Products that strike a chord with our customers

Gear4music is an online retailer of musical instruments and music equipment, operating 21 websites in 15 languages and 9 currencies, and since January 2022 also of Audio-Visual ('AV') equipment, including HiFi speakers and home cinema systems through AV.com.

Gear4music is the largest retailer of musical instruments and music equipment in the UK. Launched in 2003 by Chief Executive Officer Andrew Wass, revenue has grown from £12m in FY13 to £148m in FY22.

The Group operates from a Head Office in York, a software development office in Manchester, distribution centres in York, Bacup, Sweden, Germany, Ireland and Spain, and showrooms in York, Sweden and Germany.

Gear4music sells own-brand musical instruments and music equipment alongside well-known premium brands including Yamaha, Roland and Fender, to customers ranging from beginners, to musical enthusiasts and professionals.

The Group has been selling into Europe since 2012 and the Rest of the World ('ROTW') since 2017.

Gear4music continues to invest in developing its own bespoke e-commerce platform, with multilingual, multicurrency and fully responsive websites localised to 19 countries, to rapidly expand the customer database, and build an increasing overseas presence.

The Group retails 62,400 SKUs across all major musical instrument and equipment categories, sourced from over 1,050 manufacturers, from £1 kazoos to digital pianos, drum kits and guitars costing thousands of pounds.

Revenue by department

As expected FY22 saw the reversal of some of the FY21 Covid-related lockdown trends with normalised growth in categories such as studio and recording and guitar products, and an improvement in live-sound categories such as PA, DJ and lighting, as gigging and festivals resume.

% OF PRODUCT SALES

	FY22	FY21	FY20
Guitars	31%	35%	27%
Keys	18%	22%	22%
Live and PA	19%	11%	19%
Studio	13%	16%	13%
Drums	10%	9%	11%
Orchestral	6%	6%	7%
Home Audio & Visual	2%		
Other	1%	1%	1%
	100%	100%	100%






Leading brands

Gear4music
All

Archer
String instruments: violins, cellos, violas & double bass

Redsub
Bass guitar amps & pedals

SubZero
Guitars, amps, mixers, speakers & audio electronics

WHD
Drum kits

Rosedale
Woodwind instruments: clarinets, flutes, oboes & piccolos

Coppergate
Brass instruments: trumpets, trombones, tubas & French horns

Playlite
Lightweight instruments

Hartwood
Guitars and accessories

Eden
Bass amplification

Premier
Drum kits and accessories

Olympic
Value focused drum brand

Coming soon:

G4M
New premium brand to be introduced in FY23, featuring a wide range of products across all categories except for drums

AVCOM
New Home Audio-Visual focused brand to be introduced in FY23, featuring speakers, amps and TVs.

Websites

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

Our history

1995
CEO and founder Andrew Wass, was a sound recording engineer in 1995 when he identified an opportunity to supply small recording studios and educational establishments with personal computer based digital recording solutions.

2003
Andrew began to research the potential to retail own-brand beginner level musical instruments, with the intention of opening up the market by selling at lower prices than traditional music shops. After visiting several international exhibitions in the USA and China, Andrew placed a bulk order for guitars and listed them for sale on the then new gear4music.com website. The website generated £0.7m of revenue in its first full year of trading.

2012
In March 2012 a private equity investor invested in the Group providing the funding to further develop the e-commerce platform.

2013
Launched 18 multilingual European websites. The Group relocated to its current 135,000 square feet distribution centre in York adding significant distribution and storage capacity, and shortly after opened a 9,000 square foot showroom. A new ten-year lease was entered into in 2018.

2015
The Group listed on the Alternative Investment Market (AIM) of the London Stock Exchange, generating £4.4m of growth capital. In October 2016 the private equity house sold their final shareholding in Gear4music.

2016
The Group opened its Swedish distribution centre and followed this up in 2017 with the opening of a second European distribution centre in Germany.

2017

The Group acquired a software development business which brought software development in-house, and later that year acquired a 50,000 square feet freehold office property in York and relocated the Head Office team to the new headquarters.

2018

In response to continued Scandinavian growth, the Group relocated and expanded its Swedish distribution centre to add further capacity to meet demand over coming years.

March 2021

The Group acquired Eden, a Bass guitar amplification brand previously owned by Marshall Amplification.

June 2021

The Group acquired Premier, a Drums and Percussion brand with a rich musical heritage dating back to 1922.

SEE STRATEGY IN ACTION ON PAGE 22

September 2021

The Group opened new distribution centres in Ireland and Spain to address lingering post-Brexit challenges, and significantly improve the Group's European delivery proposition providing a platform for growth in our European markets.

SEE STRATEGY IN ACTION ON PAGE 16

December 2021

The Group acquired AV Distribution Ltd, an online retailer of Home Cinema and HiFi equipment and separately the domain name 'AV.com'. In January 2022 the business was transferred onto the Group's highly scalable European e-commerce platform and rebranded to 'AV.com', marking Gear4music's entry into what Management believes is a £400m UK Audio-Visual] (AV) market.

SEE STRATEGY IN ACTION ON PAGE 24

"I am pleased to report on what we consider to be a strong set of results during what has been an unusual and challenging period.

KEN FORD
CHAIRMAN

A performance built on our long-term strategy

The year started with us all having to come to terms with life post-Covid, and ended with war in Eastern Europe and the highest rate of inflation seen in recent times, impacting on consumer confidence and discretionary spending.

REVENUE

£147.6m

-6%

GROSS MARGIN

27.9%

-150bps

OPERATIONAL AND COMMERCIAL PROGRESS

The FY22 financial results were always going to pale in comparison to what was an exceptional FY21, but represent continued improvement relative to a more normal trading period in FY20. Achieving these results reflects the significant efforts of the Executive and Senior Management team, and the hard work, passion and dedication of all our colleagues across the business.

Post Covid, we remain vigilant and have rolled out a phased return to the office as we strongly believe working closely together across teams and departments, collaborating and communicating together, is best done in person and is fundamental to the long-term success of our Group. We have retained some flexible working practices and are well-set to respond to any future developments.

The addition of a committed three-year £35m Revolving Credit Facility ('RCF') in April 2021 enabled the Group to progress acquisition opportunities and make investments, positioning the Group well to be able to thrive in the future. The addition of the Premier brand to the growing own-brand stable, and the diversification into the large AV market, albeit at an early stage, makes for exciting times ahead.

In FY22, the Group faced and addressed lingering challenges of the UK leaving the EU. The addition of two new distribution centres in Europe has improved the Group's European proposition, increased capacity and puts the Group in a stronger position heading into FY23.

The competitive retail landscape in musical instruments and equipment is seeing a continued channel shift to online, albeit understandably at lower online penetration levels than during lockdowns. We expect the current challenging economic environment will add further pressure to less agile competitors already struggling post-Covid, thereby allowing us to take further market share. This, in turn, may present future growth opportunities for the Group.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

We understand the importance of sustainable business practices on our physical and social environments and the role we must play. We acknowledge there is increasing interest from a wide range of stakeholders on the various impacts that the business has, and what it is doing to improve outcomes.

During the year, we captured all of the relevant work already being done across our business and formalised it in our Environmental, Social and Governance ('ESG') policy. We look forward to reporting continued progress in FY23.

OUTLOOK

Against a backdrop of significant geo-political and macro-economic uncertainties affecting consumer confidence across Europe, and having just come out of a global pandemic makes predicting the year ahead less straightforward. Nevertheless, alongside our new growth initiatives, the Board remains confident that our customer proposition, enhanced operational infrastructure and balance sheet will enable the Group to achieve its business objectives, namely accelerating market share gains and delivering operational efficiencies, during the current financial year and beyond.

KEN FORD
CHAIRMAN
20 June 2022

5 reasons to invest

Competitive Advantages and Barriers to Entry

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

- We are an agile, predominantly online retailer, with a well-recognised brand
- We are the UK's largest retailer of musical instruments and music equipment
- Our bespoke e-commerce platform provides a high degree of operational flexibility and scalability which the Directors believe cannot easily be replicated
- A strong own-brand offering has been developed over 19 years, and has established a reputation for 'good' and 'better' quality products at affordable prices, whilst providing enhanced margin opportunities
- We have developed long-term relationships with the major branded musical instrument and music equipment manufacturers, placing us in a strong position during a period of retailer consolidation
- We have proven and scalable distribution capabilities
- The Directors and senior management have an intimate knowledge of the musical instrument and music equipment market

KEY STRENGTH

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

REASONS

- UK revenues have increased every year since launch in 2003
- Strong European growth validates our strategy and improving proposition
- Email database of 1.28m registered users, with 0.92m active customers

KEY STRENGTH

2. Bespoke and proprietary e-commerce platform delivers competitive advantage

REASONS

- End-to-end solution encompassing all aspects of trading operations
- 90 in-house software developers providing cost-effective development
- Currently supports 21 websites, 15 languages and 9 currencies
- Ability to rapidly respond to changing customer behaviours and expectations
- Capability to expand into new territories and markets
- Capacity to handle significantly increased volumes and website traffic
- Additional functionality continually being developed

KEY STRENGTH

3. Specialist knowledge facilitates strong relationships with customers and suppliers

REASONS

- 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

KEY STRENGTH

4. Well-developed product ranges

REASONS

- Over 62,400 products from over 1,050 brands
- Reputation for quality and value for money
- Over 4,200 own-brand SKUs, developed over a 19-year period
- Enhanced margin opportunities as volumes increase

SEE STRATEGY IN ACTION ON PAGE 22

KEY STRENGTH

5. Efficient logistics systems

REASONS

- Operates from six modern facilities with a combined 370,000 square feet footprint
- The most appropriate courier delivery services are automatically selected from more than 25,600 permutations depending on the weight, size, value and destination of the goods being purchased

SEE STRATEGY IN ACTION ON PAGE 16

With the launch of AV.com we look forward to leveraging the strength of our e-commerce platform and our European infrastructure to accelerate our growth in this £2.7bn European market.

ANDREW WASS
CHIEF EXECUTIVE OFFICER

Raising the tempo with our acquisitions & investments

BUSINESS REVIEW

Compared with pre-pandemic levels, the business made solid progress during FY22, with tangible improvements in revenues, margins and profitability being achieved despite the challenging macro environment and significant operational difficulties that were created by the new UK-EU customs border, resulting from Brexit.

During the year, we have had to navigate a period of worldwide supply chain disruption, cost price inflation, and weakening consumer confidence, which makes the level of retained gross margins following the exceptional FY21 a notable achievement that reflects the tenacity of our commercial teams.

Highlights from the year included securing a new £35m committed banking facility that enabled the acquisitions of AV Distribution Ltd and Premier, the opening of two new distribution hubs in Ireland and Spain, and the launch of AV.com, our new retail brand focusing on the Home Audio-Visual market.

Revenues were supported through FY22 by a good recovery in live-sound categories such as PA, DJ and Lighting products as musicians return to gigging and festivals have started up again. Our Home Audio-Visual category has also grown following the launch of AV.com in January 2022.

We deliberately invested into additional inventory during FY22, utilising our banking facilities, to help mitigate the consequences of supply chain disruption. Alongside funding acquisitions, this meant our levels of borrowing increased during the period, and we expect to see this reducing as the financial year progresses.

We look forward to building on the progress of FY22 and maintaining the high levels of service our new and returning customers have come to expect, supported by the deployment of multiple e-commerce platform upgrades and ongoing growth initiatives.

GROWTH STRATEGY & ACQUISITIONS

Development of our bespoke platform remains central to our digital growth strategy, and during FY23 we plan to launch some significant new features and developments. Having grown our in-house team of software developers to 90 people, we are in a strong position to evolve and improve our customer proposition at pace.

Our second-hand platform is due to launch during FY23 and is designed to extend the life of musical instruments and equipment by providing a quick and easy way for customers to release value from products they no longer use, whilst making good quality, warrantied second-hand products accessible to those who may not necessarily want or be able to purchase a new product. Helping us achieve a more circular and environmentally sustainable business, this platform has the potential to significantly increase our addressable market size.

Following a successful UK launch, AV.com will be launched across Europe, utilising our existing European e-commerce platform, localisation technology and distribution infrastructure to significantly increase our addressable market size.

GROSS PROFIT

£41.1m

-11%

EBITDA

£11.2m

-43%

FINANCIAL KPIs

	FY22	FY21	FY20	Change on FY21	Change on FY20
Revenue*	**£147.6m**	£157.5m	£120.3m	-6%	+23%
UK revenue*	**£82.6m**	£78.7m	£61.8m	+5%	+34%
International revenue*	**£65.0m**	£78.8m	£58.5m	-18%	+11%
Gross margin	**27.9%**	29.4%	25.9%	-150bps	+200bps
Gross profit	**£41.1m**	£46.4m	£31.2m	-11%	+32%
Total admin. expenses*	**£35.9m**	£31.6m	£27.7m	+13%	+30%
European admin. expenses*	**£4.6m**	£3.8m	£2.5m	+21%	+84%
EBITDA	**£11.2m**	£19.8m	£7.8m	-43%	+44%
Profit before tax	**£5.0m**	£14.6m	£3.1m	-66%	+63%
Net (debt)/cash**	**(£24.2m)**	£2.7m	(£5.5m)	(£26.9m)	(18.7m)

* See Note 3 of the Financial Statements
** See Notes 16 and 17 of the Financial Statements

COMMERCIAL KPIs

	FY22	FY21	FY20	Change on FY21	Change on FY20
Website users	**28.8m**	36.0m	28.4m	-20%	+1%
Conversion rate	**4.06%**	3.69%	3.29%	+37bps	+77bps
Average order value	**£125**	£116	£117	+8%	+7%
Active customers	**921,000**	1,064,000	807,000	-13%	+14%
Products listed	**62,400**	57,900	54,200	+8%	+15%

See page 27 for Commercial KPI definitions.

With own-brand products generating over £38m in sales last year we have a proven track record of success in sourcing and developing unique products that fit alongside the world's best-known brands. Following on from the acquisitions of Premier and Eden, we will further refine and accelerate our own-brand strategy with the launch of G4M, a new premium own-brand range suitable for worldwide distribution, and AVCOM, featuring products focused on the Home Audio-Visual market.

TRADING OUTLOOK

As a result of Brexit, Covid, and now the war in Ukraine, the general outlook for many retailers during 2022 remains challenging and difficult to predict, with increasing product and overhead costs forcing up product retail prices and potentially impacting profits.

To help combat these challenges, we have a strong pipeline of growth-orientated projects launching in FY23, and we will retain a sharp focus on productivity, efficiency and overhead cost control.

Inflationary pressures and weaker consumer confidence are likely to constrain growth in profitability in the short term. However, with the strategies and actions we are taking, along with our strong balance sheet and significant working capital headroom, we believe we remain well-positioned to take market share and are confident in our medium and longer-term profitable growth strategy.

ANDREW WASS
CHIEF EXECUTIVE OFFICER
20 June 2022

In FY21 a significant proportion of our software development resource was focused on preparing for Brexit, and in FY22 this resource was redeployed to work on growth-related projects, preparing to integrate AV Distribution Ltd, and launching AV.com. We continue to make progress against the three pillars of our progressive e-commerce strategy.

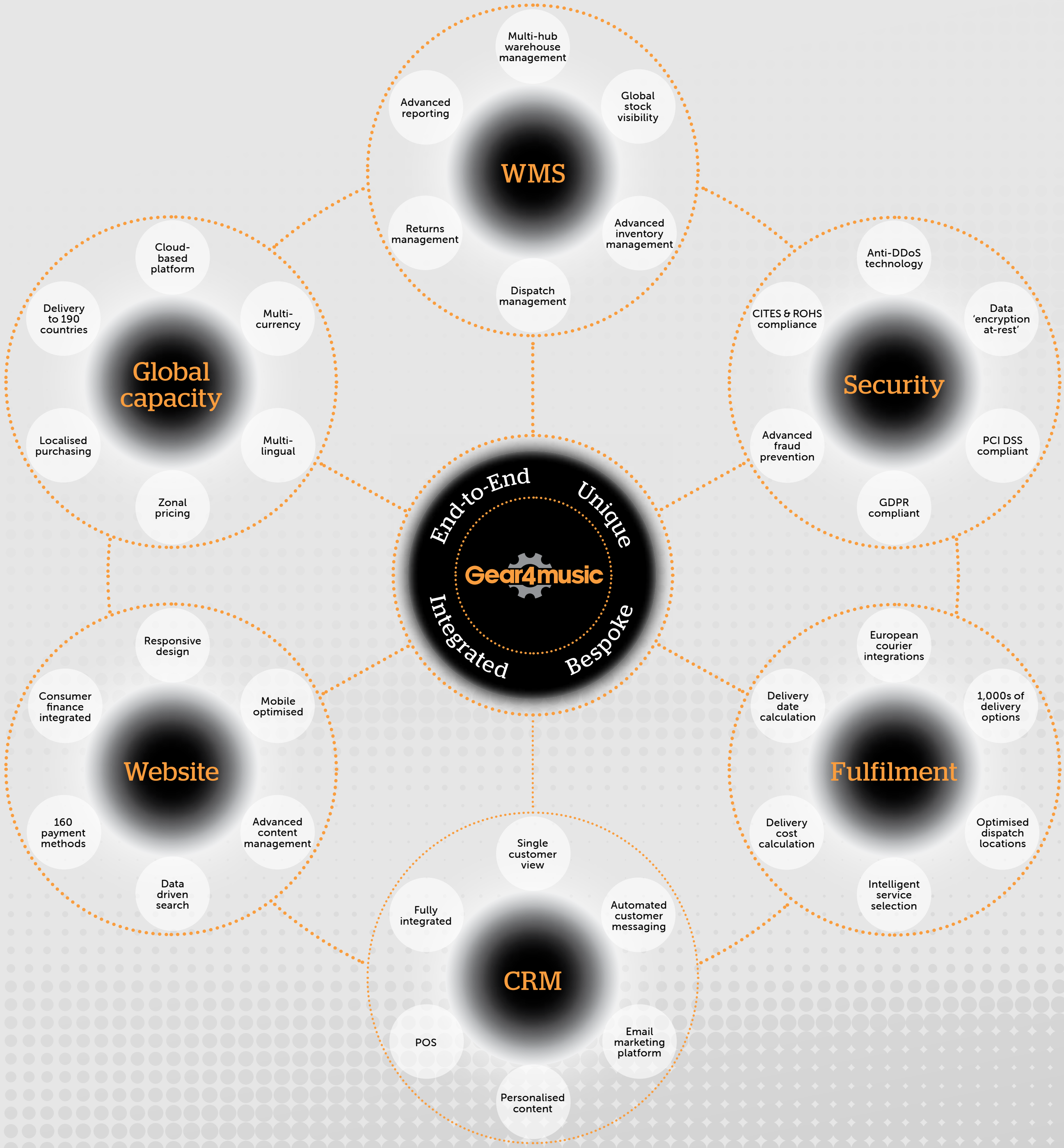
ANDREW WASS
CHIEF EXECUTIVE OFFICER

WEBSITE USERS
28.8m
-20%

CONVERSION RATE
4.06%
+37BPS

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.



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

Growing on the European stage

The top ten European retail markets for musical instruments and music equipment (including the UK) are worth an estimated £5.1bn in total and are undergoing a shift towards online retail.

The Board believes that the dynamics of the competitive landscape post-Covid present a continuing consolidation opportunity. Whilst acquisitions of retail businesses do not form a core part of the current strategy, opportunities are reviewed on an ad hoc basis.

OUR BUSINESS

GEAR4MUSIC

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

Our specialist market knowledge has helped us to become the largest retailer of musical instruments and equipment 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 £5.1bn European market and expand our reach beyond this.

AV.COM

Management estimates the addressable European market size to be £2.7bn.

In FY22 the Group entered the related Audio-Visual market and will leverage its key assets, skills and expertise to build market share.

TOP EUROPEAN MARKETS

Country	Estimated* market size (£m)
Germany	1,426
France	1,030
UK	898
Italy	691
Netherlands	241
Austria	216
Spain	198
Switzerland	169
Sweden	128
Norway	98
Total size	5,095

* Management estimate

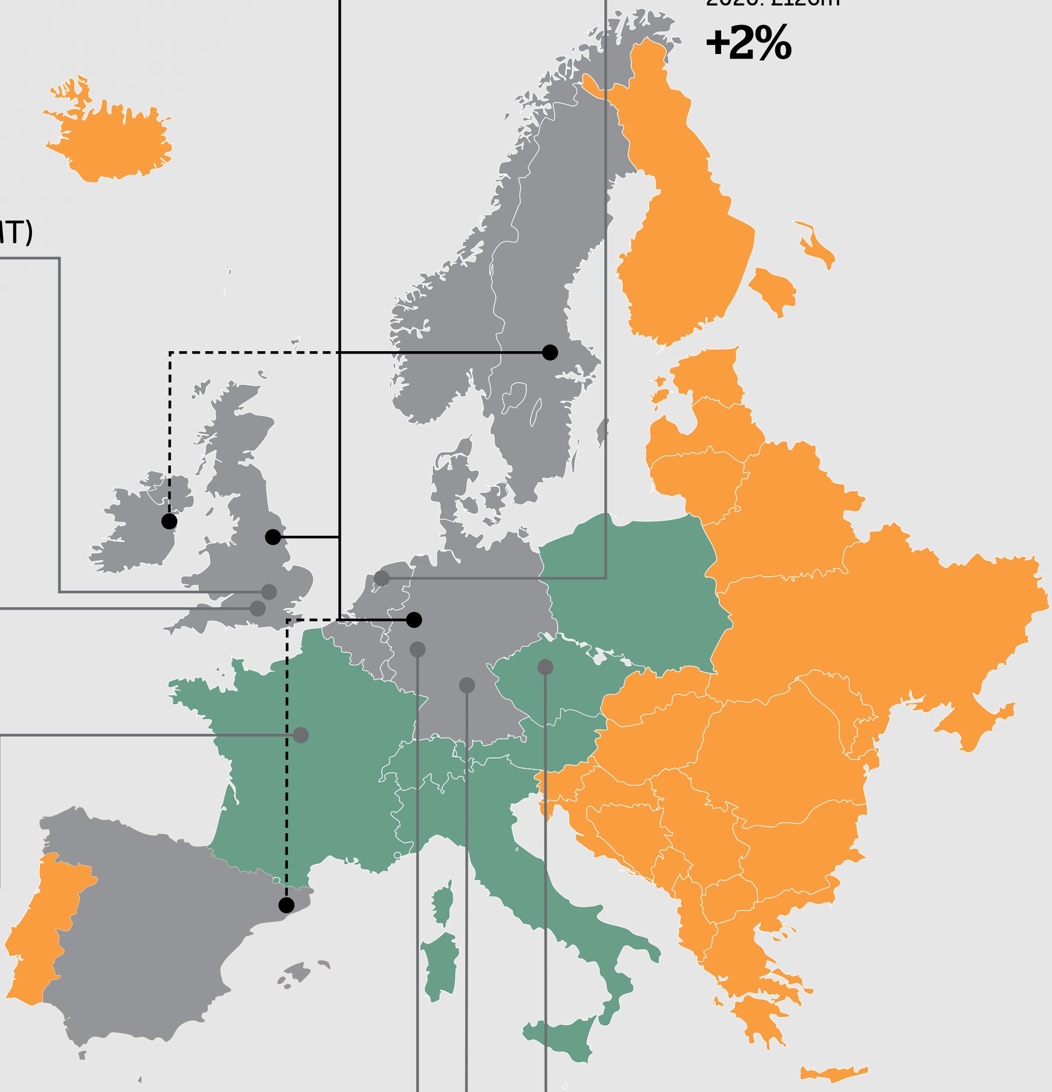
UK MARKET WORTH

£898m

EUROPEAN MARKETS WORTH

£5.1bn

Operations | Locations (Revenues)



Gear4music
2021: £157m
2020: £120m
+31%

Bax Shop
2021: £129m
2020: £126m
+2%

S&T Audio (trading as PMT)
2021: £34m
2020: £43m
-20%

Andertons
2021: £66m
2020: £57m
+15%

Woodbrass
2021: £37m
2020: £44m
-17%

Musicstore
2021: £139m
2020: £129m
+8%

Thomann
2021: £1.16bn
2020: £1bn
+14%

Kytary.cz
2021: £35m
2020: £33m
+7%

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

Revenue data source: Music Trades 2022.

International expansion

Now performing live...

NEW DISTRIBUTION CENTRES IRELAND AND SPAIN

In FY22, the Group faced and addressed the lingering challenges resulting from the UK leaving the EU by opening distribution centres in Ireland and Spain to reduce cross-border order fulfilment, and further enhance our proposition in Ireland and Southern Europe.

The Group is in a stronger position heading into FY23 with an improved European proposition and increased capacity.

The strategic location of the Spanish hub at the major container port in Barcelona will support Group operational efficiencies by providing a consolidation platform for stock entering the EU from Asia.

INTERNATIONAL REVENUE

£65.0m

-18%

EUROPEAN ADMINISTRATIVE EXPENSES

£4.6m

+21%

> The model launched in 2016 with the initial Gear4music expansion into Scandinavia, and has proven successful in delivering improvements for our customers: faster, cheaper, more flexible delivery solutions across an ever-wider product range. The additional complexity introduced following the UK's departure from the European Union made a compelling commercial case for further extension of the distribution network, resulting in our establishment of the Dublin and Barcelona facilities this year. I am confident these centres will provide a platform to accelerate growth in their respective delivery areas, both for Gear4music and in due course for AV.com.

ROB NEWPORT
OPERATIONS DIRECTOR

STRENGTHENING EUROPEAN DISTRIBUTION

New hubs operational in Ireland and Spain

UK hubs, York and Bacup
- New hub in Bacup, acquired with AV Distribution Ltd
- Total UK inventory capacity: **£25m**, sales capacity: **£125m**
- Serves UK and ROTW

Northern European hub, Stockholm
- Inventory capacity: **£8m**, sales capacity: **£60m**
- Serves Scandinavia & Europe

Central European hub, Mülheim
- Inventory capacity: **£6m**, sales capacity: **£35m**
- Serves Germany & Europe

Irish hub, Dublin
- Inventory capacity: **£2.5m**, sales capacity: **£15m**
- Serves Ireland & Northern Ireland

Southern European hub, Barcelona
- Inventory capacity: **£7m**, sales capacity: **£40m**
- Serves Spain & Southern Europe
- Provides additional bulk storage capacity for other European hubs

More accessible & 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 19 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.

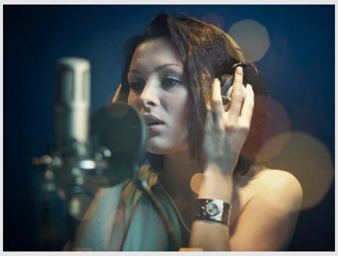
PREMISES
The Group currently operates from 370,000 square feet of operational space – 160,000 square feet across two sites in the UK, 77,000 square feet in Sweden, 72,000 square feet in Germany, 46,000 square feet in Spain and 15,000 square feet in Ireland.

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, multi-currency pricing, logistics and dispatch, CRM, automated marketing, purchasing, customer receipts and management reporting.

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

DELIVERY
Reliable delivery with competitive pricing is fundamental to our proposition and success. Our e-commerce platform is configured to select the most cost-effective delivery options from 20 different delivery service providers, to provide our customers with a class-leading range of delivery options.



OUR SERVICE

We believe that achieving...

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

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

SPECIALIST STAFF
In FY22 we employed 558 people (FY21: 519) across five 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.

AVERAGE NUMBER OF EMPLOYEES

558

ACROSS FIVE 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 also supplies schools and other educational establishments and a small number of trade accounts.

At 31 March 2022 we had 1.28m people registered to receive our email communications, up 30% from 0.98m at 31 March 2021, and 0.65m at 31 March 2020.

Active customers of 0.92m (being customers who have purchased from Gear4music during the previous 12 months), are down 13% on FY21 (1.06m). The Group acquired a further 0.79m new customers in the period (FY21: 0.95m), and 0.17m customers returned to place at least one follow-up order (FY21: 0.21m).

Average order value of £125 was up on FY21 (£116) and FY20 (£117) as relatively more, higher priced other branded products were sold.

CUSTOMER ENGAGEMENT

Effective communication with our customers is central to understanding their needs and wants, and developing our customer proposition. We monitor and respond to Trustpilot reviews, and look to learn from things that didn't meet the customer's expectation.

We invest significant resource in generating high-quality engaging content, in terms of product descriptions, and studio-quality photographic and video content.

Improving customer experience is a key objective when designing and implementing software development projects.

1.28m
PEOPLE SUBSCRIBED ON OUR EMAIL DATABASE

OUR PRODUCTS

Product range

At the year-end we listed over 62,400 products from over 1,050 manufacturers.

BRANDED PRODUCTS

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

OWN-BRAND PRODUCTS

On-going 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 4,200 products listed.

In FY21 and FY22 Gear4music acquired the Eden and Premier brands respectively, and we continue to explore opportunities to acquire legacy brands.

62,400
PRODUCTS FROM OVER 1,050 MANUFACTURERS

4,200
OWN-BRAND PRODUCTS LISTED

Gear4music's strategy is built around...

3 pillars of growth

OUR STRATEGIC PRIORITIES

1. E-commerce excellence

EVOLVE

GROWTH STRATEGY

EVOLVE	Continually evolve platform
IMPROVE	Refine digital marketing
ACCELERATE	Build customer trust
ENHANCE	Improve efficiency and productivity

JONATHAN MEAGER
E-COMMERCE DIRECTOR

Overview

We continue to develop our proprietary e-commerce platform to drive website traffic, increase conversion rates and maximise operational efficiencies. We use our bespoke technology, rich content and digital marketing initiatives to extend our reach into new and existing territories, and from FY22 into the AV market, and to build customer trust by delivering a first-rate customer experience. We have some exciting new developments planned for FY23 and FY24.

Our websites are driven by our bespoke e-commerce platform, designed to maximise opportunities and deliver competitive advantage in our niche market. 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 quickly developing new features and functionality to drive website traffic, increase conversion rates and maximise operational efficiencies and reliability.

PROGRESS

With over 28m website users in the year, conversion rates over 4%, 921,000 active customers, and 174,000 repeat customers, our e-commerce strategy continues to prove highly effective.

Marketing activities are heavily data driven and focused on return on investment. and in FY22 investment continued to target higher-margin product groups. Marketing efficiency measured as marketing cost as a % of sales decreased from an exceptional Covid inflated figure of 5.9% in FY21 to 7.3%, which compares to 7.7% in the more normal FY20 trading period.

Gear4music.com and AV.com both enjoy a Trust Pilot rating of 4.8 from a combined 106,000 reviews reflecting our 'customer first' approach, the incredible effort our team makes, 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 resource 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 90 (FY21: 67) has worked tirelessly to design and deploy updates and upgrades during the year.

In January 2022 we successfully re-platformed the acquired 'AV Online' business and launched AV.com focused on retailing Home Cinema and HiFi equipment and accessories.

CONVERSION	TRUSTPILOT RATINGS
4.06%	4.8/5
+37BPS	

2. Supply chain evolution

3. International expansion

IMPROVE ACCELERATE ENHANCE

2. Supply chain evolution

EVOLVE	Continuous product range extension
IMPROVE	Seek margin-enhancing opportunities
ACCELERATE	Own-brand development
ENHANCE	Evolve logistics capability

GARETH BEVAN
CHIEF COMMERCIAL OFFICER

Overview

We continue to extend our product ranges with a focus on margin-enhancing opportunities, and to leverage our international buying teams to widen our procurement options. Further development of our highly successful own-brand ranges remains 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 unique.

SEE STRATEGY IN ACTION ON PAGES 22 AND 24

PROGRESS

At 31 March 2022 we have 62,400 products listed, up 8% in 12 months, and there are opportunities to increase this.

Whilst only representing 7% of SKUs, own-brand product sales accounted for 26% of revenue which is down on the 29% achieved in FY21, when demand for entry and beginner-level instruments and equipment was high during Covid lockdowns.

In 2022 the Group added Eden, a Bass guitar amplification brand previously owned by Marshall Amplification, and Premier, a Drums and Percussion brand with a rich musical heritage, to its own-brand stable.

SKUs LISTED

62,400

+8%

OWN-BRAND REVENUE

£38.1m

-16%

3. International expansion

EVOLVE	Territory-specific websites
IMPROVE	Regional procurement operation
ACCELERATE	Localised customer experience
ENHANCE	Improved delivery options

ROB NEWPORT
OPERATIONS DIRECTOR

Overview

We continue to develop and improve our customer proposition in each of the territories we operate. We will 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.

SEE STRATEGY IN ACTION ON PAGE 16

PROGRESS

With international sales of £65.0m in what is a $16bn market, expanding internationally continues to be a significant opportunity and focus for the Group. Localising our websites and customer experience is at the core of our growth strategy, and during the year we have invested in translation, marketing and our multilingual customer service team, and improved our local delivery and payment options.

In FY22 we opened distribution centres in Ireland and Spain to reduce cross-border order fulfilment issues post-Brexit, and further enhance our proposition in Ireland and Southern Europe.

We have well-established showrooms in Sweden and Germany to physically showcase our products, build our brand in the area, and create local buying opportunities.

INTERNATIONAL SALES

£65.0m

-18%

Supply chain evolution

Banging our own drum...

THE REBIRTH OF AN ICONIC BRAND

Ever since it produced its first drum kit in London one hundred years ago, Premier has been a brand synonymous with drums and percussion. Founded by Albert Della Porta in 1922, Premier has grown to be internationally renowned for its acoustic drum kits, marching drums and orchestral percussion. Throughout the brand's history, it has defined and shaped the sound of music: from the golden age of jazz, through the explosion of pop, to progressive rock and dance, with many legendary artists choosing Premier such as Keith Moon (The Who), Clem Burke (Blondie), Philip Selway (Radiohead) and Chris Sharrock (Oasis). Today, Premier has a rich musical heritage that blends tradition with innovation.

> Since the acquisition, it's been an exciting period of development for the Premier brand. As we proudly enter our centenary year, we've successfully reimagined our entire acoustic drum kit offering, including several anniversary editions, all of which draw upon our unique legacy and will inspire future generations of drummers.
>
> **COLIN TENNANT**
> CREATIVE DIRECTOR, PREMIER

Following Gear4music's acquisition of the Premier brand in FY22, its product range has been extended to include a new collection of digital drum kits called Powerplay, and there has been significant investment in product development to improve the overall offering of acoustic drum kits. Four core ranges have been designed and developed, from entry-level to premium kits, offering a more competitive and focused product mix and establishing the foundations for future growth. These new product ranges all feature Premier's iconic 'P' badge and are scheduled to launch in FY23 Q3, supported by coordinated marketing campaigns and a new catalogue website.

Premier celebrates its 100th anniversary on 22 October 2022. Special edition variants of the core acoustic drum kit ranges will be launched in Q3 of FY23, alongside a limited-edition collector's snare drum which draws significantly on Premier's heritage, with its traditionally made shell construction. The centenary year will be an excellent opportunity to attract new customers and to retain brand loyalty amongst current Premier advocates.

Supply chain evolution

A sound investment...

...ENTRY INTO THE AUDIO-VISUAL MARKET

In December 2021 the Group acquired AV Distribution Ltd, an online retailer of Home Cinema and HiFi equipment and, separately, the domain name 'AV.com'.

In January 2022 we successfully replatformed the acquired AV Online business and launched AV.com, focused on retailing Home Cinema and HiFi equipment and accessories, marking Gear4music's entry into what Management believes is a £400m UK Audio-Visual market that is currently dominated by high-street based retailers, and significantly increases our addressable market size.

Following a successful UK launch, AV.com will be launched across Europe, utilising our existing European e-commerce platform, localisation technology and distribution infrastructure to significantly increase our addressable market size.

In FY23 we plan to launch 'AVCOM', a new Home Audio-Visual own-brand featuring speakers, amps and TVs.

> I'm so excited to join the team – we have an incredible journey ahead of us making AV.com the number one destination for all home entertainment products.

TIM HANCOCK
AV COMMERCIAL DIRECTOR

AV.com

ADDRESSABLE EUROPEAN MARKET

£2.7bn

We measure ourselves against a number of KPIs

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

SEE STRATEGY AND PROGRESS ON PAGE 20

Financial

REVENUE £m

£147.6m
-6%

2022		147.6
2021	-6%	157.5
2020	+23%	120.3

GROSS MARGIN %

27.9%
-150bps

2022		27.9
2021	-150bps	29.4
2020	+200bps	25.9

NET CASH/(DEBT) £m

£(24.2)m
(26.9)m

	2022	(24.2)
(26.9)m	2021	2.7
(18.7)m	2020	(5.5)

Commercial

MARKETING RETURN
Marketing costs as % of total revenue

7.3%
+140BPS

2022		7.3
2021	+140bps	5.9
2020	-40bps	7.7

UNIQUE USERS m

28.8m
-20%

2022		28.8
2021	-20%	36.0
2020	+1%	28.4

CONVERSION %

4.06%
+37BPS

2022		4.06
2021	+37bps	3.69
2020	+77bps	3.29

AVERAGE ORDER VALUE £

£125.04
+8%

2022		125.04
2021	+8%	116.47
2020	+7%	116.74

SKUS LISTED

62,400
+8%

2022		62,400
2021	+8%	57,900
2020	+15%	54,200

Customer

CUSTOMER EXPERIENCE
Trustpilot rating

4.8/5

2022	4.8
2021	4.8
2020	4.8

NUMBER OF REPEAT CUSTOMERS

174,200
-15%

2022		174,200
2021	-15%	205,700
2020	+3%	169,600

Definitions

Unique users: 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 users.

Average order value: Total revenue (gross of credit notes) divided by the total number of orders.

Repeat customers: Number of customers in the period who have placed more than one order.

Active customers: Customers who have placed at least one order in the last 12-months.

> As an online retailer, following on from an exceptional FY21 trading period boosted by the effects of Covid lockdowns was always going to be a tough act to follow. However, relative to FY20, a more normal trading period, our FY22 results are strong and show good improvement.

CHRIS SCOTT
CHIEF FINANCIAL OFFICER

Performing in line with our strategic goals

OVERVIEW

As an online retailer, following on from an exceptional FY21 trading period boosted by the effects of Covid lockdowns was always going to be a tough act to follow. However, relative to FY20, a more normal trading period, our FY22 results are strong and show good improvement, with revenue growth of 23%, a gross margin improvement of 200bps, and an increase of £3.4m and £1.9m in EBITDA and PBT respectively.

We started the year by securing a £35m RCF facility with HSBC to enable us to capitalise on M&A opportunities as and when they arose, and to invest in stock during a period of supply chain uncertainty and ahead of inflationary price increases. We report good progress on both fronts putting us in a strong position heading into FY23.

Post-Brexit challenges limited our ability to cost-effectively ship products from the UK to customers in Europe in a timely manner. This materially affected our UK to EU cross-border revenue, contributing to a reduction in international revenue of £13.8m (18%) during FY22. We responded by opening new distribution centres in Ireland and Spain in H2 and we expect to see a meaningful impact in FY23.

In December 2021, we acquired AV Distribution Ltd and replatforming on to our infrastructure and the launch of AV.com is an exciting first step taking us into the significant Audio-Visual market.

REVENUE

	FY22 £m	FY21 £m	FY20 £m
UK revenue	**82.6**	78.7	61.8
International revenue	**65.0**	78.8	58.5
Revenue	**147.6**	157.5	120.3

Revenue decreased £9.9m (6%) on an exceptional FY21 period that had benefited from unusually high demand as physical stores were closed during Covid lockdowns and the benefits of playing musical instruments and equipment on mental health and wellbeing were increasingly recognised. Revenue increased £27.3m (23%) relative to a more normal trading period in FY20, equating to compound growth of 10.8% per annum.

UK revenue continued to grow, being less impacted by Brexit and temporarily boosted by European competitors facing similar shipping challenges into the UK. UK revenue of £82.6m was £3.9m (5%) ahead of a Covid impacted FY21, and £20.8m (34%) ahead of FY20. This takes our estimated UK market share up to 9.2% (FY21: 8.9%; FY20: 7.2%).

After the UK left the EU, our European sales that would previously have been fulfilled from the UK markedly decreased as it took longer and cost more to ship to European customers, weakening our proposition relative to local retailers. As a consequence, international revenue decreased by £13.8m (18%) on FY21 and increased just £6.5m (11%) on FY20. The addition and scaling up of two new distribution centres in Ireland and Spain has improved our proposition heading into FY23.

Revenues from sales outside of Europe accounted for 1.4% of total revenue in FY22 compared to 1.3% in both FY21 and FY20.

Revenue in H1 was considered a strong result by management, being just 8% down on peak Covid numbers and 31% up on FY20 H1, whereas H2 revenue was 5% down against a weaker comparative and 17% up on FY20 H2.

	FY22 £m	FY21 £m	FY20 £m
Other brand product revenue	**102.5**	104.2	79.4
Own-brand product revenue	**38.1**	45.4	35.4
Carriage income	**6.3**	7.1	4.9
Other	**0.7**	0.8	0.6
Revenue	**147.6**	157.5	120.3

We continue to make good progress in our own-brand business with revenues of £38.1m accounting for 26% of total revenue (FY21: 29%) from just 4,200 SKUs, representing 7% of the total range (FY21: 3,800 SKUs). The addition of the Premier brand in particular is an exciting addition and opportunity heading in to its centenary year.

Own-brand revenue was £7.3m (16%) below an exceptional FY21 which was boosted by high demand for beginner-level products during Covid lockdowns, and limited availability of products from some brands. Furthermore, many bulky own-brand packs would traditionally have been shipped from the UK into Europe; this was a category impacted post-Brexit which has since improved with increased stock held locally in Europe and more, better local carrier options. Relative to a more normal trading period, own-brand sales were £2.7m (8%) up on FY20.

Other brand revenue was £1.7m (2%) down on FY21 and £23.1m (29%) up on FY20.

Carriage income decreased by £0.8m (11%) to £6.3m linked to lower product sales, and less cross UK to EU border shipments.

Other revenue comprises paid for extended warranty income, and commissions earned on facilitating point-of-sale credit for retail customers. The proportion of revenue coming from these sources was 0.5% of total revenue in FY22, FY21 and FY20.

REVENUE

£147.6m

-6%

REVENUE INCREASED

£27.3m

+23%

RELATIVE TO A MORE NORMAL TRADING PERIOD IN FY20

GROSS MARGIN

27.9%

-150bps

GROSS PROFIT

	FY22	FY21	FY20	Change on FY21	Change on FY20
Product sales (£m)	**140.6**	149.6	114.8	**-6%**	+22%
Product profit (£m)	**45.2**	50.9	35.1	**-11%**	+29%
Product margin	**32.1%**	34.1%	30.5%	**-200bps**	+160bps
Carriage costs (£m)	**10.3**	11.7	8.8	**-12%**	+17%
Carriage costs as % of sales	**7.0%**	7.4%	7.3%	**-40bps**	-30bps
Gross profit (£m)	**41.1**	46.4	31.2	**-11%**	+32%
Gross margin	**27.9%**	29.4%	25.9%	**-150bps**	+200bps

In FY22, we maintained our pricing discipline established in FY20 and carried through FY21, and delivered a gross margin of 27.9% which was 250bps behind an exceptional FY21 period where prices were increased to manage demand, and 200bps ahead of FY20.

We significantly invested in stock throughout the year as a precautionary measure against supply chain disruption, and to lock in cost prices early in a period of increasing cost-price inflation.

This created margin opportunities in FY22 and puts us in a strong position heading into FY23.

Product margin in FY22 was impacted by sales mix, with relatively less own-brand sales (26% of total sales) than in FY21 and FY20 (both 29%).

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 them directly into its European distribution centres is an important point of differentiation.

The Group purchases its own-brand products in US Dollars and product margin can be impacted by exchange rate fluctuations.

Gear4music includes 'costs of delivery' within cost of sales which is a different accounting treatment to some other e-commerce retailers. Delivery costs were £10.3m in the period and represented 7.0% of total revenue (FY21: 7.4%); an illustrative adjusted gross margin would be 34.9% (FY21: 36.8%).

ADMINISTRATIVE EXPENSES AND OPERATING PROFIT

	FY22 £m	FY21 £m	FY20 £m
UK Administrative expenses	**(31.3)**	(27.8)	(25.2)
European Administrative expenses	**(4.6)**	(3.8)	(2.5)
Total Administrative expenses	**(35.9)**	(31.6)	(27.7)
Other income	**0.8**	0.7	0.6
Operating profit	**6.1**	15.4	4.1
Depreciation and amortisation	**5.1**	4.4	3.7
EBITDA	**11.2**	19.8	7.8

Operating profit of £6.1m is £9.3m (60%) below FY21, and a £2.0m (49%) improvement on FY20.

Total administrative expenses increased by 13% (£4.3m) on FY21 relative to a revenue decrease of 6%, principally due to a more normal marketing return and continued investment in our people.

Combined marketing and labour costs of £23.9m (FY21: £21.5m) accounted for 67% of total administrative expenses (FY21: 68%):

- Marketing expenditure increased in FY22 to £10.8m (FY21: £9.2m) equating to 7.3% of revenue compared to 5.9% last year and 7.7% in FY20, as the business returned to more normal trading and competitive conditions.
- Labour costs increased 7% in FY22 to £13.1m (FY21: £12.3m) reflecting an 8% increase in average headcount. Labour costs accounted for 8.9% of revenue (FY21: 7.8%).

FY22 EBITDA of £11.2m is £8.6m lower than FY21 and £3.4m higher than FY20.

OTHER EXPENSES AND NET PROFIT

Financial expenses of £1.1m (FY21: £0.8m) include £0.5m bank interest as the new RCF was increasingly utilised as the year progressed (FY21: £0.2m), £0.4m of IFRS16 lease interest (FY21: £0.4m), and a £0.2m net foreign exchange loss (FY21: £0.2m loss).

The Group reports profit before tax of £5.0m (FY21: £14.6m) that after tax translates into a basic EPS of 17.8p (FY21: 60.3p) and diluted EPS of 17.3p (FY21: 59.7p).

CASH FLOW

	FY22 £m	FY21 £m	FY20 £m
Opening cash	**6.2**	7.8	5.3
Profit for the year	**3.7**	12.6	2.6
Movement in working capital	**(16.2)**	(4.9)	(0.9)
Depreciation and amortisation	**5.1**	4.4	3.7
Financial expense	**1.1**	0.8	1.0
Tax and Other operating adjustments	**(1.3)**	2.0	1.0
Net cash (used in)/from operating activities	**(7.6)**	14.9	7.4
Net cash used in investing activities	**(16.5)**	(4.5)	(3.9)
Net cash from/(used in) financing activities	**21.8**	(12.0)	(1.0)
(Decrease)/increase in cash in the year	**(2.3)**	(1.6)	2.5
Closing cash	**3.9**	6.2	7.8

In April 2021 the Group secured a £35m RCF with its bankers, HSBC, to enable it to invest in opportunities as and when they arose.

Group indebtedness increased £26.9m from a £2.7m net cash position at the start of the year to a £24.2m net debt position at the end, reflecting acquisitions totalling £11.4m and a deliberate £17.1m increase in stock:

- **Acquisitions:** The Group acquired the Premier drum brand for £1.7m, the AV.com domain for £3.0m, and AV Distribution Ltd for £7.1m (£0.4m deferred).
- **Stock:** the business actively invested in stock throughout the year to protect against potential supply chain disruption, secure cost prices ahead of inflationary price increases, and increase stock in European distribution centres. This higher level of stock is a response to broader market and macro uncertainties rather than a structural requirement, and is expected to decrease in the normal course of business in FY23.

Reported net cash outflow from investing activities of £16.5m includes £7.4m of business acquisitions, net of cash acquired, including a £1.3m freehold property acquired with AV Distribution Ltd, £4.4m of capitalised software development costs (FY21: £3.2m), the £3.0m acquisition of the AV.com domain, and £1.8m tangible fixed asset additions. Depreciation and amortisation of £3.7m (FY21: £3.2m) is added back in 'net cash from operating activities' with respect to these asset categories.

Net cash inflow from financing activities of £21.8m (FY21: £12.0m outflow) represents a £28.0m RCF drawdown net of £3.5m repayment of borrowings (FY21: £9.9m repayment), £1.9m payment of lease liabilities (FY21: £1.4m), and £0.9m interest paid (FY21: £0.7m).

BALANCE SHEET

	31 March 22 £m	31 March 21 £m	31 March 20 £m
Property, plant and equipment	**13.0**	11.2	11.2
Right-of-use assets	**8.2**	7.9	9.0
Software platform	**10.5**	8.4	7.1
Goodwill	**5.3**	1.9	1.9
Other intangible assets	**4.0**	0.1	0.1
Total non-current assets	**41.0**	29.5	29.3
Stock	**45.5**	28.4	22.0
Cash	**3.9**	6.2	7.8
Other current assets	**3.9**	3.6	2.5
Total current assets	**53.3**	38.2	32.3
Trade payables	**(9.5)**	(11.4)	(10.1)
Loans and Borrowings	**–**	(0.6)	(10.0)
Lease liabilities	**(1.2)**	(1.1)	(1.1)
Other current liabilities	**(6.7)**	(7.5)	(4.3)
Total current liabilities	**(17.4)**	(20.6)	(25.5)
Loans and Borrowings	**(28.0)**	(2.9)	(3.4)
Lease liabilities	**(8.5)**	(8.3)	(9.5)
Other non-current liabilities	**(2.3)**	(1.6)	(1.6)
Total non-current liabilities	**(38.8)**	(12.8)	(14.5)
Net assets	**38.0**	34.3	21.6

STOCK

£45.5m

+£17.1m

NET DEBT

£24.2m

+£26.9m

NET ASSETS

£38.0m

+£3.7m

Capital expenditure on property, plant and equipment of £3.1m includes the addition of a freehold warehouse valued at £1.3m as part of the AV Distribution Ltd acquisition, £0.8m investment in the new distribution centres in Ireland and Spain, and £0.6m and £0.4m investment in the UK and Sweden respectively.

The Group capitalised £4.4m (FY21: £3.2m) of software development costs relating to our bespoke e-commerce platform, including projects linked to the opening of new distribution centres, the replatforming of the AV Distribution Ltd business and launching AV.com. Platform amortisation in the year was £2.3m (FY21: £1.9m) taking net book value to £10.5m (31 March 2021: £8.4m).

Other intangible assets include £5.3m of goodwill and £3.0m of domains.

The Group had net debt of £24.2m at the year-end (31 March 2021 net cash: £2.7m) having used its facilities to invest in acquisitions and stock.

DIVIDENDS

The Board is confident in the prospects for the business and recognises the importance of generating and retaining cash reserves to support future growth; 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.

CHRIS SCOTT
CHIEF FINANCIAL OFFICER
20 June 2022


98.8 MHz

In tune with our developed approach to social responsibility

We understand the effects that sustainable business practices have on our physical and social environments, and the role they will play in successfully growing our business over the longer term, and acknowledge there is increasing interest from a wide range of stakeholders in the various impacts that the business has.

We will continue to develop and refine our framework and activities to plan to meet the reporting requirements prescribed under the Task Force on Climate-related Financial Disclosures ('TCFD').

GEAR4MUSIC'S ESG AGENDA

Environmental pillar		Social pillar		Governance pillar
Climate change	Pollution and waste	Our products	Our people	Corporate behaviour
Carbon emissions	Packaging material and waste	Product safety and quality	Health and safety	Board diversity and structure
Product footprint	Electronic waste	Supply chain labour standards	Diversity and inclusion	Executive pay
			Wellbeing	Ethics and transparency
			Charities and community	Anti-corruption policies
We recognise our responsibility to reduce our environmental impact, and can achieve this through technology, continuous improvements in operational efficiency, and doing things in new ways		We are committed to retailing high-quality musical instruments, equipment and AV products, and adopting and improving practices that ensure there is no slavery or human trafficking in our supply chain	We recognise the success of our business is founded on the hard work of a team of talented and motivated individuals, and are committed to making Gear4music a great place to work	We are committed to conducting our business with integrity

As an e-commerce retailer of musical instruments, music equipment and AV products, we believe that the areas in which we can make the biggest differences are:

Climate change

reducing the impact Gear4music has on the environment

Waste management

reducing levels of waste and increased, improved recycling

Impact of our products

retailing safe and high-quality products, produced in ethical supply chains

Our people

looking after our colleagues and ensuring Gear4music is a great place to work

ENVIRONMENTAL

We recognise our responsibility to reduce our environmental impact, and can achieve this through technology, continuous improvements in operational efficiency, and doing things in new ways.

CLIMATE CHANGE

We target reduced energy consumption seek out renewable energy options when contracts are up for renewal, and report on our carbon intensity. In September 2021 we signed up to three-year energy contracts at our York head office, an electricity contract for 100% renewable energy and a 40% carbon offset gas product.

We routinely make energy-efficiency conscious decisions across our properties – for example using LED lighting across our properties, and adding electric vehicle charge points at our York and Bacup properties.

Our carbon intensity is reported in the Directors, report on page 57, and reflects colleagues returning to office-working post-Covid, and three new distribution centres.

WASTE MANAGEMENT

We work to minimise the impact of our activities on the environment:

Packaging – We review and seek to improve packaging efficiency and reduce waste, and increase use of near 100% recycled materials:

Waste – We separate and sell all our waste cardboard for recycling and actively seek ways to recycle more of our waste packaging materials such as plastic stretch wrap.

The durable nature of our products makes them prime for recycling, and the planned launch of our second-hand platform in FY23 marks our entry into and commitment to the circular economy across our product categories.

We promote the safe and responsible recycling of products at the end of their useful life.

OUR PRODUCTS

We have invested in the necessary equipment and resources to carry out rigorous compliance testing in our dedicated facility, including testing for substances that can be harmful to the environment or people and are banned under RoHS Regulations.

We operate a strict supplier code of conduct that all of our own-brand suppliers are signed up to, detailing our rigorous expectations and requirements in relation to:

a. Labour
    i. Child Labour
    ii. Hours, Wages and Benefits
    iii. Humane Treatment
    iv. Slavery and Human-Trafficking
    v. Discrimination
    vi. Freedom of Association
b. Health and Safety
c. Environmental
d. Anti-Corruption

MODERN SLAVERY

We are committed to adopting and improving practices that ensure there is no slavery and human trafficking in our supply chains 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 brands and in the year ended 31 March 2022 third-party brands accounted for 69% of our sales. We purchase these products predominantly 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-branded products are sourced from manufacturers in several countries around the globe and are often manufactured to our specification and design. As of 31 March 2022, we had active relationships with over 121 manufacturers, predominantly in the Far East.

We conduct 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.

Between the first publication of our policy in September 2017 to Covid in March 2020 lockdown, we conducted 40 factory inspections. Responses to our factory inspections to date have been positive. In FY21 and FY22 Covid and the associated international travel restrictions impacted our ability to conduct inspections in person, and we adapted by conducting virtual tours of new factories that we have started working with, and being vigilant in gathering as much information on each new factory as possible.

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 PEOPLE

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 a great part of life at 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 generous staff discounts on musical products and equipment, and estimate the majority of our team have bought something from us.

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 (www.gear4music.com/careers/why-gear).

As at 31 March 2022, 36 employees are participating in Group share option plans in recognition of their contribution to the continuing success of the business.

We continue to create job opportunities in our communities, and in FY21 our average headcount increased by 8% from 519 to 558, and our retention levels are good.

AVERAGE NUMBER OF EMPLOYEES

558

+8%

MENTAL HEALTH

Gear4music is signed up to the Charter for Employers Positive about Mental Health meaning we are committed to creating a supportive and open culture where colleagues feel able to talk about mental health confidently, and aspire to appropriately support the mental wellbeing of all staff – we are proud to be a 'Mindful Employer'.

In FY22 we doubled the number of certified Mental Health First Aiders across our business to over 20 providing Managers across all our sites with tools, resources and knowledge to support their people better.

Our Employee Assistance Programme remains a highly utilised support tool, providing all employees with access to online resources, 24/7 helpline and counselling services. We continue to support our employees' wellbeing with our Mental Health and Wellbeing Policies.

GENDER PAY GAP REPORT

As of April 2021, our mean gender pay gap was 11.8% (2020: 13.6%).

- Women's hourly rate is 11.8% lower (mean) and 0.7% lower (median)
- Top salary quartile has 83.0% men and 17.0% women
- Upper middle salary quartile has 73.4% men and 26.6% women
- Lower middle salary quartile has 73.4% men and 26.6% women
- Lower salary quartile has 81.9% men and 18.1% women
- 70.1% of men and 70.8% of women received bonus pay

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

Charitable partnerships

Jessie's fund
MUSIC HELPING CHILDREN

Jessie's Fund

We are approaching the end of the second year of our much-valued relationship with Gear4music, and we are delighted that the company continues to support our music work with children who face huge challenges in life. Until the Autumn of 2021 we were delivering most of our projects online and creating video resources for special schools.

One of the teachers remarked,
"I wanted to thank you for the amazing sensory music sessions you have put online and to share with you how they are impacting pupils. I took a few moments to observe the children in my class today as they accessed your Christmas recording. The mixture of music and images was just right for the group, enabling them to access the session at their level."

We have been pleased to be back to face-to-face working during the past few months. We have returned to supporting music therapy for children at two hospitals – the Great North Children's Hospital in Newcastle ('GNCH'), and York Hospital. The music therapist at the GNCH works from the hospital school, largely with children who have acquired brain injury, while in York most of the work is with young patients in the community. For example, one young person, aged 14, is life-limited and too unwell to attend school. His music therapy is the one time of the week when he receives input which is neither from his immediate family nor providing medical interventions, and where he can be involved in something creative and positive.

In the past eight months our specialist musicians have delivered interactive music projects at ten schools. These vary in length from one-off workshops to year-long staff-development projects, through which we aim to give school staff the skills and confidence to continue the music work after our time in the school is over. Music can be central to the development of children with special educational needs and disabilities, as it provides a means of communicating which transcends the need to be able to speak.

We were delighted that Sarah Wass was able to join us for an afternoon at our recent project at a York school where the children have profound disabilities, enabling her to witness the effect of involvement in music on them.

Jessie's Fund started off by establishing music therapy in children's hospices, and although we have extended our reach beyond hospices, we still support music therapy with children whose lives are destined to be short. This year we have helped three children's hospices expand their music therapy services.

Regular support from Gear4music is hugely appreciated, and plays a significant role in the security of our income, allowing us to continue to use music as a powerful force for good with children who have special needs.

CHANGING LIVES

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..

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, unemployment, drug/alcohol dependency and to provide support for women and children in need.

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, there is substantial scientific evidence that music can improve mental health. This is something that we're well-positioned to help with, and we're delighted to lend our support.

20%

OF STAFF AT CHANGING LIVES HAVE ALSO BEEN THROUGH THE PROCESS THEMSELVES

GIRLS ROCK LONDON

Girls Rock London

'Girls Rock London' is an award-winning charity based in Hackney providing high-quality music programmes for young and adult women, trans, and non-binary people, with a specific focus on increasing access for people who face barriers to participation.

Their vision is of a world where girls, women, trans, and non-binary people are powerful and can achieve their potential. Their mission is to amplify their voices through music-making and community-building. Their programmes are aimed at complete beginners as well as experienced musicians, and they work closely with community partners to respond to the needs of young people experiencing multiple and intersecting disadvantages. They aim to demystify music-making, challenge gender inequality in the music industry and wider society, and provide safe, nurturing and joyful environments in which people can develop; musically, personally and socially.

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 that need to be taken in order to deliver the strategic objectives. The Audit Committee has responsibility for overseeing the effectiveness of appropriate risk management processes and internal control systems. More detail of these processes is set out in the governance section.

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

FOR MORE INFORMATION
WWW.GEAR4MUSIC.COM

OPERATIONS

Risk	Description	Mitigation
Macro-economic trends	Macro-economic and geo-political changes can impact on consumer confidence and demand for our products. Current factors including higher inflation and Russia's invasion of Ukraine create uncertainty, and could reduce consumer demand for discretionary purchases.	Our Operational Board continues to monitor macro-economic trends and geo-political developments, and respond appropriately making any necessary commercial, operational or financial decisions at that time. In FY22 Gear4music significantly invested in stock throughout the year to lock-in cost prices early during a period of higher inflation.
Covid New variants / other pandemics	Supply chains and product availability could be adversely impacted if China locked down. Operational capability and capacity would be impacted if one or more distribution centres were forced to close. In the longer term Covid is likely to have had a significant and enduring impact on people, societies, business and national economies, making it difficult to predict the level and shape of consumer demand post-pandemic. Covid has had a significant impact on retail and warehouse operations.	The safety of our employees is always our top priority. By effectively adapting our working practices, all of our distribution centres largely remained open throughout the pandemic. We added capacity and increased our stock levels to maintain good availability across our ranges. Indications are that some of the shopping habits that consumers displayed during lockdown, including the accelerated channel shift to online, have persisted albeit at a lower level since retailers have reopened. Gear4music is financially robust and well-placed to benefit from the transition to a new normal.

OPERATIONS CONTINUED

Risk	Description	Mitigation
UK outside the EU	The UK being outside the EU could impact on the Group's ability to deliver high sales growth. Cross-border checks create administrative challenges and increased costs moving products across the UK-EU border, making it difficult for Gear4music to viably move products across borders to customers and/or between distribution centres. Controls on the freedom of movement of people impacts the availability of European workers in the UK. UK-Irish-European tensions could escalate as Northern Ireland protocols are worked through.	In FY22 Gear4music opened two new distribution centres ('DC') in Spain and Ireland to further reduce cross-border activity, with European DCs fulfilling a higher proportion of European demand. Containerisation project partly mitigated higher administrative charges. Competitor activity and offerings are regularly reviewed to ensure we remain abreast of market developments and identify risks and opportunities. Fluctuating exchange rates are regularly reviewed and operational and financial mitigations considered. Buying products and incurring more expenses in Euros and Krona provides a natural hedge and partly mitigates currency risk.
Change management	**RAPID GROWTH:** The Group's business has grown rapidly from revenues of £24m in FY15 to £148m in FY22. Operations and practices adopted at earlier stages of the Group's development may be inappropriate for a business of an increased size, scale and complexity. The Group may need to expand and enhance its infrastructure and technology as well as improve its operational and financial systems and procedures and controls to match its growth. The Group will need to expand, train and manage its growing employee base. **NEW MARKETS:** Further expansion into new sectors and/or geographical markets outside the UK could expose the Group to a variety of new risks. The Directors have limited experience of the legal and regulatory regimes of jurisdictions outside the UK. The Group will likely have to compete in new markets and jurisdictions with companies already established in the relevant market, who may better understand the market. To the extent that the Group overestimates the potential of a new market or fails to anticipate the differences between the market and its core markets, the Group's attempt to expand into new markets may be unsuccessful. **M&A:** Growth through acquisition is dependent on identifying appropriate targets, negotiating and delivering transactions, and the successful integration of businesses. In FY22 the Group acquired the Premier drum brand, the AV.com domain, and AV Distribution Ltd.	The Plc and Operational Boards actively monitor and respond to developments, so as to maintain systems and practices that are appropriate for the operations and scale of the Group. The Group continues to allocate a high proportion of senior management time and software development resource to improving internal processes and controls, and overall Group resilience. The Group operates a rigorous recruitment process and continues to recruit into key management positions. Prior to any major developments Management extensively researches the opportunity and routinely takes appropriate professional advice. The Group has setup and established local subsidiaries in multiple European countries, and recruited local management familiar with local laws and regulations. Any future advances will continue to be in a measured, capital and cost-efficient manner.

OPERATIONS CONTINUED

Risk	Description	Mitigation
IT and cyber security	**DATA SECURITY AND IT RELIABILITY:** The Group relies heavily on its IT infrastructure and e-commerce system and if any one or more parts 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, all of which could affect the Group's business. **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. **SEARCH ENGINE ALGORITHMS:** Changes to search engine 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 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. **PAID MEDIA PRICE INFLATION:** In FY22 the Group spent £10.8m (FY21: £9.2m) on marketing, of which over 90% was related to 'pay per click' online advertising. High inflation could adversely impact the Group's results.	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. Increased homeworking facilitated by multi-factor authentication, and strong virus and threat protection. The Group continues to allocate a significant annual budget to software development: £4.4m capitalised in FY22 (FY21: £3.2m). Software development is carried out in-house enabling the Group to assert greater control and drive cost-efficiency to help mitigate such risks. The Group continues to operate search engine optimisation activities that adhere to search engine guidelines. Brand strength and prominence, and email remarketing, encourage visitors to come directly to Gear4music sites. The Group has an experienced Paid-Marketing team and invests in PPC and PPC-supporting technology.
Warehousing and distribution	**DISTRIBUTION CENTRES:** Disruption to a distribution centre's operation may have an effect on the Group's business. A distribution centre may suffer prolonged power or equipment failures, failures in its information technology systems or networks or damage from fires, floods, or other unforeseen events which may not be covered by or may exceed the Group's insurance coverage. **LOGISTICS:** The supply of product to customers in a timely manner is critical to the success of the Group. The Group operates its own warehouses, run by senior management who have significant experience in the sector. The Group may experience interruptions to the operation of its logistics partners' networks that could prevent the timely or proper delivery of products, which could damage the Group's reputation and deter prospective customers.	The Group operates from six DCs (FY21: three), 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. There are regular reviews of capacity and courier configurations across locations, and plans developed 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 six DCs, 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.

BRAND AND PROPOSITION

Risk	Description	Mitigation
Brand	Developing and maintaining the reputation of the Group's brands is important to the ongoing success of the Group. Brand identity is an important factor in attracting and retaining customers. A 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. Unfavourable publicity concerning the Group could damage the Group's brands and its business. In FY22 the Group acquired the Eden and Premier brands, and the AV.com domain to launch in the Audio-Visual market	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. The Group retains Financial public relations advisors to assist in external communications.
Competition	The UK and European retail market for musical instruments and music equipment is competitive. Competitors in certain markets may compete aggressively on price for a period of time. Competitors may have financial resources greater than those of the Group. Amazon sells musical instruments and music equipment. Amazon as a direct competitor is lower risk given their focus on the lower average order value/accessory end of the market and, as they do not have showrooms or specialist customer support, on open, generalist product. Amazon market place is an enabler for Chinese manufacturers to sell direct into European markets. In FY22 Gear4music launched AV.com increasing its presence and ambition in the Audio-Visual market.	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 chain	**THIRD-PARTY BRANDED PRODUCTS:** The Group's business depends on its ability to source a range of products from well-recognised third-party brands on commercially viable terms. Relationships are generally based on annual contracts that the Group seeks to renew each year. Third-party brand owners may stop supplying the Group on terms acceptable to it, fail to deliver sufficient quantities of products in a timely manner, or terminate their relationship with the Group. Any disruption to the availability or supply of products to the Group or any worsening of the terms on which products are supplied to the Group could affect its business. **OWN BRAND – RELIANCE ON SUB-CONTRACT MANUFACTURERS:** The Group sub-contracts manufacture of its own-brand musical instruments and equipment to independent third-party businesses in South-East Asia. Any disruption to supply or issues such as poor product quality could have an adverse impact on the Group's reputation. The impact of any issues arising with sub-contractors' products is exacerbated by the lead times involved (12–16 weeks).	The Directors do not consider the Group to be significantly reliant on any one superfluous major brand. The Directors believe that the size of the Group, its purchase volumes and the strength of its relationships with the brand-owners, built over a prolonged period in many cases, make it unlikely that any such arrangements would be terminated. The Group has been successfully importing products for over 19 years and has relationships with over 120 manufacturers; providing re-sourcing options. The Board believes that the Group has robust procedures in place for both new and existing manufacturers, for take-on and ongoing production, and seeks to adhere to them rigidly; these cover areas such as quality control and delivery performance.
Financial risk	The Group relies on bank debt to fund its working capital cycle. A material prolonged deterioration in trading performance could impact on the ability to meet covenants and the availability of banking facilities. Certain suppliers may obtain credit insurance in respect of Gear4music balances. As a global retailer trading in nine currencies, whilst recognising revenues and purchases in GBP as the Group's functional currency, there is a foreign exchange exposure.	The Group has a three-year committed £35m RCF. Detailed budgeting and rolling reforecasting ensure working capital is managed within available facilities, and enables prompt response to adverse performance. The Group has a natural currency hedge as more of its costs are incurred in Euros and Swedish Krona, better reflecting the currency mix profile of sales receipts. The Finance function reviews the hedging policy at least once a year.
ESG	Failing to deliver on our ESG policy may result in our losing the trust and support of our stakeholders.	Gear4music is committed to reducing the Group's impact on the environment, making positive improvements in its social commitments, whilst maintaining good corporate governance and behaviour.

Assessment of prospects and viability

OPERATIONS

The Group's business activities and position in the market, and principal risks, uncertainties and mitigations are described in the Strategic Report.

In FY21 the Group successfully managed the challenges of operating distribution centres throughout the Covid pandemic, and as a result reported a significant increase in profits and profitability, a stronger balance sheet, and net cash at 31 March 2021.

In FY22 the Group secured a £35m three-year committed Revolving Credit Facility with its bankers, HSBC, to make acquisitions and invest in stock for precautionary reasons during a period of potential supply chain disruption, and early in a period of inflationary cost price increases, putting the Group in a strong competitive position heading in to FY23.

The Directors have considered the Group's position and prospects in the period to 31 March 2023 based on its offering in the UK and improved proposition in Europe and concluded that potential growth rates remain strong.

There is a diverse supply chain with no key dependencies.

FINANCES

The Group's policy is to ensure that it has sufficient facilities to cover its future funding requirements. At 31 March 2022 the Group had net debt of £24.2m (31 March 2021: net cash of £2.7m), with £3.9m cash (31 March 2021: £6.2m cash), with a good and appropriate level of headroom that has been factored into the Directors going-concern assessment.

The Group has conducted various budget flexes, principally on a reduction in revenue, and performed a reverse stress test. There is no plausible scenario where the Group breaches its covenants, reaffirming the assessment of the Group as a going concern.

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.

Having duly considered all of these factors and having reviewed the forecasts for the period to 30 June 2023, 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.

NET PROFIT
£3.7m

NET ASSETS
£38.0m

NET DEBT
£24.2m

RCF
£35.0m

In tune with our stakeholders

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 Section 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.

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, is central to our strategic thinking and our statutory duties in accordance with S.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 impacts on, and engagement with, our key stakeholder groups are considered within the implementation of our Group strategy. The stakeholder groups are: employees, customers, our suppliers, the environment and our shareholders. How we engage with these groups is covered throughout the report.

OUR STAKEHOLDERS ARE AT THE HEART OF OUR MODEL

Stakeholder	How we engage
Employees **We strongly believe in growing our talent by recruiting the best people, identifying individual strengths, and providing development opportunities with the scope for career progression as a result.**	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. Through Covid and its aftermath the safety and wellbeing of our colleagues has been of paramount importance, and we've worked hard together across the year to keep our operation running smoothly. We introduced many measures to keep our workplaces safe and Covid-secure; examples include a contactless entry system to all our UK sites with FaceStation technology, and temperature testing in entrance halls. We continue to invest in our facilities to make our office a great place to work and collaborate once it is safe for everyone to fully return. Our intranet allows us to quickly and easily share information about Company news including policy updates, new-starter welcomes, and internal promotions and changes. Every department has its own dedicated page for resources, helping support cross-departmental working. An organisational chart help our colleagues better understand 'who is who' as the business grows in size.
Customers **Effective communication with our customers is central to understanding their needs and wants, and developing our customer proposition.**	Effective communication with our customers is central to understanding their needs and wants, and developing our customer proposition. We monitor and respond to Trustpilot reviews, and look to learn from things that didn't meet the customer's expectation. We invest significant resource in generating high-quality engaging content, in terms of product descriptions, and studio-quality photographic and video assets. Improving customer experience is one of the key objectives when designing and implementing software development projects.

OUR STAKEHOLDERS ARE AT THE HEART OF OUR MODEL

Stakeholder	How we engage
Suppliers **We work closely with our suppliers in a transparent way, operating on shared values and high standards, enabling our suppliers to participate in our success as we grow.**	We work closely with our suppliers in a transparent way, operating on shared values and high standards, enabling our suppliers to participate in our success as we grow. We pay our suppliers to agreed terms to give them the certainty they require.
Shareholders **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 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 Annual General Meeting 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.

The Strategic Report on pages 1 to 47 was approved by the Board on 20 June 2022 and signed on its behalf:

ANDREW WASS
DIRECTOR

20 June 2022

CHRIS SCOTT
DIRECTOR

20 June 2022

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 38 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 Non-Executive Chairman of AIM-quoted companies SDI Group plc and CMO Group PLC, and Non-Executive Chairman of Chaleit Holdings Limited.

At 31 March 2022 Ken was Chairman of the Remuneration Committee and a member of the Audit Committee.

ANDREW WASS
CHIEF EXECUTIVE OFFICER

Andrew has over 25 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 over 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 and CMO Group PLC, and is a Director of M.S. Team Limited.

At 31 March 2022 Dean was chairman of the Audit Committee and a member of the Remuneration Committee.

HARRIET WILLIAMS
NON-EXECUTIVE DIRECTOR

Harriet has spent the last 19 years working in the retail sector for some of the world's leading consumer brands, where she has led e-commerce and omnichannel sales, marketing, strategy and business development initiatives in the UK and internationally.

Between 2015 and 2018, Harriet was Chief Digital Officer at The Body Shop, where she played an integral role in the sale of the business in 2017 by L'Oreal to Natura. Harriet's other previous roles include working at Gucci, Debenhams and strategy consultants Marakon Associates.

Harriet is currently Vice President Global E-commerce at the LEGO Group and Non-Executive Director of Stockmann Group.

At 31 March 2022 Harriet was a member of the Remuneration Committee.

"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."

KEN FORD
CHAIRMAN

Chairman's introduction

QUOTED COMPANIES ALLIANCE CORPORATE GOVERNANCE CODE

The Directors apply 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. The Group's application of the code is detailed on its website at www.gear4musicplc.com/investors/corporate-governance/.

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.

THE BOARD OF DIRECTORS AND COMMITTEES OF THE BOARD OF DIRECTORS

The Board, which is headed by the Chairman, comprises six Directors of which three are Executive and three are Non-Executive, providing a broad range of relevant skills and experiences. The Board considers Ken Ford, Dean Murray and Harriet Williams to be 'independent' Non-Executives under the criteria identified in the code. Directors' profiles are detailed on pages 48 and 49.

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 on-going 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 six Directors, of which three are Executive and three are Non-Executive ('NED'), 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 NED and Committees mitigate this risk.

The Board is satisfied that the six Directors collectively provide a broad range of relevant skills and experiences, and that the composition strikes a good balance between independence and knowledge of the business, to enable it to effectively discharge its duties and responsibilities.

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, 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 Chairman and 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 two Committees – an Audit Committee and a Remuneration Committee.

The table below shows the number of Board meetings and Audit Committee and Remuneration Committee meetings held in the period from 1 April 2021 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	12/12	3/3	2/2
Dean Murray	NED	12/12	3/3	2/2
Harriet Williams	NED	12/12		2/2
Andrew Wass	CEO	12/12		
Chris Scott	CFO	12/12	3/3	2/2
Gareth Bevan	CCO	12/12		

RE-ELECTION

At each Annual General Meeting one third (or whole number less than one third) of the Directors retires by rotation, and in September 2021 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 the four further Directors of the trading subsidiary, meets regularly to analyse and discuss operational and commercial matters, and identify any material matters to escalate to the Plc Board. The Operational Board formally 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 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.

There is no internal audit department.

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

DEAN MURRAY
CHAIR OF AUDIT COMMITTEE

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 fees, following appointment by the shareholders in general meeting, and to review and be satisfied with the auditor's independence, objectivity and effectiveness on an ongoing basis; and
- to implement the policy relating to any non-audit services performed by the external auditor.

MEMBERSHIP OF THE AUDIT COMMITTEE

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

ROLE AND OPERATION OF THE AUDIT COMMITTEE

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

Meetings of the Committee are held at least twice per year and the auditor is invited to these meetings. The Committee meets early in the financial 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 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 and the 2013 Enterprise and Regulatory Reform Act (together 'the Acts') aims to promote greater openness in the workplace and ensures 'whistle blowers' are protected. The Group maintains a policy in accordance with the Acts which allows employees to raise concerns on a confidential basis if they have reasonable grounds in believing that there is serious malpractice within the Group. The policy is designed to deal with concerns, which must be raised without malice and in good faith, in relation to specific issues which are in the public interest and which fall outside the scope of other Group policies and procedures. There is a specific complaints procedure laid down and action will be taken in those cases where the complaint is shown to be justified. The individual making the disclosure will be informed of what action is to be taken and a formal written record will be kept of each stage of the procedure.

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

EXTERNAL AUDITOR AND NON-AUDIT SERVICES

Fees in relation to services provided by the external auditor, Grant Thornton UK LLP, in FY22 and FY21 were:

	FY22 £000	FY21 £000
Audit fee	**139**	100
Non-audit fees: other audit related services	**5**	5
Total fees	**144**	105

The Committee is satisfied with the independence and objectivity of the auditor's.

REMUNERATION COMMITTEE REPORT

ERIC FORD
CHAIR OF REMUNERATION COMMITTEE

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, Dean Murray and Harriet Williams. 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. On 27 April 2022 Harriet Williams replaced Ken Ford as Remuneration Committee chair.

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

The Remuneration Committee meets at least twice a year.

REMUNERATION POLICY

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

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

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

NON-EXECUTIVE DIRECTORS

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

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

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

DIRECTORS' INTERESTS

Details of the Directors' shareholdings are included in the Directors' report on page 56.

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 2022 is set out below:

	Basic salary £000	Benefits £000	Pensions £000	Total FY22 £000	Total FY21 £000
Executive					
Andrew Wass	219	2	8	**229**	228
Chris Scott	174	2	6	**182**	182
Gareth Bevan	171	2	5	**178**	169
Non-Executive					
Ken Ford	36	–	–	**36**	36
Dean Murray	34	–	1	**35**	35
Harriet Williams, appointed 1 January 21	40	–	1	**41**	10
Total	**674**	**6**	**21**	**701**	**660**

Life cover policies with families as beneficiaries were put in place in relation to Chris Scott and Gareth Bevan in May 2019 and Andrew Wass in March 2021.

DIRECTORS' SHARE OPTIONS

Executive	Scheme	1 April 2021	Awarded during period	Vested during the period	31 March 2022	Date granted
Andrew Wass	LTIP (2018)	45,000	–	5,850	39,150	Nov 2018
	LTIP (2021)	–	75,420	–	75,420	Oct 2021
Chris Scott	LTIP (2018)	45,000	–	5,850	39,150	Nov 2018
	LTIP (2021)	–	37,710	–	37,710	Oct 2021
Gareth Bevan	LTIP (2018)	52,500	–	6,825	45,675	Nov 2018
	LTIP (2021)	–	113,130	–	113,130	Oct 2021

LTIP (2018)

On 3 August 2021 and further to confirmation all performance conditions relating to the conditional share awards granted under the Long-Term Incentive Plan ('Plan') were fully met, Gareth Bevan received 6,825 shares, Chris Scott received 5,850 shares, and Andrew Wass received a £55,575 cash equivalent.

LTIP (2021)

On 14 October 2021 a new LTIP involving Andrew Wass, Chris Scott, and Gareth Bevan was put in place and involved the issue of 377,100 non-voting, non-dividend restricted 'D' Ordinary shares in Gear4music Limited, a subsidiary of the Company. The D Shares are capable of vesting between 2023 and 2027 and can be exchanged on a one-for-one basis for new ordinary shares of ten pence each in the capital of the Company, subject to achieving minimum specified fully diluted earnings per share targets (see page 96).

Gareth Bevan, Andrew Wass and Chris Scott are participants in the scheme, with 113,130, 75,420 and 37,710 D-shares respectively.

The initial subscription cost was covered by way of bonus and Gareth Bevan, Andrew Wass, and Chris Scott received bonuses of £21,345, £14,230 and £7,115 respectively.

KEN FORD
CHAIRMAN AND NON-EXECUTIVE DIRECTOR

20 June 2022

DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the year ended 31 March 2022.

PRINCIPAL ACTIVITY

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

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

An overview of the Group's operation is included in the Strategic Report section of the Annual Report and Accounts on pages 1 to 47. This report includes sections on strategy and markets and considers key risks and key performance indicators.

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

FINANCIAL RESULTS

Details of the Group's financial results and position are set out in the Consolidated Statement of Profit and Loss and other comprehensive income, other primary statements and notes to the accounts on pages 68 to 98.

DIVIDENDS

The Directors do not recommend the payment of a dividend (FY21: 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, and 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 pages 48 and 49. One-third of the Directors are required to retire at the Annual General Meeting and can offer themselves for re-election.

Information on Directors' remuneration and share option rights is given in the Remuneration Committee report on pages 54 and 55.

SIGNIFICANT SHAREHOLDERS

The Company is informed that at 29 April 2022, 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	4,701,993	22.4%
AXA Investment Mgrs S A	2,688,377	12.8%
Liontrust Investment Partners LLP	2,574,846	12.3%
Standard Life Aberdeen plc	2,146,412	10.2%
TB Amati Investment Funds	1,911,289	9.1%
Cannaccord Genuity Group Inc	1,353,472	6.5%
Octopus Investments Ltd	634,018	3.0%

On 16 May 2022 Andrew Wass purchased a further 50,000 shares taking his shareholding to 4,751,993 (22.7% of issued share capital).

DIRECTORS' SHAREHOLDINGS

The beneficial interests of the Directors in the share capital of the Company at 1 April 2021 and 31 March 2022 were as follows:

	1 April 2021 Number of shares	31 March 2022 Number of shares	31 March 2022 % of issued share capital
Executive Directors			
Andrew Wass	6,351,993	4,701,993	22.4%
Gareth Bevan	84,760	91,585	0.4%
Chris Scott	74,840	80,690	0.4%
Non-Executive Directors			
Dean Murray	167,520	167,520	0.8%
Ken Ford	40,000	40,000	0.2%

On 3 August 2021 and further to all performance conditions being fully met, Gareth Bevan received 6,825 shares, Chris Scott received 5,850 shares, and Andrew Wass received a cash equivalent.

Post financial year-end, on 16 May 2022 Andrew Wass purchased a further 50,000 shares taking his shareholding to 4,751,993 (22.7% of issued share capital).

The middle market price of the Company's ordinary shares on 31 March 2022 was 390.0 pence (31 March 2021: 825.0 pence), and the range in the year was 390.0 pence to 1010.0 pence, with an average price of 803.9 pence.

RESEARCH AND DEVELOPMENT

The Group capitalised £4.4m of software development costs during the year (FY21: £3.2m) and expensed £0.23m of R&D costs (FY21: £0.16m) relating to the in-house e-commerce software platform.

Amortisation of the software platform totalled £2.3m in the year (FY21: £1.9m).

FINANCIAL INSTRUMENTS

The Group's policy and exposure to financial instruments is set out in Note 20.

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 2022 the Group made charitable donations totalling £6,000 (FY21: £5,300).

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 2022 was 29 days (31 March 2021: 26 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 35.

	Year ended 31 March 2022	Year ended 31 March 2021	Year ended 31 March 2020
Scope 1 – Combustion of fuel and operation of facilities (kWh)	**16,617**	7,629	9,392
Scope 2 – Electricity, heat, steam, and cooling purchased for own use (kWh)	**4,508,780**	3,869,024	4,108,558
Total energy use – (kWh)	**4,525,397**	3,876,653	4,117,950
CO_2e equivalent – (kg CO_2e)	**1,156,402**	990,740	1,052,392
Intensity measurement – kg CO_2e per customer order	**0.91**	0.68	0.93

Energy use in the year ended 31 March 2022 was impacted by a phased return to the office and the addition of three distribution centres during a period when order numbers were down.

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 are detailed in the Governance section included in this Annual Report.

AUDITOR

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

20 June 2022

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 financial statements for each financial year. Under that law the Directors have to prepare the Group financial statements in accordance with UK-adopted International Accounting Standards and they have elected to prepare the parent Company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law, 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 and profit or loss of the Company and Group for that period. In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- for the Group financial statements, state whether applicable UK-adopted International Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- for the parent Company financial statements, state whether applicable UK Generally Accepted Accounting Practice has been followed, subjected to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that:

- so far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

To the best of our knowledge:

- the Group financial statements, prepared in accordance with UK-adopted International Accounting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report and Directors' Report include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

ANDREW WASS
DIRECTOR

20 June 2022

CHRIS SCOTT
DIRECTOR

20 June 2022

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GEAR4MUSIC (HOLDINGS) PLC

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 2022, 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, 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 UK-adopted International Accounting Standards. 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 2022 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with UK-adopted International Accounting Standards;
- 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.

CONCLUSIONS RELATING TO GOING CONCERN

We are responsible for concluding on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the parent company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Group or the parent company to cease to continue as a going concern.

A description of our evaluation of management's assessment of the ability to continue to adopt the going concern basis of accounting, and the key observations arising with respect to that evaluation, is included in the Key Audit Matters section of our report.

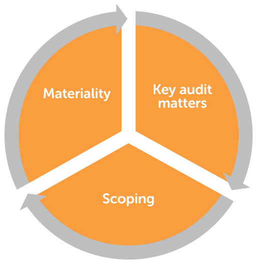
Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the parent company's ability to continue as a going concern for a period of at least twelve months from when the Financial Statements are authorised for issue.

In auditing the Financial Statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the Financial Statements is appropriate.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GEAR4MUSIC (HOLDINGS) PLC CONTINUED

The responsibilities of the Directors with respect to going concern are described in the 'Responsibilities of Directors for the Financial Statements' section of this report.

Grant Thornton



OVERVIEW OF OUR AUDIT APPROACH

Group: £445,000, which represents 0.3% of the Group's revenue.
Parent Company: £291,000, which represents 2% of the parent Company's total assets.

Key audit matters were identified as:

- Going concern (same as previous year);
- The revenue cycle includes fraudulent transactions (same as previous year);
- Existence and valuation of internally generated development costs (same as previous year); and
- Completeness and Valuation of acquired intangibles in respect of the AV Distribution Limited acquisition (new in the year).

All key audit matters from our auditor's report for the year ended 31 March 2021 continue to be reported as key audit matters in our current-year audit report.

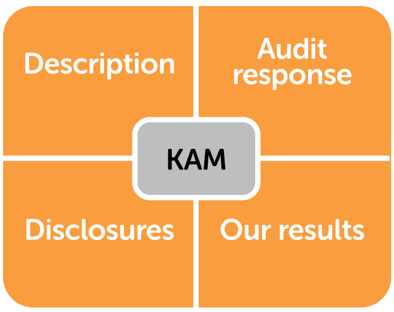
We have performed the following audit work:

- A full scope audit of the Financial Statements of the main training subsidiary (Gear4music Limited), using component materialities.
- An audit of one or more account balances, classes of transactions or disclosures of the parent Company (specific scope).
- Analytical procedures at Group level on Gear4music Sweden AB, Gear4music GmbH, Gear4music Norway AS, Cagney Limited, Gear4music Europe Limited, and Gear4music Spain SL;
- Specific procedures on material assets and liabilities recognised on consolidation to ensure sufficient coverage of total assets; and
- Analytical procedures on AV Distribution Ltd for the period of time between acquisition and hive up into Gear4music Limited.

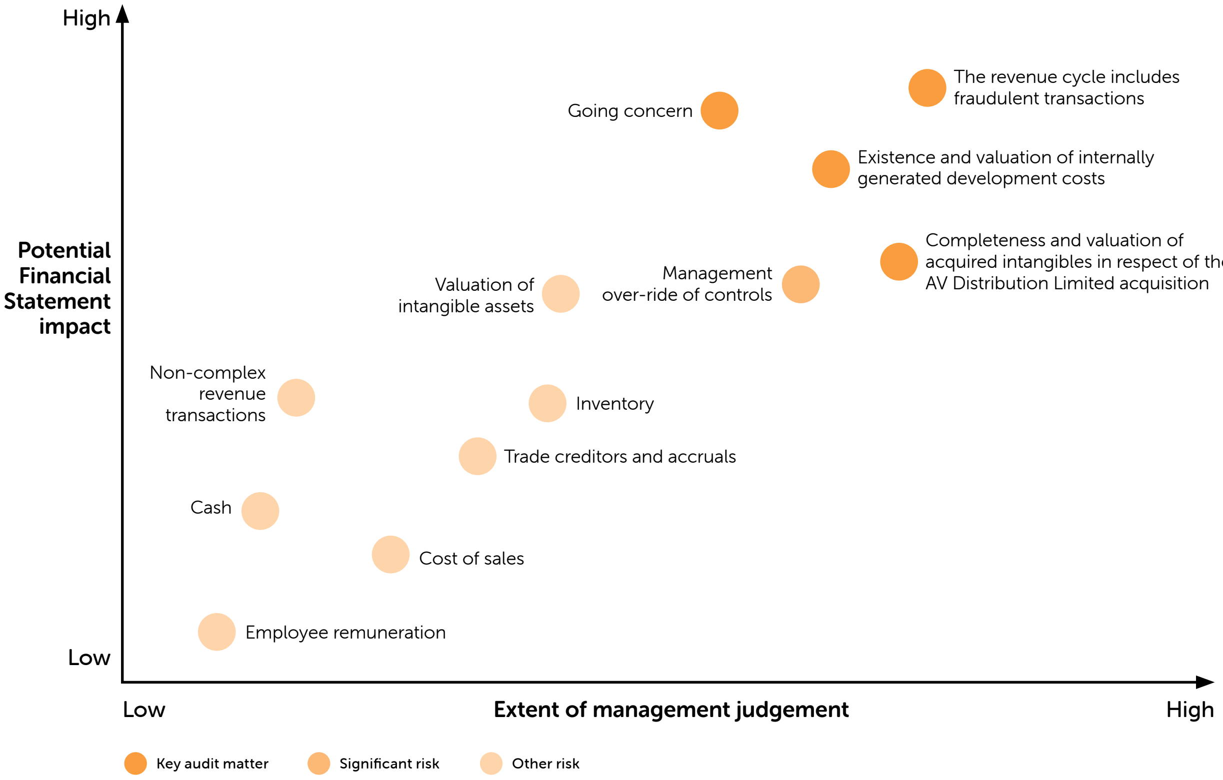
In total, our audit procedures covered 100% of the Group's total cash, 99% of the Group's revenue and 98% of the Group's profit before tax.

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.



In the graph below, we have presented the key audit matters, significant risks and other risks relevant to the audit.



Key Audit Matter – Group	How our scope addressed the matter – Group

GOING CONCERN

We have identified a key audit matter related to going concern as one of the most significant assessed risks of material misstatement due to error, as a result of the judgement required to conclude whether there is a material uncertainty related to going concern.

In our evaluation of the Directors' conclusions, we considered the inherent risks associated with the Group's and the parent Company's business model including those arising from macro-economic uncertainties such as Brexit; we assessed and challenged the reasonableness of estimates made by the Directors and the related disclosures and analysed how those risks might affect the Group's and the parent Company's financial resources or ability to continue operations over the going concern period.

In the current macro-economic environment, there is significantly more judgement applied in management developing their cash-flow forecasts for both the forecasted level of revenue growth against customer demand and inflationary pressures on cost of sales to determine whether the Group and parent Company will continue to be able to operate throughout the Going Concern period.

The Directors have concluded, based on various scenarios developed, that the Group has sufficient resources available to meet its liabilities as they fall due and have concluded that there are no material uncertainties around the going concern assumptions.

In responding to the key audit matter, we performed the following audit procedures:

- Evaluating the design and implementation of internal controls over management's going concern assessment;
- Obtaining management's assessment and forecasts covering the period to 30 June 2023 and assessing their integrity and suitability as a basis for management to assess going concern;
- Evaluating the key assumptions within the cash-flow forecasts, including the quantum and timing of cash outflows and inflows, and determining whether these have been applied appropriately. We also considered whether the assumptions were consistent with our understanding of the business, and with the expected wider economic uncertainties;
- Assessing whether the forecasts used for going concern are consistent with those used in other areas of the audit, including the impairment review;
- Assessing the accuracy of management's past forecasting by comparing management's forecasts for the last four financial periods to the actual results for those periods and considering the impact on the cash-flow forecast;
- Corroborating the existence of the Group's loan facilities and related covenant requirements for the period covered by management's forecasts;
- Reviewing management's reverse stress testing and sensitivity analyses and ensuring that this appropriately considers the current and potential future impact of economic uncertainties on the Group's financial performance;
- Comparing post-year-end results achieved to those forecasted to determine if the business is trading in line with forecast; and
- Assessing the adequacy of the going concern disclosures included within the Annual Report and Financial Statements

RELEVANT DISCLOSURES IN THE ANNUAL REPORT AND ACCOUNTS 2022

The Group's accounting policies on the Going Concern assumption are shown in Note 1.3 to the Financial Statements.

Additional disclosure is included in the Directors' Report on page 56.

OUR RESULTS

We have nothing to report in addition to that stated in the 'Conclusions related to going concern' section of our report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GEAR4MUSIC (HOLDINGS) PLC CONTINUED

Key Audit Matter – Group	How our scope addressed the matter – Group
THE REVENUE CYCLE INCLUDES FRAUDULENT TRANSACTIONS We identified that the risk that the revenue cycle includes fraudulent transactions as one of the most significant assessed risks of material misstatement due to fraud. Under International Standards on Auditing ('ISA') 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. We determined that the significant risk in revenue is related to revenue impacting entries falling outside the expected transaction flow, and manual adjustments to revenue at the year-end (including those in respect of the sales cut-off provision, the warranty income provision and the returns provision). There are judgements and estimates which are susceptible to management bias in these calculations.	In responding to the key audit matter, we performed the following audit procedures: • Evaluating the relevant processes and controls in place over revenue recognition, including those related to the posting and reconciliation of revenue, and confirmed they were implemented as designed by performing a walkthrough; • Assessing the relevant accounting policies for consistency and appropriateness with the financial reporting framework, including IFRS 15 'Revenue from Contracts for Customers'; • Utilising data analytic techniques to identify unusual postings to the revenue balance by interrogating the revenue population, including analysing revenue postings from inception to cash, to identify unexpected ledger postings, including manual entries, which we then agreed to supporting documentation; • Challenging and corroborating the judgements and assumptions used in management's cut-off adjustment calculation and agreeing a sample of dispatches made close to the year-end to proof of delivery to confirm that the revenue was recognised in the correct period; • Performing substantive analytical procedures on the cut-off provision with reference to the provision recognised in the prior year, and the value of revenue transactions around the year-end; • Recalculating the warranty income recognised in the year, challenging management on inputs into the model, including the expected timing that the related performance obligation will be satisfied; • Performing substantive analytical procedures on the returns provision with reference to the average value of returns per month and the value of revenue around the year-end; and • Selecting a sample of post year-end credit notes to test the completeness and accuracy of the returns provision at the year-end.
RELEVANT DISCLOSURES IN THE ANNUAL REPORT AND ACCOUNTS 2022 The Group's accounting policy on revenue recognition is shown in Note 1.15 to the Financial Statements. Related disclosures are included in Note 3.	**OUR RESULTS** Based on our audit work, we did not identify fraudulent transactions or material misstatements in the revenue recognised in the year to 31 March 2022.
EXISTENCE AND VALUATION OF INTERNALLY GENERATED DEVELOPMENT COSTS We identified the capitalisation of internally generated development costs relating to the Group's bespoke e-commerce platform as one of the most significant assessed risks of material misstatement due to error. There are judgements made by management in respect of capitalising internally generated costs and as such there is a risk that the specific requirements under International Accounting Standards ('IAS') 38 'Intangible Assets' regarding capitalisation of internally generated intangible assets are not met.	In responding to the key audit matter, we performed the following audit procedures: • Evaluating the relevant processes and controls in place over the capitalisation of internally generated development costs and confirmed they were implemented as designed by performing a walkthrough; • Challenging management's capitalisation policy for intangible assets to ensure it is reasonable and in accordance with the relevant financial reporting framework; • Assessing whether the nature of the expenditure met the criteria for capitalisation set out in the standard and challenging management on the quantum of the costs which were capitalised in the year; • Performing a substantive analytical procedure to gain assurance over the total capitalised value with reference to the increase in the number of employees, the average capitalised salary, and the total capitalised employee costs as per the payroll data; • Selecting a sample of employees, and testing their capitalised value and role to underlying data including employment contracts and payroll records; and • Selecting a sample of the development projects in the year and assessing their appropriateness to capitalise against IAS38 and the nature of the project.
RELEVANT DISCLOSURES IN THE ANNUAL REPORT AND ACCOUNTS 2022 The Group's accounting policy on the capitalisation of internally generated costs is shown in Note 1.10 to the Financial Statements. Related disclosures are included in Note 12.	**OUR RESULTS** Based on our audit work, we have identified that the capitalisation of internally generated development 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 our scope addressed the matter – Group
COMPLETENESS AND VALUATION OF ACQUIRED INTANGIBLES IN RESPECT OF THE AV DISTRIBUTION LTD ACQUISITION We identified the completeness and valuation of intangible assets arising on the acquisition of AV Distribution Ltd as one of the most significant assessed risks of material misstatement due to error. The Group acquired AV Distribution Ltd in December 2021 resulting in additions of £2.7m to intangible assets, of which £0.2m is allocated to other intangibles and £2.5m is allocated to goodwill. IFRS 3 'Business Combinations requires most newly acquired assets and liabilities to be recorded at fair value. There is significant management judgement involved in determining the fair value of the assets and liabilities acquired and consideration, including the calculation of the fair value of brand and customer-related intangibles acquired, and the discount rate and long-term growth rate used in the valuation.	In responding to the key audit matter, we performed the following audit procedures: • Evaluating the design and implementation of controls over the acquisition; • Utilising our valuation experts to assist in assessing the work performed by management's valuation expert in relation to the valuation of acquired intangible assets. This included challenging whether the methodology used in the valuation is in line with acceptable valuation methods and calculating auditor estimates for both assets identified, and discount rates used; • Assessing the competence of management's expert through reference to their qualifications and experience; • Cross-referencing the list of identified intangible assets with those outlined in IFRS guidance and others we have seen recorded in practice or would have expected to be recorded in this business combination to ensure no unrecognised assets; • Re-performing the calculation of goodwill and comparing to the figure as determined by management to gain assurance over the mathematical accuracy of the calculation; and • Assessing the adequacy of the accounting policy and relevant disclosures made in the Financial Statements with respect to the acquisition to determine whether they are complete, accurate and in line with IFRS 3.
RELEVANT DISCLOSURES IN THE ANNUAL REPORT AND ACCOUNTS 2022 The Group's accounting policy on the capitalisation of internally generated costs is shown in Note 1.9 to the Financial Statements. Related disclosures are included in Note 2.	**OUR RESULTS** Based on our audit work performed we have not identified any material misstatements relating to the completeness and valuation of acquired intangibles arising on the acquisition of AV Distribution Ltd.

We did not identify any key audit matters relating to the audit of the Financial Statements of the parent Company, except for Going Concern, our procedures on which are covered above.

OUR APPLICATION OF MATERIALITY

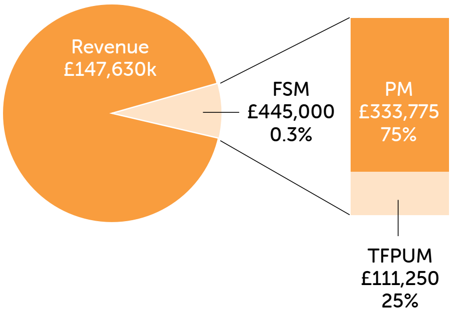
We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the Financial Statements and in forming the opinion in the auditor's report.

Materiality was determined as follows:

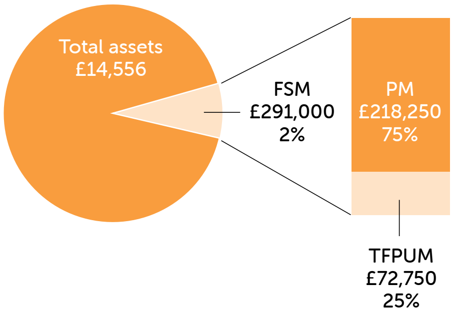
Materiality measure	Group	Parent Company
MATERIALITY FOR FINANCIAL STATEMENTS AS A WHOLE	We define materiality as the magnitude of misstatement in the Financial Statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these Financial Statements. We use materiality in determining the nature, timing and extent of our audit work.	
Materiality threshold	£445,000 which is 0.3% of Group revenue.	£291,000, which is 2% of total assets.
Significant judgements made by auditor in determining materiality	In determining materiality, we made the following significant judgements: • the selection of an appropriate benchmark; • the selection of an appropriate percentage to apply to that benchmark; and • the consideration of other qualitative factors. We determined that revenue was the most appropriate benchmark for the Group due to it being a key performance indicator for the Group's stakeholders and it being less volatile than earnings for the Group. The benchmark used for the year ended 31 March 2022 is the same as the benchmark used for the year ended 31 March 2021, however a lower percentage of revenue has been used. This reflects the decrease in overall performance and profitability of the Group. The materiality is lower due to this decrease and the decrease in revenues.	In determining materiality, we made the following significant judgements: • the selection of an appropriate benchmark; • the selection of an appropriate percentage to apply to that benchmark; and • the consideration of other qualitative factors. We determined that total assets was the most appropriate benchmark given the activities of the parent Company primarily being a holding Company and its major activities relate to fixed assets included in the Financial Statements. The benchmark used for the year ended 31 March 2022 is the same as the benchmark used for the year ended 31 March 2021, however the materiality is higher due to an increase in total assets.
PERFORMANCE MATERIALITY USED TO DRIVE THE EXTENT OF OUR TESTING	We set performance materiality at an amount less than materiality for the Financial Statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the Financial Statements as a whole.	
Performance materiality threshold	£333,775, which is 75% of Financial Statement materiality.	£218,250, which is 75% of Financial Statement materiality.
Significant judgements made by auditor in determining performance materiality	In determining performance materiality, we made the following significant judgements: • assessment of the strength of the control environment of the Group and the entities within it; • consideration of control findings and misstatements from the prior year audit; and • assessment of the strength of the information systems used for key business processes and reporting.	Performance materiality for the parent Company has been determined by making the same significant judgements as for the Group.
SPECIFIC MATERIALITY	We determine specific materiality for one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the Financial Statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Statements.	
Specific materiality	• We determined a lower level of specific materiality for the following areas: • Directors' Remuneration	• We determined a lower level of specific materiality for the following areas: • Directors' Remuneration
COMMUNICATION OF MISSTATEMENTS TO THE AUDIT COMMITTEE	We determine a threshold for reporting unadjusted differences to the Audit Committee.	
Threshold for communication	£22,300 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£14,600 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

OVERALL MATERIALITY – GROUP



OVERALL MATERIALITY – PARENT COMPANY



FSM: Financial Statements materiality, PM: Performance materiality, TFPUM: Tolerance for potential uncorrected misstatements

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 and parent Company's business, its environment and risk profile and included;.

- Documenting our understanding of, and evaluating, the processes and controls relevant to the key audit matters outline above;
- Obtaining an understanding of the Group and its environment, including Group-wide controls, and assessed the risks of material misstatement at the Group level
- Evaluation by the Group audit team of each identified component to assess the significance of that component and to determine the planned audit response based on a measure of materiality, and considering the percentage contribution of each component to the Group's revenue, profit before tax, cash and cash equivalents and total assets;
- Performing full scope audit procedures on the Group's trading subsidiary, Gear4music Limited. This full scope procedures on this component covers 99% of the consolidated revenues;
- Performing specific scope procedures on the parent Company Gear4music (Holdings) plc, by auditing one or more account balance, class of transaction or disclosure;
- Performing analytical procedures, where balances were deemed in scope of the audit based on either qualitative characteristics of the balance or the total size of the balance in reference to Group materiality, on Gear4music Sweden AB, Gear4music GmbH, Gear4music Norway AS, Cagney Limited, Gear4music Europe Limited, and Gear4music Spain SL;
- Performing analytical procedures on AV Distribution Ltd for the period of time between acquisition and hive up into Gear4music Limited;
- Performing specific procedures on material assets and liabilities recognised on consolidation to ensure sufficient coverage of total assets;
- An assessment of material accounting policies for compliance with the financial reporting framework;
- No separate component auditors were used, with the Group audit team undertaking all work to support the Group audit opinion.

OTHER INFORMATION

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report and Financial Statements, 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 Directors' report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the Strategic Report and the Directors' report have been prepared in accordance with applicable legal requirements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GEAR4MUSIC (HOLDINGS) PLC CONTINUED

MATTER 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 Directors' report.

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 Directors' responsibilities statement, 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.

EXPLANATION AS TO WHAT EXTENT THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the Financial Statements may not be detected, even though the audit is properly planned and performed in accordance with ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below:

- We obtained an understanding of the legal and regulatory frameworks applicable to the company, and the industry in which it operates. We determined that the following laws and regulations were most significant; financial reporting legislation (IFRS and Companies Act 2006), the Financial Services and Markets Act 2000 and relevant tax compliance legislation for the Group.
- We understood how the parent Company and the Group is complying with those legal and regulatory frameworks by making inquiries of management and those responsible for legal and compliance procedures. We corroborated our inquiries through inspection of Board minutes.
- We enquired of management whether there were any known or suspected instances of non-compliance with laws and regulations or fraud that could have a material impact on the Financial Statements. We corroborated the results of our enquiries to supporting documentation such as Board minute reviews and papers provided to the Audit Committee.
- To assess the potential risks of material misstatement, we obtained an understanding at the Group and component level of:
  - the Group's operations, including the nature of its revenue sources, expected Financial Statement disclosures and business risks that may result in risk of material misstatement; and
  - the Group's control environment including the adequacy of procedures for authorisation of transactions.
- We assessed the susceptibility of the Group's Financial Statements to material misstatement, including how fraud might occur by evaluating management's incentives and opportunities for manipulation of the Financial Statements at the Group and component level. This included the evaluation of the risk of management override of controls.
- Audit procedures performed by the engagement team at the Group and component level included:
  - evaluating the processes and controls established to address the risks related to irregularities and fraud;
  - journal entry testing, in particular journals determined to have a large impact on profit or that are indicative of unusual transactions based on our understanding of the business; and
  - challenging assumptions and judgements made by management in its significant accounting estimates.

These audit procedures were designed to provide reasonable assurance that the Financial Statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the Financial Statements, the less likely we would become aware of it.

- The engagement partner assessed the appropriateness of the collective competence and capabilities of the engagement team, including consideration of the engagement team's knowledge and understanding of the industry in which the client operates in, and their practical experience through training and participation with audit engagements of a similar nature;
- Team communications in respect of potential non-compliance with laws and regulations and fraud included the potential for fraud in revenue recognition and areas of significant management judgement. This is also reported as a key audit matter in the key audit matter section of our report where the matter and the specific procedures we performed in response to the key audit matter are described in more detail;

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

20 June 2022

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

	Note	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Revenue		147,630	157,451
Cost of sales		(106,500)	(111,097)
Gross profit		41,130	46,354
Administrative expenses	3,4,5	(35,881)	(31,633)
Other income	4	820	688
Operating profit		6,069	15,409
Financial expenses	7	(1,055)	(770)
Profit before tax		5,014	14,639
Taxation	8	(1,291)	(1,998)
Profit for the year		3,723	12,641
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Revaluation of property, plant and equipment	9	–	–
Deferred tax movements	13	(109)	8
Items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences – foreign operations		(23)	(17)
Total comprehensive income for the year		3,591	12,632
Basic profit per share	6	17.8p	60.3p
Diluted profit per share	6	17.3p	59.7p

The accompanying notes form an integral part of the Financial Statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Non-current assets			
Property, plant and equipment	9	**12,958**	11,190
Right-of-use assets	10	**8,235**	7,871
Intangible assets	11	**19,812**	10,395
		41,005	29,456
Current assets			
Inventories	14	**45,516**	28,430
Trade and other receivables	15	**3,841**	3,647
Cash and cash equivalents	16	**3,903**	6,203
		53,260	38,280
Total assets		**94,265**	67,736
Current liabilities			
Interest-bearing loans and borrowings	17	**–**	(575)
Trade and other payables	18	**(16,183)**	(18,938)
Lease liabilities	19	**(1,229)**	(1,099)
		(17,412)	(20,612)
Non-current liabilities			
Interest-bearing loans and borrowings	17	**(28,000)**	(2,901)
Other payables	18	**(64)**	(110)
Lease liabilities	19	**(8,455)**	(8,315)
Deferred tax liability	13	**(2,298)**	(1,486)
		(38,817)	(12,812)
Total liabilities		**(56,229)**	(33,424)
Net assets		**38,036**	34,312
Equity			
Share capital	21	**2,098**	2,095
Share premium	21	**13,286**	13,165
Foreign currency translation reserve	21	**(74)**	(51)
Revaluation reserve	21	**1,606**	1,640
Retained earnings	21	**21,120**	17,463
Total equity		**38,036**	34,312

The Notes 1 to 23 form part of these Financial Statements.
These Financial Statements were approved by the Board of Directors on 20 June 2022 and were signed on its behalf by:

ANDREW WASS
DIRECTOR
20 June 2022

CHRIS SCOTT
DIRECTOR
20 June 2022

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 31 March 2020	**2,095**	**13,152**	**(34)**	**1,674**	**4,722**	**21,609**
Comprehensive income for the year						
Profit for the year	–	–	–	–	12,641	12,641
Other comprehensive income	–	–	(17)	–	10	(7)
Deferred tax adjustment – timing difference	–	–	–	–	(8)	(8)
Share-based payments charge	–	–	–	–	64	64
Depreciation transfer	–	–	–	(34)	34	–
Total comprehensive income for the year	–	–	(17)	(34)	12,741	12,690
Transactions with owners						
Issue of shares	–	13	–	–	–	13
Total transactions with owners	–	13	–	–	–	13
Balance at 31 March 2021	**2,095**	**13,165**	**(51)**	**1,640**	**17,463**	**34,312**
Comprehensive income for the year						
Profit for the year	–	–	–	–	3,723	3,723
Other comprehensive income	–	–	(23)	–	(109)	(132)
Deferred tax adjustment	–	–	–	–	(46)	(46)
Share-based payments charge	–	–	–	–	55	55
Depreciation transfer	–	–	–	(34)	34	–
Total comprehensive income for the year	–	–	(23)	(34)	3,657	3,600
Transactions with owners						
Issue of shares	3	121	–	–	–	124
Total transactions with owners	3	121	–	–	–	124
Balance at 31 March 2022	**2,098**	**13,286**	**(74)**	**1,606**	**21,120**	**38,036**

The accompanying notes form an integral part of the Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Cash flows from operating activities			
Profit for the year		**3,723**	12,641
Adjustments for:			
Depreciation and amortisation	4	**5,138**	4,372
Financial expense	7	**1,055**	770
Profit on sale of property, plant and equipment		**(12)**	(4)
Share-based payment charge		**55**	64
Taxation	8	**1,243**	1,998
		11,202	19,841
Increase/(decrease) in trade and other receivables	15	**302**	(1,181)
Increase in inventories	14	**(14,195)**	(6,415)
(Decrease)/increase in trade and other payables	18	**(2,187)**	2,687
		(4,878)	14,932
Tax paid	8	**(2,709)**	(37)
Net cash from operating activities		**(7,587)**	14,895
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**95**	14
Acquisition of property, plant and equipment	9	**(1,773)**	(1,166)
Capitalised development expenditure	11	**(4,439)**	(3,186)
Acquisition of a business, net of cash acquired	11	**(7,360)**	(200)
Acquisition of domains	11	**(3,023)**	–
Net cash from investing activities		**(16,500)**	(4,538)
Cash flows from financing activities			
Cash from share issue		**124**	13
Proceeds from new borrowings	17	**28,000**	29
Interest paid		**(917)**	(692)
Repayment of borrowings	17	**(3,445)**	(9,948)
Payment of lease liabilities	19	**(1,952)**	(1,379)
Net cash from financing activities		**21,810**	(11,977)
Net decrease in cash and cash equivalents		**(2,277)**	(1,620)
Cash and cash equivalents at beginning of year		**6,203**	7,839
Foreign exchange movement		**(23)**	(16)
Cash and cash equivalents at end of year	16	**3,903**	6,203

The accompanying notes form an integral part of the Financial Statements.

NOTES (FORMING PART OF THE FINANCIAL STATEMENTS)

GENERAL INFORMATION

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

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

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

The registered office of Gear4music (Holdings) plc (company number: 07786708), Gear4music Limited (company number: 03113256), AV Distribution Ltd (company number 05385699) and Cagney Limited (dormant subsidiary; company number: 04493300) is Holgate Park Drive, York YO26 4GN.

At the financial year-end the Group has four trading European subsidiaries: Gear4music Sweden AB, Gear4music GmbH, Gear4music Europe Limited (formerly known as Gear4music Ireland Limited), and Gear4music Spain SL. The Group has one dormant European subsidiary, Gear4music Norway AS. All five are 100% subsidiaries of Gear4music Limited.

On 1 December 2021 the Group acquired AV Distribution Ltd and on 13 January 2022 the business, assets and liabilities were hived-up into 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 UK-adopted International Accounting Standards. The Company has elected to prepare its parent Company Financial Statements in accordance with FRS 102; these are presented on pages 99 to 106.

The Group's accounting policies are set out below and have been applied consistently in the consolidated Financial Statements.

Subjective judgements made by the Directors in the application of these accounting policies that could have significant effect on the Financial Statements are considered in section 1.19 below.

ACCOUNTING PERIOD

The Financial Statements presented cover the years ended 31 March 2022 and 31 March 2021.

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 following new standards, and amendments to standards, have been adopted by the Group during the year ending 31 March 2022, and the impact was not material:

- Amendments to References to the Conceptual Framework in IFRS Standards
- Amendments to IFRS 3: Business Combinations
- Amendments to IAS 1 and IAS 8: Definition of Material
- Amendments to IFRS 9, IAS 39 and IFRS7: Interest Rate Benchmark Reform
- Amendment to IFRS 16: Covid-Related Rent Concessions
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2

1.3 GOING CONCERN PRESUMPTION FOR THE PERIOD TO 30 JUNE 2023

The Group's business activities and position in the market, and principal risks, uncertainties and mitigations are described in the Strategic Report.

In FY21 the Group successfully managed the challenges of operating distribution centres through the Covid pandemic, and as a result reported a significant increase in profits and profitability, a stronger balance sheet, and net cash at 31 March 2021.

In FY22 the Group secured a £35m three-year committed Revolving Credit Facility with its bankers, HSBC, to make acquisitions and invest in stock for precautionary reasons during a period of potential supply chain disruption, and early in a period of anticipated inflationary cost price increases, putting the Group in a strong competitive position heading in to FY23.

The Directors have considered the Group's position and prospects in the period to 31 March 2023 based on its offering in the UK and improved proposition in Europe and concluded that potential growth rates remain strong.

There is a diverse supply chain with no key dependencies.

The Group's policy is to ensure that it has sufficient facilities to cover its future funding requirements. At 31 March 2022 the Group had net debt of £24.2m (31 March 2021: net cash of £2.7m), with £3.9m cash (31 March 2021: £6.2m cash), with a good and appropriate level of headroom that has been factored into the Directors, going concern assessment. The Group has conducted various budget flexes, principally on a reduction in revenue, and performed a reverse stress test. There is no plausible scenario where the Group breaches its covenants, reaffirming the assessment of the Group as a going concern.

Having duly considered all of these factors and having reviewed the forecasts for the period to 30 June 2023, 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.

1.6 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.

INTEREST-BEARING BORROWINGS

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

NOTES
(FORMING PART OF THE FINANCIAL STATEMENTS) CONTINUED

1 ACCOUNTING POLICIES CONTINUED
1.8 PROPERTY, PLANT AND EQUIPMENT
Land and buildings are stated at fair value.

All other classes of property, plant and equipment except for freehold land and buildings 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.

REVALUATION OF LAND AND BUILDINGS
Revaluations are frequently 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.

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
An intangible asset is regarded as having an indefinite useful life when, based on all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity. The AV.com domain is deemed to have an indefinite useful life.

Other-wise 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 and other intangible assets — 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; and
- a provision for the expected product loss on dealing with returns stock.

1.12 IMPAIRMENT EXCLUDING INVENTORIES AND DEFERRED TAX ASSETS

FINANCIAL ASSETS (INCLUDING RECEIVABLES)

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

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

NON-FINANCIAL ASSETS

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

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

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

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

1.13 EMPLOYEE BENEFITS

DEFINED CONTRIBUTION PLANS

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

SHARE-BASED PAYMENT TRANSACTIONS

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

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The fair value of the options granted is measured using the Black Scholes model or a Monte-Carlo simulation model, taking into account the terms and conditions upon which the options were granted.

For share-based payments with non-market-based vesting conditions, 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.

NOTES
(FORMING PART OF THE FINANCIAL STATEMENTS) CONTINUED

1 ACCOUNTING POLICIES CONTINUED

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

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 18). The value of inventory for sales returns is included in inventory at the year-end (Note 14).

OTHER REVENUE

The Group offers customers extended paid-for warranties on a two to ten years basis (FY21: two to six years), depending on the product. 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 18).

The Group offers retail point of sale credit on orders over £250, 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 2022 this income totalled £284,000 (FY21: £309,000). No discount is offered on any sales made through these credit providers.

1.16 EXPENSES AND OTHER INCOME

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.

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. Payments received in FY21 under CJRS have been offset against payroll costs.

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.

OTHER INCOME

Other income comprises rental income on our freehold property, Research and Development Expenditure credits, and marketing support.

1.17 TAXATION

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

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

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

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

1.18 SEGMENTAL REPORTING

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

1.19 ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of consolidated financial information in conformity with UK-adopted International Accounting Standards, 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

- In determining the number of reportable Cash Generating Units ('CGUs') Management considers the internal reporting information and management structures with the Group, and has deemed the Group to have a single CGU on the basis that all cash inflows are derived from the same platform interface.
- The Directors have considered and conclude the AV.com domain has an indefinite useful life
- 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 Directors have determined that cash-in-transit received from electronic transfer balances, which the Group have received notification of transfer being made pre-year end, are appropriate to be included in cash and cash equivalents. The value of these balances is included in Note 16.

ESTIMATES

- Acquisition accounting – On acquisition the Group calculates the fair value of net assets acquired. For the AV Distribution Ltd and Premier acquisitions in the year this led to the recognition of additional intangible assets, specifically in relation to brand and customer relationships. The assessment of these required judgement and calculated using valuation modelling. Judgements are applied in assessing future revenues, growth rates, associated costs and the discount factor to be applied.
- Impairment assessments – Property, plant and equipment and intangible assets are reviewed for impairment, and value-in-use calculations are prepared using management's assumptions and estimates.
- 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 norms. 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 value of amortisation recognised in each financial year, and the balance sheet carrying value.

  Revenue recognition
  - 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.

NOTES
(FORMING PART OF THE FINANCIAL STATEMENTS) CONTINUED

2 BUSINESS COMBINATIONS

PREMIER

On 21 June 2021 Gear4music Limited acquired the business and assets of Premier Music International Limited and High House 123 Limited Liability Partnership for £1.685m paid in full in cash on completion. The acquisition was funded through the Group's revolving credit facility.

The addition of Premier, a Drums and Percussion brand with a rich musical heritage dating back to 1922, is a significant addition to the Group's own-brand portfolio. This included the worldwide rights to Premier's products, including all related intellectual property, as well as all the existing customer contracts, customer relationships, supply contracts and supplier relationships with the manufacturers of all Premier product. The revenue, EBITDA and PBT of this acquisition is immaterial to the results of the Group.

IDENTIFIABLE ASSETS ACQUIRED AND LIABILITIES ASSUMED

The following table summarises the recognised assets on acquisition:

Recognised values on acquisition	Note	Pre-acquisition book value £000	Fair value adjustments £000	**Recognised value on acquisition £000**
Brand	11	–	715	**715**
Total other intangible assets		–	715	**715**
Property, plant and equipment	9	10	–	**10**
Net identifiable assets and liabilities at fair value		10	715	**725**
Goodwill recognised on acquisition	11	–	–	**960**
Consideration paid and accrued		10	1,675	**1,685**

MEASURE OF FAIR VALUES

The 'Income approach – Relief from Royalty method' valuation technique was used for measuring the fair value of the brand acquired. Management commissioned an independent accountants' report to support the fair values of intangible assets.

ACQUISITION-RELATED COSTS

The Group incurred acquisition-related costs of £0.04m on legal fees and due diligence costs. These are not included as part of the consideration transferred and have been recognised as an expense in the consolidated statement of profit or loss, as part of Administrative expenses.

AV DISTRIBUTION LTD

On 1 December 2021 Gear4music Limited acquired 100% of the share capital of AV Distribution Ltd (Company number: 05385699) trading as 'AV Online', an online retailer of Home Cinema and HiFi equipment, for total consideration of £6.05m (on a cash-free, debt-free basis), of which £5.65m was paid in cash on completion and £0.4m deferred for six months subject to final agreement of tax balances. The acquisition was funded through the Group's revolving credit facility, and the Group acquired a freehold property valued at £1.25m as part of the transaction.

Founded in 2003 AV Online operates from a 26,000 sq. ft. freehold warehouse, offices and showroom in Bacup, Lancashire, and is an online retailer of audio-visual equipment, including home cinema systems, HiFi systems, speakers, cables, headphones and accessories. AV Online had 21 members of staff, and generated sales principally from its main website audiovisualonline.co.uk, with further sales channels including Amazon, the showroom in Bacup, and several smaller websites operated by the business, including hificables.co.uk.

This acquisition significantly increases the Group's addressable market size and brings synergies between the market in which Gear4music operates, and the closely related but separate AV market, which is currently dominated by high-street based retailers. By moving the AV Online business onto Gear4music's highly scalable bespoke e-commerce platform, rebranding the business to AV.com, developing its product ranges, and expanding into Europe, AV.com can quickly grow its revenues and profits.

On 13 January 2022 the AV Distribution business was replatformed on to the AV.com domain and the Group's proprietary e-commerce system, and hived up into Gear4music Limited.

In the period between completion on 1 December 2021 and hive-up into Gear4music Limited on 13 January 2022, it contributed revenue of £0.6m, EBITDA of £0.1m, and PBT of £0.1m.

AV DISTRIBUTION LTD CONTINUED

IDENTIFIABLE ASSETS ACQUIRED AND LIABILITIES ASSUMED

The following table summarises the recognised amounts of assets acquired and liabilities assumed on acquisition:

Recognised values on acquisition	Note	Pre-acquisition book value £000	Fair value adjustments £000	**Recognised value on acquisition £000**
Other intangibles	11	–	149	**149**
Total other intangible assets		–	149	**149**
Freehold property	9	1,251	–	**1,251**
Other property, plant and equipment	9	106	–	**106**
Inventories	14	2,813	78	**2,891**
Trade and other receivables	15	64	–	**64**
Cash and cash equivalents	16	1,110	–	**1,110**
Trade and other payables	18	(879)	–	**(879)**
Deferred tax	13	(48)	–	**(48)**
Net identifiable assets and liabilities		4,417	227	**4,644**
Goodwill recognised on acquisition	11			**2,516**
Total consideration				**7,160**

Other intangibles comprise customer relationships, trademarks, and domain names.

MEASURE OF FAIR VALUES

A property valuation was performed on 10 August 2021 prior to acquisition, and valued at £1.265m by an independent chartered surveyor on behalf of HSBC Bank plc.

Other intangibles were identified and valued at fair value based on valuation modelling performed by independent accountants.

Stock was valued at fair value reflecting the additional value added prior to acquisition.

ACQUISITION-RELATED COSTS

The Group incurred acquisition-related costs of £0.20m on legal fees and due diligence costs. These are not included as part of the consideration transferred and have been recognised as an expense in the consolidated statement of profit or loss, as part of Administrative expenses.

3 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, which in the Group's case is the Executive Board. 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 2022 £000	Year ended 31 March 2021 £000
UK	**82,639**	78,690
Europe and Rest of the World	**64,991**	78,761
	147,630	157,451

ADMINISTRATIVE EXPENSES BY GEOGRAPHY

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
UK	**31,253**	27,797
Europe	**4,628**	3,836
	35,881	31,633

The majority of Group assets are held in the UK except for local right-of-use assets and property, plant and equipment, and cash in Sweden (31 March 2022: £4.0m; 31 March 2021: £4.3m), Germany (31 March 2022: £2.2m; 31 March 2021: £2.5m), Ireland (31 March 2022: £0.7m) and Spain (31 March 2022: £1.7m).

NOTES
(FORMING PART OF THE FINANCIAL STATEMENTS) CONTINUED

3 SEGMENTAL REPORTING CONTINUED
REVENUE BY PRODUCT CATEGORY

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Other-brand products	102,473	104,199
Own-brand products	38,121	45,368
Carriage income	6,266	7,135
Warranty income	483	545
Other	287	204
	147,630	157,451

4 EXPENSES AND OTHER INCOME
Included in profit/loss are the following:

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Expenses		
Depreciation of property, plant and equipment	1,254	1,185
Depreciation of right-of-use assets	1,466	1,219
Amortisation of Intangible assets	2,385	1,968
Amortisation of government grants	7	11
Profit on disposal of property, plant and equipment	(12)	(4)
R&D expenditure recognised as an expense	230	155
Rentals – short-term rentals of plant and machinery	21	21
Auditor remuneration – audit of these Financial Statements	65	45
Auditor remuneration – this year's audit of Financial Statements of subsidiaries	74	55
Auditor remuneration – non-audit fees – Other audit related services	5	5

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Other income	820	688

Other income comprises rental income on our freehold property in York, Research and Development Expenditure credits, and marketing support.

5 STAFF NUMBERS AND COSTS
The average number of persons employed by the Group (including Directors) during the year, analysed by category, was as follows:

	Year ended 31 March 2022 Number	Year ended 31 March 2021 Number
Administration	242	196
Selling and distribution	316	323
	558	519

The aggregate payroll costs of these persons were as follows:

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Wages and salaries	10,982	10,105
Social security costs	1,236	1,451
Contributions to defined contribution plans	928	691
	13,146	12,247

DIRECTORS' REMUNERATION

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Directors' remuneration	**680**	641
Company contributions to money purchase pension schemes	**22**	19
	702	660

The three Executive Directors are paid through Gear4music Limited, and the three Non-Executive Directors are paid through Gear4music (Holdings) plc. The remuneration of all six Directors is included above.

The aggregate remuneration of the highest paid Director was £229,000 during the year (2021: £228,000), including Company pension contributions of £8,000 that were made to a money purchase scheme on their behalf.

There are five Directors (2021: four) for whom retirement benefits are accruing under a money purchase pension scheme.

Directors' remuneration is detailed in the Remuneration report on pages 54 and 55 which forms part of these Financial Statements.

6 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 Company Share Option Plan and LTIP dilutive potential ordinary shares (see Note 22) into ordinary shares.

	Year ended 31 March 2022	Year ended 31 March 2021
Profit attributable to equity shareholders of the parent (£'000)	**3,723**	12,641
Basic weighted average number of shares	**20,967,831**	20,948,595
Dilutive potential ordinary shares	**570,440**	218,033
Diluted weighted average number of shares	**21,538,271**	21,166,628
Basic profit per share	**17.8p**	60.3p
Diluted profit per share	**17.3p**	59.7p

7 FINANCE EXPENSES

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Bank interest	**524**	196
IFRS16 lease interest	**403**	403
Net foreign exchange loss	**97**	161
Unwinding of discount on deferred consideration	**31**	10
Total finance expense	**1,055**	770

NOTES
(FORMING PART OF THE FINANCIAL STATEMENTS) CONTINUED

8 TAXATION
RECOGNISED IN THE INCOME STATEMENT

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Current tax expense		
UK corporation tax	574	1,201
Overseas corporation tax	55	94
Adjustments for prior periods	7	625
Current tax expense	636	1,919
Deferred tax expense		
Origination and reversal of temporary differences	326	989
Deferred tax rate change impact	345	–
Adjustments for prior periods	(16)	(903)
Deferred tax expense	655	86
Total tax expense	1,291	2,005

The corporation tax rate applicable to the company was 19% for the year ended 31 March 2022, and 19% for the period ended 31 March 2021. At the Budget announcement on 3 March 2021 the UK Government has stated its intention to raise the corporation tax rate to 25% from 1 April 2023. The deferred tax assets and liabilities at 31 March 2022 have been calculated based on that rate. An effect of rate change has been calculated on opening balances to reflect the change of rate from 19% to 25%.

RECONCILIATION OF EFFECTIVE TAX RATE

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Profit for the year	3,723	12,641
Total tax charge	1,291	1,998
Profit before taxation	5,014	14,639
Current tax at 19% *(2021: 19.0%)*		
Tax using the UK corporation tax rate for the relevant period:	943	2,781
Non-deductible expenses	(73)	(27)
Deferred tax rate change impact	345	–
Adjustments relating to prior year – deferred tax	(16)	(903)
Adjustments relating to prior year – current tax	7	624
R&D claim additional deduction	–	(470)
Impact of overseas tax rate	2	(1)
Deferred tax assets not recognised	1	1
R&D credit	12	–
Difference between current and deferred tax rates	100	–
Impact of capital allowances super deduction	(31)	–
Total tax charge	1,291	2,005

9 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 or Valuation						
At 1 April 2020	1,632	4,942	62	900	7,500	15,036
Additions	215	757	–	194	–	1,166
Disposals	–	–	(32)		–	(32)
Balance at 31 March 2021	1,847	5,699	30	1,094	7,500	16,170
Additions	460	1,101	–	212		1,773
Additions through business combinations (see Note 2)	29	13	68	6	1,251	1,367
Disposals	(61)	(14)	(30)	–	–	(105)
Balance at 31 March 2022	**2,275**	**6,799**	**68**	**1,312**	**8,751**	**19,205**
Depreciation and impairment						
At 1 April 2020	908	2,264	36	609	–	3,817
Depreciation charge for the year	314	556	5	160	150	1,185
Disposals	–	–	(22)	–	–	(22)
Balance at 31 March 2021	1,222	2,820	19	769	150	4,980
Depreciation charge for the year	326	625	15	166	155	1,287
Disposals	(13)	(9)	–	–	–	(22)
Balance at 31 March 2022	**1,536**	**3,437**	**34**	**935**	**305**	**6,247**
Net book value as at 31 March 2022	**739**	**3,362**	**34**	**377**	**8,446**	**12,958**
Net book value as at 31 March 2021	625	2,879	11	325	7,350	11,190
Net book value as at 31 March 2020	724	2,678	26	291	7,500	11,219

FREEHOLD PROPERTY VALUATION – HOLGATE PARK HEAD OFFICE

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 inputs 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.

Management have reviewed the fair value as at 31 March 2022 and concluded that this would not be materially different. If the property had not been revalued the net book value would have been £5.1m.

FREEHOLD PROPERTY VALUATION – BACUP DISTRIBUTION CENTRE

On 1 December 2021 the Group acquired a 25,145 square feet freehold warehouse property in Bacup, Lancashire as part of the acquisition of AV Distribution Ltd (see Note 2). The property was valued on 10 August 2021 at £1.26m by an independent chartered surveyor on behalf of HSBC Bank plc for loan security purposes.

SECURITY

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

10 RIGHT OF USE ASSETS

LEASEHOLD PROPERTIES

The Group has six leased properties:

- four properties carried forward from 2021 being distribution centres and showrooms in York, Sweden and Germany, and a software development office in Manchester; and
- two new properties in 2022 being distribution centres in Ireland and Spain

The associated right-of-use assets are as follows:

	Short leasehold properties £000
Cost	
At 1 April 2020	10,177
Additions	128
Balance at 31 March 2021	10,305
Additions	1,830
Balance at 31 March 2022	**12,135**
Depreciation	
At 1 April 2020	1,215
Depreciation charge for the year	1,219
Balance at 31 March 2021	2,434
Depreciation charge for the year	1,466
Balance at 31 March 2022	**3,900**
Net book value as at 31 March 2022	**8,235**
Net book value as at 31 March 2021	7,871
Net book value as at 31 March 2020	8,962

11 INTANGIBLE ASSETS

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

	Goodwill £000	Software platform £000	Brand £000	Domains £000	Other intangibles £000	Total £000
Cost						
At 1 April 2020	1,848	12,061	564	–	–	14,473
Additions	–	3,186	93	–	–	3,279
Balance at 31 March 2021	**1,848**	**15,247**	**657**	**–**	**–**	**17,752**
Additions	–	4,439	–	3,023	–	7,462
Additions through business combinations (see Note 2)	3,476	–	715	–	149	4,340
Balance at 31 March 2022	**5,324**	**19,686**	**1,372**	**3,023**	**149**	**29,554**
Amortisation						
At 1 April 2020	–	4,934	455	–	–	5,389
Amortisation for the year	–	1,912	56	–	–	1,968
Balance at 31 March 2021	–	6,846	511	–	–	7,357
Amortisation for the period	–	2,321	52	–	12	2,385
Balance at 31 March 2022	**–**	**9,167**	**563**	**–**	**12**	**9,742**
Net book value as at 31 March 2022	**5,324**	**10,519**	**809**	**3,023**	**137**	**19,812**
Net book value as at 31 March 2021	1,848	8,401	146	–	–	10,395
Net book value as at 31 March 2020	1,848	7,127	109	–	–	9,084

OTHER INTANGIBLES

Other intangibles comprise customer relationships, trademarks, and domain names acquired on acquisition of AV Distribution Limited.

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

On 21 June 2021 goodwill arose on the acquisition of the business and assets of Premier Music International Limited and High House 123 LLP – see Note 2.

On 1 December 2021 goodwill arose on the acquisition of the entire share capital of AV Distribution Ltd – see Note 2.
Goodwill balances are denominated in Sterling:

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Gear4music Limited	417	417
Software development business	1,431	1,431
Premier business	960	–
AV Distribution Ltd	2,516	–
	5,324	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 2022 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 include the proprietary software platform, the Gear4music and Premier brand names, the AV.com domain, goodwill and 'other intangibles'.

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. Further to the acquisitions in the year the Group has considered its operational and commercial configuration at 31 March 2022 and concluded it has a single CGU to which all intangibles are allocated. The carrying value of these intangibles, the Bacup freehold acquired in the year, the right-of-use assets, and all other PPE was £33.8m. 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 two-year forecast to 31 March 2024 was used to provide cash-flow projections that have been discounted at a pre-tax discount rate of 9.55% (2021: 10.00%). 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:

- FY23–24 revenue forecasts based on growth by geographical market, based on market size and estimate of opportunity, trends, and Management's experience and expectation;
- FY25–27 and into perpetuity revenue growth of 2%;
- Gross margins are forecast to be slightly behind FY22; and
- Wage increases are a function of recruitment and review of current staff, with a range of % increases.

No impairment loss was identified in the current year (2021: £nil). The valuation indicates significant headroom and a number of reasonable revenues, profitability and capital expenditure based sensitivities were put through the model, and the results did not result in an impairment.

12 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
Gear4music Europe Limited (formerly known as Gear4music Ireland Limited)	Block 7 Jamestown Business Park, Finglas, Co. Dublin D11 X59D, Ireland	693113	Ordinary	100% via G4M Ltd
Gear4music Spain SL	Carrer Número 21 del Parc Logístic, nº 12–14 08040 Barcelona, Spain	21097476	Ordinary	100% via G4M Ltd
AV Distribution Ltd	Holgate Park Drive, York YO26 4GN	05385699	Ordinary	100% via G4M Ltd

In April 2021 Gear4music Ireland Limited was incorporated and in January 2022 its name was changed to Gear4music Europe Limited. Share capital is £85.

In June 2021 Gear4music Spain SL was incorporated with a share capital of £2,539.

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

All Group companies have 31 March financial year-ends.

Cagney Limited, Gear4music Norway AS, and AV Distribution Ltd are dormant companies.

13 DEFERRED TAX ASSETS AND LIABILITIES

MOVEMENT IN DEFERRED TAX DURING THE YEAR

	At 1 April 2021 £000	Recognised in other comprehensive income £000	Recognised in profit or loss £000	Recognised in goodwill £000	At 31 March 2022 £000
Property, plant and equipment	**(1,550)**	**(109)**	**(681)**	**–**	**(2,340)**
Deferred tax on acquisition – property, plant and equipment	**–**	**–**	**–**	**(48)**	**(48)**
Share-based payments	**64**	**–**	**26**	**–**	**90**
	(1,486)	**(109)**	**(655)**	**(48)**	**(2,298)**

MOVEMENT IN DEFERRED TAX DURING THE PRIOR YEAR

	At 1 April 2020 £000	Recognised in other comprehensive income £000	Recognised in profit or loss £000	At 31 March 2021 £000
Property, plant and equipment	(1,414)	8	(143)	(1,550)
Short-term timing differences	7	–	(7)	–
Share-based payments	–	–	64	64
	(1,407)	8	(86)	(1,486)

A deferred tax asset is not recognised with respect to historic losses in Gear4music (Holdings) plc (consistent basis to prior years). Losses of £760,000 are carried forward at 31 March 2022, equating to an unrecognised asset of £190,000.

There are no tax losses carried forward in Gear4music Limited.

14 INVENTORIES

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Finished goods	**45,516**	28,430

The cost of inventories recognised as an expense and included in cost of sales in the period amounted to £96.9m (2021: £101.5m).

Management has included a provision of £55,000 (31 March 2021: £143,000), 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, and a provision based on the expected product loss on dealing with returns stock.

15 TRADE AND OTHER RECEIVABLES

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Trade receivables	**1,772**	1,579
Prepayments	**2,069**	2,068
	3,841	3,647

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 (2.4% of 2022 revenues; 1.3% of 2021 revenues).

FUNDS LODGED WITH PAYMENT PROVIDERS

Funds lodged with Amazon, Digital River, Klarna and V12 Retail Finance totalled £378,000 on 31 March 2022 (31 March 2021: £331,000) and are included in 'trade debtors' Credit risk in relation to cash held with financial institutions is considered very low risk, given the credit rating of these organisations.

16 CASH AND CASH EQUIVALENTS

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Cash and cash equivalents	**3,903**	6,203

Cash-in-transit to the Group at 31 March 2022 was £336,000 (31 March 2021: nil) representing uncleared lodgements where money providers have notified transfers pre-year-end.

17 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 2022 £000	Year ended 31 March 2021 £000
Non-current liabilities		
Bank loans	**28,000**	2,901
	28,000	2,901
Current liabilities		
Bank loans	**–**	575
	–	575
Total liabilities		
Bank loans	**28,000**	3,476
	28,000	3,476

17 INTEREST-BEARING LOANS AND BORROWINGS CONTINUED

REVOLVING CREDIT FACILITY

Bank loans are drawn loans under the Group's three-year £35m revolving credit facility with HSBC.

This facility expires in April 2024 and is secured by a debenture over the Group's assets.

Loans incur interest at variables rates linked to SONIA, with a margin non-utilisation fee.

CHANGES IN INTEREST-BEARING LOANS AND BORROWINGS

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Opening balance	3,476	13,388
Changes from financing cash flows		
Proceeds from loans and borrowings	28,000	29
Repayment of borrowings	(3,507)	(9,948)
Total changes from financing cash flows	24,493	(9,919)
Other changes		
Interest expense (Note 6)	524	196
Interest paid	(413)	(289)
Movement in interest accrual (included in accruals and deferred income – Note 17)	(111)	93
Fair value movement on loans	31	7
Total other changes	31	7
Closing balance	28,000	3,476

OTHER BANK FACILITIES

Gear4music has a number of guarantees in relation to VAT, and issues letter of credits to certain suppliers. At 31 March 2022 the Group had guarantees of £1,011,000 in place (2021: £415,000) and letters of credit of £317,000 (2021: £315,000).

18 TRADE AND OTHER PAYABLES

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Current		
Trade payables	9,472	11,390
Accruals and deferred income	3,164	3,033
Deferred consideration	424	24
Government grants	3	7
Other taxation and social security	3,119	4,484
	16,182	18,938
Non-current		
Accruals and deferred income	25	38
Deferred consideration	39	69
Government grants	–	3
	64	110

Accruals at 31 March 2022 include £24,000 (2021: £38,000) relating to the estimated cash bonuses accrued relating to the CSOP schemes (see Note 21).

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 £31,000 (2021: £10,000) in relation to the unwinding of the discount is disclosed in Note 7.

DEFERRED CONSIDERATION

In March 2021 the Group acquired the Eden brand and associated assets from Marshall Amplification plc for £140,000 of which £100,000 was deferred and payable in four equal instalments of £25,000 on the anniversary of the completion date. At 31 March 2022 three instalments remain unpaid. These amounts are valued in the accounts at fair value and subsequently amortised.

In December 2022 the Group acquired AV Distribution Ltd for £6,050,000 cash-free debt-free of which £400,000 was deferred for six months whilst final tax matters were resolved, and £388,000 was paid on 1 June 2022 in full and final settlement.

19 LEASE LIABILITIES

Short-term leases and leases of low value are included in administrative expenses.

The Group has leases for plant and machinery, motor vehicles, and six properties (2021: four). 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.

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

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	6	6mths – 6yrs	4.5yrs	–	–	1
Plant and equipment	4	2mths – 9mths	6mths	–	4	–
Motor vehicles	2	19mths – 30mths	25mths	–	2	–

Future minimum lease payments due at 31 March 2022 were as follows:

	Within 1 year £000	1-5 years £000	More than 5 years £000
Lease payments	2,102	7,926	1,178
Finance charge	(435)	(1,056)	(31)
Net present value	**1,667**	**6,870**	**1,147**

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

	31 March 2022 £000	31 March 2021 £000
Current	**1,229**	1,099
Non-current	**8,455**	8,315
Total	**9,684**	9,414

Changes in lease liabilities:

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Opening balance	**9,414**	10,667
Cash-flow lease payments	**(1,952)**	(1,379)
New leases	**1,812**	–
Other items	**410**	126
Total changes	**270**	(1,253)
Closing balance	**9,684**	9,414

20 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.

NOTES
(FORMING PART OF THE FINANCIAL STATEMENTS) CONTINUED

20 FINANCIAL INSTRUMENTS CONTINUED

(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. Flexibility is available through a committed three-year, £35m Revolving Credit Facility with HSBC. 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 2022 the Group had £3.9m of cash and bank balances (31 March 2021: £6.2m), and net debt of £24.2m (31 March 2021 net cash: £2.7m).

	Effective interest rate %	Carrying amount Year ended 31 March 2022 £000	Face value Year ended 31 March 2022 £000	Contractual cash-flows Within 1 year £000	1-2 years £000	2-5 years £000	Over 5 years £000
Bank borrowings	1.71	28,000	28,000	–	–	28,000	–
Trade payables	–	9,472	9,472	9,472	–	–	–
		37,472	37,472	9,472	–	28,000	–

	Effective interest rate %	Carrying amount Year ended 31 March 2021 £000	Face value Year ended 31 March 2021 £000	Contractual cash-flows Within 1 year £000	1-2 years £000	2-5 years £000	Over 5 years £000
Bank borrowings	2.99	3,476	3,507	580	276	563	2,088
Trade payables	–	11,390	11,390	11,390	–	–	–
		14,866	14,897	11,970	276	563	2,088

(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 (2.4% of 2022 revenues; 1.3% of 2021 revenues).

Funds lodged with Amazon, Digital River, Klarna and V12 Retail Finance totalled £378,000 on 31 March 2022 (31 March 2021: £331,000) 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 linked to SONIA, with a margin non-utilisation fee, which exposes the Group to interest rate risk. Loans are with UK-based institutions and denominated in Sterling.

At 31 March 2022, the Group had cash reserves of £3.9m 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 2022 £000	Year ended 31 March 2021 £000
Variable rate instruments		
Cash	(3,903)	(6,203)
Bank loans	28,000	3,476
	24,097	(2,727)
Fixed rate instruments		
Other bank borrowings	70	295
Total net financial liabilities/(assets)	24,167	(2,432)

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 2022 £000	Year ended 31 March 2021 £000
	Impact on Closing equity/Profit and loss	Impact on Closing equity/Profit and loss
Increase of 50 basis points	(140)	(17)
Decrease of 50 basis points	140	17

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 year ended 31 March 2022, 42% (2021: 49%) of total revenues were in non-Sterling currencies, of which 36% (2021: 43%) 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 3), further extending the natural hedge. Surplus foreign currency holdings are reviewed on a weekly basis and balances in excess of known liabilities are converted into Sterling, restricting the period between the transaction and the point of conversion, thereby reducing the transactional risk.

The Group purchases own-branded instruments and equipment from the Far East, transacting in US Dollars. The lead time from committed order to receipt of stock is typically 12-16 weeks, during which time the Group bears currency risk. The Group also trades with one supplier (2021: one supplier) on a trade credit basis with terms of 60 days. The Group has the trading platform ability and sufficient price flexibility to be able to pass on some adverse currency variances should it choose, and the Group generates enhanced margins on these products such that a proportion of these losses could be absorbed. The Group does not currently enter into forward contracts but reviews the situation and would consider committing to such a position should it make commercial sense to do so.

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

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Trade and other receivables		
Sterling	684	668
US Dollar	724	244
Euro	63	353
Other European currencies	301	314
	1,772	1,579
Cash and cash equivalents		
Sterling	2,521	5,113
US Dollar	61	1
Euro	673	342
Other European currencies	648	747
	3,903	6,203
Trade payables		
Sterling	6,567	7,180
US Dollar	978	1,789
Euro	1,090	1,362
Other European currencies	837	1,059
	9,472	11,390
Local sales tax		
Sterling	1,156	892
Euro	(122)	213
Other European currencies	1,046	1,088
	2,080	2,193

20 FINANCIAL INSTRUMENTS CONTINUED

D) FOREIGN EXCHANGE RISK CONTINUED

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.

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 2022 and 31 March 2021:

	31 March 2022		31 March 2021	
	Book value £000	**Fair value £000**	Book value £000	Fair value £000
Trade and other receivables	**3,841**	**3,841**	3,647	3,647
Cash and cash equivalents	**3,903**	**3,903**	6,203	6,203
Bank loans	**(28,000)**	**(28,000)**	(3,507)	(3,476)
Trade and other payables	**(15,758)**	**(15,758)**	(18,914)	(18,914)
Deferred consideration	**(475)**	**(463)**	(100)	(93)
	(36,489)	**(36,477)**	(12,671)	(12,633)

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 2022			
Bank loans	**–**	**(28,000)**	**–**
Deferred consideration	**–**	**(463)**	**–**
	–	**(28,463)**	**–**
31 March 2021			
Bank loans	–	(3,476)	–
Deferred consideration	–	(93)	–
	–	(3,569)	–

Reconciliation of Level 2 fair value:

	At 1 April 2021 £000	Net increase in bank debt £000	At 31 March 2022 £000
Bank loans	(3,476)	(24,524)	**(28,000)**

21 SHARE CAPITAL AND RESERVES

SHARE CAPITAL

	Year ended 31 March 2022 Number	Year ended 31 March 2021 Number
Authorised, called up and fully paid:		
Ordinary shares of 10p each	**20,976,938**	20,950,176

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 30 July 2021, the Company issued and allotted 5,312 new Ordinary shares of 10p each on exercise of options under the Company's 2018 CSOP Scheme (see Note 22). This took the number of Ordinary shares in issue from 20,950,176 to 20,955,488, representing dilution of 0.03%.

On 3 August 2021, the Company issued and allotted 21,450 new Ordinary shares of 10p each on exercise of options under the Company's Long-Term Incentive Plan (see Note 22). This took the number of Ordinary shares in issue from 20,955,488 to 20,976,938, representing dilution of 0.1%.

SHARE PREMIUM

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Opening	**13,165**	13,152
Issue of shares	**121**	13
Closing	**13,286**	13,165

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.

21 SHARE CAPITAL AND RESERVES CONTINUED

FOREIGN CURRENCY TRANSLATION RESERVE

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Opening	(51)	(34)
Translation loss	(23)	(17)
Closing	(74)	(51)

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 2022 £'000	Year ended 31 March 2021 £'000
Opening	1,640	1,674
Depreciation transfer	(34)	(34)
Closing	1,606	1,640

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 historic net book value.

RETAINED EARNINGS

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Opening	17,463	4,722
Share-based payment charge	55	64
Deferred tax	(155)	2
Depreciation transfer	34	34
Profit for the year	3,723	12,641
Closing	21,120	17,463

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

22 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.

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

	Weighted average exercise price 2022	Number of options 2022	Weighted average exercise price 2021	Number of options 2021
Outstanding at the beginning of the year	–	218,033	–	228,119
Forfeited during the period	–	(579)	–	(378)
Exercised during the period	–	(32,612)	–	(4,848)
Granted during the period	–	385,598	–	2,352
Lapsed during the period	–	–	–	(7,212)
Outstanding at the end of the year	–	570,440	–	218,033
Exercisable at the end of the year	–	–	–	–

DEVELOPMENTS IN THE CURRENT YEAR

In the year ending 31 March 2022:

- **CSOP 2018 Employee Plan** – options exercised and settled in full
On 30 July 2021 awards over 5,312 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.
- **CSOP 2021** – options awarded
On 6 August 2021 options over 8,498 shares were awarded.
- **LTIP 2018** (as amended 13 October 2020) – options exercised
On 3 August 2021, further to confirmation of fully meeting the performance conditions, options over 27,300 shares were settled of which 21,450 were satisfied with the issue of new shares, and options over 5,850 shares were settled in cash.
- **LTIP 2021** – options awarded
On 14 October 2021 a new long-term management incentive plan to incentivise senior employees in a manner that aligns with the interests of the Company's shareholders was put in place. This 'shares in subsidiary' plan involved issuing 377,100 'D-shares' in Gear4music Limited capable of being exchanged on a one for one basis for shares in the Company, subject to achieving minimum specified fully diluted earnings per share target – see below for full details.

In the previous year ending 31 March 2021:

- **CSOP 2017 Employee Plan** – exercised and settled in full
On 29 July 2020 awards over 4,848 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.
- **CSOP 2017 Senior Management Pla**n – lapsed and settled in full
On or before 29 July 2020 awards over all 7,212 shares under this plan lapsed as the vesting conditions were not met. All options have been settled in full.
- **Director Cash Plan** – lapsed and settled in full
On or before 29 July 2020 Andrew Wass's (Chief Executive Officer) entitlement under the plan lapsed.
- **CSOP 2020** – options awarded
On 1 September 2020 options over 2,352 shares were awarded.
- **LTIP 2018** – amended
On 13 October 2020 the share price hurdles were re-based to provide an appropriate incentivisation mechanism.

At 31 March 2022 there were three incentive schemes in place:

- a CSOP Employees scheme;
- an LTIP (2018) relevant to six senior employees including Andrew Wass, Gareth Bevan and Chris Scott; and
- an LTIP (2021) relevant to six senior employees including Andrew Wass, Gareth Bevan and Chris Scott.

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 re-measured at each balance sheet date and settlement date.

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.

Employee awards under the CSOP plan awards are only 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.

At 31 March 2022 the total number of shares under option under the CSOP scheme was 10,640 (31 March 2021: 8,033).

22 SHARE-BASED PAYMENTS CONTINUED

LTIP (2018)

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, and pre-determined revenue and profitability targets for 20%. The 'B' shares were non-voting, non-dividend restricted shares. The initial subscription cost was paid by way of a cash bonus that was expensed in FY19.

In October 2020, and following publication of the Group's FY20 results and consultation with certain of its major institutional shareholders, the Board's Remuneration Committee rebased the share price hurdles to ensure that the LTIP continued to provide appropriate incentivisation as follows:

Award vesting date:	Previous hurdle price	Amended hurdle price	Maximum number of shares vesting
July 2021 – Hurdles met and vested	£13.00	£8.00	27,300
July 2022	£16.00	£9.50	29,400
July 2023	£20.00	£11.00	33,600
July 2024	£24.00	£13.00	35,700
July 2025	£29.00	£15.00	39,900
July 2026	£35.00	£17,00	44,100

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

The 210,000 'B' Ordinary shares were replaced with 210,000 non-voting, non-dividend restricted 'C' Ordinary shares. All other aspects of the scheme remain unchanged.

Assuming that the awards vest in full, the maximum implied dilution over the six-year life of the LTIP would equal 1% of the Company's then issued share capital.

The Remuneration Committee has responsibility for matters relating to members of the Plan. The Executive Directors of Gear4music Limited at the time of setting up the Plan are the participants in the Plan.

On 3 August 2021 and further to confirmation all performance conditions relating to the conditional share awards granted under the Plan were fully met, options over 27,300 shares were settled of which 21,450 were satisfied by the issue of new Company shares, and options over 5,850 shares were settled by way of cash equivalent (£55,575).

LTIP (2021)

On 14 October 2021 and having consulted with certain of its major institutional shareholders, a new long-term management incentive plan was put in place to incentivise senior employees in a manner that aligns with the interests of the Company's shareholders.

The Plan involves the issue of 377,100 'D' Ordinary shares in Gear4music Limited, a subsidiary of the Company. The D Shares are capable of vesting between 2023 and 2027 and can be exchanged on a one-for-one basis for new ordinary shares of ten pence each in the capital of the Company, subject to achieving minimum specified fully diluted earnings per share targets as set out below:

Financial year ending:	Vesting date:	Fully diluted eps target:	Number of D-shares vesting
31 March 2023	31 July 2023	46p	75,420
31 March 2024	31 July 2024	53p	75,420
31 March 2025	31 July 2025	61p	75,420
31 March 2026	31 July 2026	68p	75,420
31 March 2027	31 July 2027	76p	75,420
			377,100

The D Shares are non-voting, non-dividend restricted shares. The initial subscription cost is paid by way of a cash bonus. Assuming that awards fully vest, the maximum implied dilution over the life of the Plan would represent 1.8% of the Company's then issued share capital.

The fair values of the awards were calculated with reference to a Monte-Carlo simulation model, supported by an independent accountant's valuation report.

The terms and conditions of specific awards are as follows:

Grant date/employees entitled	Method of settlement accounting	Number of instruments	Vesting conditions	Contractual life of options
Employee CSOP Award 2018 – Equity settled award originally to 73 employees granted by parent on 30 June 2018	Equity	7,403 initially granted 5,681 at 31 March 2021 5,312 at 30 July 2021 on settlement	Continued employment	Settled
LTIP 2018 – Equity settled award to the six Directors of Gear4music Limited as at November 2018	Equity	210,000 initially granted and at 31 March 2021 182,700 at 31 March 2022	80% linked to share price 20% linked to revenue and profitability improvements All subject to continued employment.	From August 2022 to August 2026
Employee CSOP Award 2020 – Equity settled award to 4 employees granted by parent on 1 September 2020	Equity	2,352 granted 2,352 at 31 March 2021 and 31 March 2022	Continued employment	1 September 2023
Employee CSOP Award 2021 – Equity settled award to 31 employees granted by parent on 6 August 2021	Equity	8,498 granted 8,288 at 31 March 2022	Continued employment	6 August 2024
LTIP 2021 – Equity settled award to the six members of the Group's Senior management team, on 14 October 2021	Equity	377,100 initially granted and at 31 March 2022	100% linked to fully diluted eps All subject to continued employment.	From July 2023 to July 2027

The options outstanding at the year-end have a nil exercise price and a weighted average contractual life of 3.06 years (31 March 2021: 3.03 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 (yrs)	Dividend yield (%)	Risk free rate of interest (%)	Fair value (pence)
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
1 Sept 2020	575.0	0.0	65.9%	3	0%	0.11%	575.0
6 Aug 2021	955.0	0.0	36.8%	3	0%	0.21%	955.0
14 Oct 2021	850.0	0.0	37.6%	2–7	0%	0.59%	850.0

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 year arising from share-based payments are as follows:

	2022 £000	2021 £000
Equity-settled share-based payment expense	**55**	64
Cash-settled share-based payment expense	**(14)**	(59)
	41	5
Opening	**322**	317
Closing	**363**	322
Recognised in equity	**339**	284
Recognised as a liability	**24**	38
	363	322

NOTES
(FORMING PART OF THE FINANCIAL STATEMENTS) CONTINUED

23 RELATED PARTIES

TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

The compensation of key management personnel is as follows:

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Key management emoluments including social security costs	**606**	597
Company contributions to money purchase pension plans	**20**	18
	626	615

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

Five Directors are accruing retirement benefits under a money purchase scheme (2021: four).

SHARE-BASED PAYMENTS

LTIP (2018)

On 3 August 2021 and further to confirmation all performance conditions relating to the conditional share awards granted under the Plan were fully met, Gareth Bevan received 6,825 shares, Chris Scott received 5,850 shares, and Andrew Wass received a £55,575 cash equivalent.

LTIP (2021)

On 14 October 2021 a new long-term incentive plan involving Andrew Wass, Chris Scott, and Gareth Bevan was put in place and involved the issue of 377,100 'D' Ordinary shares in Gear4music Limited, a subsidiary of the Company. The D Shares are capable of vesting between 2023 and 2027 and can be exchanged on a one-for-one basis for new ordinary shares of ten pence each in the capital of the Company, subject to achieving minimum specified fully diluted earnings per share targets (see page 96).

Gareth Bevan, Andrew Wass and Chris Scott are participants in the scheme, with 113,130, 75,420 and 37,710 D-shares respectively.

The initial subscription cost was covered by way of bonus and Gareth Bevan, Andrew Wass, and Chris Scott received bonuses of £21,345, £14,230 and £7,115 respectively.

COMPANY BALANCE SHEET

	Note	2022 £000	2022 £000	2021 £000	2021 £000
Fixed assets					
Investments	4		4,787		4,488
Current assets					
Cash in hand and at bank	6	47		44	
Debtors (including £9.67m (2021: £10.02m) due after more than one year)	5	9,722		10,051	
		9,769		10,095	
Creditors: amounts falling due within one year	7	(108)		(52)	
Net current assets			9,661		10,043
Total assets less current liabilities			14,448		14,531
Net assets			14,448		14,531
Capital and reserves					
Called up share capital	8		2,098		2,095
Share premium account	8		13,286		13,165
Profit and loss account b/f	8		(729)		(770)
Loss in the year			(207)		41
Shareholders' funds			14,448		14,531

The Notes 1 to 10 form part of these Financial Statements.

These Financial Statements were approved by the Board of Directors on 20 June 2022 and were signed on its behalf by:

ANDREW WASS
DIRECTOR

Dated: 20 June 2022

CHRIS SCOTT
DIRECTOR

Dated: 20 June 2022

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 2020	2,095	13,152	(770)	14,477
Loss for the year	–	–	(23)	**(23)**
Issue of shares net of expenses	–	13	–	**13**
Share-based payments charge	–	–	64	**64**
Total changes in equity	–	13	41	**54**
Balance at 31 March 2021	2,095	13,165	(729)	14,531
Loss for the year	–	–	(262)	**(262)**
Issue of shares net of expenses	3	121	–	**124**
Share-based payments charge	–	–	55	**55**
Total changes in equity	3	121	(207)	**(83)**
Balance at 31 March 2022	2,098	13,286	(936)	14,448

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

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

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

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

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

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

The Company proposed to continue to adopt the reduced disclosure framework FRS102 in future periods.

ACCOUNTING PERIOD

The Financial Statements presented cover the years ended 31 March 2022 and 31 March 2021.

MEASUREMENT CONVENTION

The Financial Statements have been prepared on the historical cost basis.

FUNCTIONAL CURRENCY

The Financial Statements are presented in Sterling which is the Company's functional currency.

1.2 GOING CONCERN

These Financial Statements are prepared on a going concern basis as explained on page 72.

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.

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

1 ACCOUNTING POLICIES CONTINUED

1.5 BASIC FINANCIAL INSTRUMENTS

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

TRADE AND OTHER DEBTORS

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

TRADE AND OTHER CREDITORS

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

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances and call deposits.

INTEREST-BEARING BORROWINGS

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

INTER-COMPANY LOANS

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

1.6 IMPAIRMENT

FINANCIAL ASSETS (INCLUDING DEBTORS)

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

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

NON-FINANCIAL ASSETS

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

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

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

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

1.7 PROVISIONS

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

1.8 EMPLOYEE BENEFITS

DEFINED CONTRIBUTION PLANS

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

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.

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 2022 £000	Year ended 31 March 2021 £000
Auditor remuneration – audit of Financial Statements	65	45

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

3 DIRECTORS' REMUNERATION

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Directors' remuneration	680	641
Company contributions to money purchase pension schemes	22	19
	702	660

The three Executive Directors are paid through Gear4music Limited, and the three Non-Executive Directors are paid through Gear4music (Holdings) plc. The remuneration of all six Directors is included above.

The aggregate remuneration of the highest paid Director was £229,000 during the year (2021: £228,000), including Company pension contributions of £8,000 that were made to a money purchase scheme on their behalf.

There are five Directors (2020: four) for whom retirement benefits are accruing under a money purchase pension scheme.

4 FIXED ASSET INVESTMENTS

	Subsidiary undertakings £000
Cost	
At 1 April 2021	4,488
Capital contribution	299
At 31 March 2022	4,787

Investments in subsidiaries are carried at fair value.

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
Gear4music Europe Limited (formerly known as Gear4music Ireland Limited)	Block 7 Jamestown Business Park, Finglas, Co. Dublin D11 X59D, Ireland	693113	Ordinary	100% via G4M Ltd
Gear4music Spain SL	Carrer Número 21 del Parc Logístic, nº 12-14 08040 Barcelona, Spain	21097476	Ordinary	100% via G4M Ltd
AV Distribution Ltd	Holgate Park Drive, York YO26 4GN	05385699	Ordinary	100% via G4M Ltd

Cagney Limited, Gear4music Norway AS, and AV Distribution Ltd are dormant companies.

5 DEBTORS

Due within one year:

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Other debtors	**51**	30
	51	30

Due after more than one year:

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Amounts owed by Group undertakings	**9,670**	10,021
	9,670	10,021

The loan to Group undertakings is repayable in 12 months and 1 day from the year-end. Interest charged has been waived and treated as a capital contribution.

As at 31 March 2022, receivables from subsidiary undertakings were unimpaired and considered by management to be fully recoverable.

6 CASH AND CASH EQUIVALENTS

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Cash and cash equivalents per balance sheet	**47**	44

7 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Trade creditors	**59**	4
Accruals and deferred income	**49**	48
	108	52

8 SHARE CAPITAL AND RESERVES

SHARE CAPITAL

	Year ended 31 March 2022 Number	Year ended 31 March 2021 Number
Authorised, called up and fully paid:		
Opening Ordinary shares of 10p each	**20,950,176**	20,945,328
Issue of shares	**26,762**	4,848
Closing Ordinary shares of 10p each	**20,976,938**	20,950,176

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 30 July 2021, the Company issued and allotted 5,312 new Ordinary shares of 10p each on exercise of options under the Company's 2018 CSOP Scheme (see Note 21 to Group accounts). This took the number of Ordinary shares in issue from 20,950,176 to 20,955,488, representing dilution of 0.03%.

On 3 August 2021, the Company issued and allotted 21,450 new Ordinary shares of 10p each on exercise of options under the Company's LTIP (2018) (see Note 21 to Group accounts). This took the number of Ordinary shares in issue from 20,955,488 to 20,976,938, representing dilution of 0.10%.

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

9 SHARE CAPITAL AND RESERVES

SHARE PREMIUM

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Opening	**13,165**	13,152
Issue of shares	**121**	13
Closing	**13,286**	13,165

RETAINED EARNINGS

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Opening	**(729)**	(770)
Share-based payment charge	**55**	64
Loss for the year	**(262)**	(23)
Closing	**(936)**	(729)

10 RELATED PARTIES

LTIP (2018)

On 3 August 2021 and further to confirmation all performance conditions relating to the conditional share awards granted under the Plan were fully met, Gareth Bevan received 6,825 shares, Chris Scott received 5,850 shares, and Andrew Wass received a £55,575 cash equivalent.

LTIP (2021)

On 14 October 2021 a new long-term incentive plan involving Andrew Wass, Chris Scott, and Gareth Bevan was put in place and involved the issue of 377,100 'D' Ordinary shares in Gear4music Limited, a subsidiary of the Company. The D Shares are capable of vesting between 2023 and 2027 and can be exchanged on a one-for-one basis for new ordinary shares of ten pence each in the capital of the Company, subject to achieving minimum specified fully diluted earnings per share targets (see page 96).

Gareth Bevan, Andrew Wass and Chris Scott are participants in the scheme, with 113,130, 75,420 and 37,710 D-shares respectively. The initial subscription cost was covered by way of bonus and Gareth Bevan, Andrew Wass, and Chris Scott received bonuses of £21,345, £14,230 and £7,115 respectively.

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