gear4music

ANNUAL REPORT
AND ACCOUNTS 2017

PASSIONATE ABOUT PERFORMANCE

GEAR4MUSIC (HOLDINGS) PLC

SINCE 2003 GEAR4MUSIC HAS COMBINED A SPECIALIST KNOWLEDGE OF A NICHE MARKET WITH A PROGRESSIVE E-COMMERCE STRATEGY, AND CURRENTLY OPERATES 19 EUROPEAN WEBSITES IN 15 LANGUAGES, FROM SHOWROOMS AND DISTRIBUTION CENTRES IN THE UK, SWEDEN AND GERMANY.

We are now the UK's largest retailer of musical instruments and music equipment, and we are expanding quickly into Europe and beyond.

Strategic Report

Corporate Governance

Financial Statements

Find out more:

www.gear4music.com
www.gear4musicplc.com

HIGHLIGHTS

Revenue £m

£56.1m

+ 58%

2017	£56.1m
2016	£35.5m
2015	£24.2m

International revenue £m

£21.3m

+ 124%

2017	£21.3m
2016	£9.5m
2015	£5.5m

Underlying EBITDA £m

£3.62m

+ 115%

2017	£3.62m
2016	£1.68m[1]
2015	£0.84m[1]

Underlying operating profit £m

£2.62m

+ 192%

2017	£2.62m
2016	£0.89m[1]
2015	£0.38m[1]

Website visitors m

12.6m

+ 24.7%

2017	12.6m
2016	10.1m
2015	8.1m

Website conversion %

2.75%

+ 47 BPS

2017	2.75%
2016	2.28%
2015	1.96%

1 Underlying EBITDA and operating profit taking into account IPO costs of £165,000 and £606,000 in 2015 and 2016 respectively. See Note 3 for reconciliation of IFRS profit measures.

Operational highlights

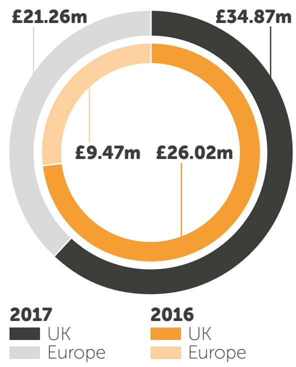
- Growth strategy on track: Strong revenue growth into core UK market (+34%) and excellent progress into European markets (+124%)
- Over 12.5 million visitors to the websites during the year, with improved conversion rates
- Opened distribution centres in Sweden and Germany
- Raised £4.2m equity growth capital in May 2017
- Scheduled to complete the acquisition of a new freehold head office site in York in June 2017

OUR BUSINESS AT A GLANCE

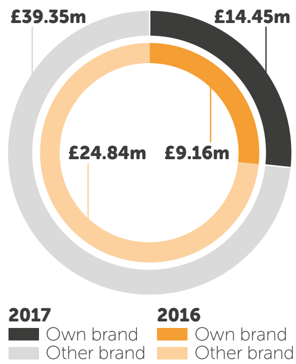
Gear4music is an e-commerce retailer selling over 37,000 SKUs across all major categories of musical instruments and music equipment. The products are sourced from over 710 manufacturers, and range from kazoos costing less than £1, to digital pianos, drum kits and guitars costing thousands of pounds.

FOR MORE INFORMATION
VISIT OUR WEBSITE

Turnover by geography



Product split



Guitars
Electric, acoustic and bass guitars, and related accessories

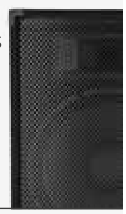
27% of total product sales

Keys
Acoustic and digital pianos, keyboards, and synthesizers

20% of total product sales

Live and PA
PA equipment, speakers, stands and microphones

19% of total product sales



Drums
Electric and acoustic, as well as other percussion instruments

13% of total product sales

Studio
Mixers, headphones, microphones, monitors and interfaces

12% of total product sales

Orchestral
Strings, brass, woodwind and accessories

7% of total product sales

Note: Categories totalling 1% or less of product revenue are excluded.

Our numbers

Total number of customers

1,109,000

Number of active customers

340,000

Number of websites

19

Languages

15

Currencies

8

Key strengths

1. Track record of success – long-term sales and market share growth
2. Bespoke and proprietary e-commerce platform delivers competitive advantage
3. Specialist knowledge facilitates strong relationships with customers and suppliers
4. Well-developed product ranges
5. Efficient logistics system

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CHAIRMAN'S STATEMENT

It has been an excellent year with significant progress in many areas. We are delivering on our strategic priorities and are confident in the outlook for the Group.

Ken Ford
Chairman

On behalf of the Board I am very pleased to report excellent progress in pursuit of our ambition to become a leading global retailer of musical instruments and equipment.

When writing this statement last year, our revenue growth expectation for the year ahead was 37%, and the 58% growth we actually achieved reflects the huge effort made by our staff right across the business, from the Board of Directors and senior management, through to our customer service and warehouse teams.

International growth of 124% has been particularly pleasing, and this is an area in which we will continue to invest significant effort and resource to improve and increase our global reach, building on the early success of our recently launched Swedish and German distribution operations.

Notwithstanding the investment necessary for our next phase of expansion, the Board remains focused on delivering profitable growth, and as such is pleased to announce an operating profit of £2.6m which is a £1.7m (+192%) improvement on FY16's underlying operating profit (adjusted to remove one-off IPO costs). This translates into net profit of £2.3m and earnings per share of 11.5 pence.

In many ways, this has been a transformational year for the business, and to effectively manage further growth and operational complexities the Group formed an Operational Board on 1 March 2017 to support and complement the plc Board, comprising a wide breadth and depth of operational and commercial experience.

To ensure we remain positioned for further growth, the Group requires additional head office capacity, and the Board is delighted to announce a property acquisition that provides an excellent long-term solution to our growth needs in our home city of York.

In 2012, private equity firm Key Capital Partners invested into the business, and in October 2016 sold its final shareholding. On behalf of the Board I would like to thank them and Peter Armitage, who represented Key Capital on our Board, for their efforts and support over the last four years. I'm also delighted to welcome new institutions and individuals onto our share register as we embark on the next chapter in the Gear4music growth story.

Given the investments scheduled for the current year to support continued growth, the Board has decided not to declare a dividend for FY17, but will again review its dividend policy in the next financial year.

Finally, I would like to again express my sincere thanks and appreciation to the extended Gear4music team for their commitment and hard work. It is their passion and knowledge that provides such a strong proposition for our customers and has helped to make our second year as a public company such a success.

Ken Ford
Chairman and Non-Executive Director
4 July 2017


gear4music

MARKET OVERVIEW

The top ten European retail markets for musical instruments and music equipment are worth a combined £4.3 billion and are undergoing a shift to online. An estimated £178 million (24%) of the UK market is already online.

Market overview

Global

In December 2016 Music Trades estimated the global music products market in 2015 to be $16.2bn.

European

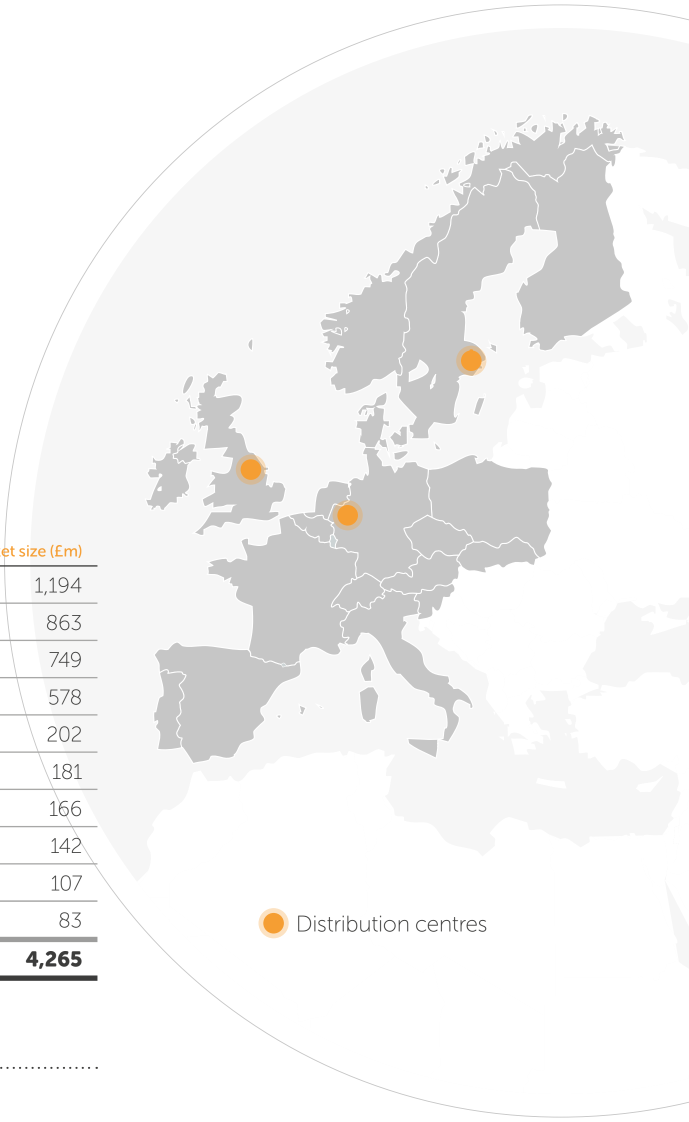
The top ten European retail markets for musical instruments and music equipment (including the UK) are estimated to be worth approximately £4.3bn, and are undergoing a profound shift towards online retail.

The largest retailer serving the European musical instruments and equipment market is Thomann.de based in Germany, with a 2016 reported turnover of approximately £589m. Other competitors in the European market include Musicstore.de (Germany), 4Sound (Sweden), Bax Shop (Netherlands) and Woodbrass (France).

UK

The UK musical instruments and music equipment market is highly fragmented with no dominant retailer, presenting a consolidation opportunity. The top six companies account for an estimated 22% of the UK market, with a long tail of small independent shops, pure play online retailers, general merchandisers and department stores.

The Board believes that the current dynamics of the UK competitive landscape presents an opportunity for continued organic growth. Whilst acquisitions do not form a core part of the current strategy, opportunities are reviewed on an ad hoc basis.



Our customers

Customer overview

Gear4music's customer base is primarily (over 95%) made up of private individuals, from beginners and parents buying musical instruments and music equipment for their children, through to professional musicians. Customers are typically the end-users of our products. In addition, the Group supplies schools and other educational establishments, with Gear4music being the preferred supplier of the Crescent Purchasing Consortium, which specialises in educational sales and service.

On 28 February 2017 we had 1.36 million people registered on our database (29 February 2016: 992,000), of which 339,800 are active customers (being customers who have purchased from Gear4music during the last 12 months).

As the Group rapidly increased its European business it acquired 288,900 new customers (FY16: 190,000), and 80,600 customers came back to us to place at least one follow-up order. Average order value in FY17 was £124, up from £116 in FY16, and £109 in FY15.

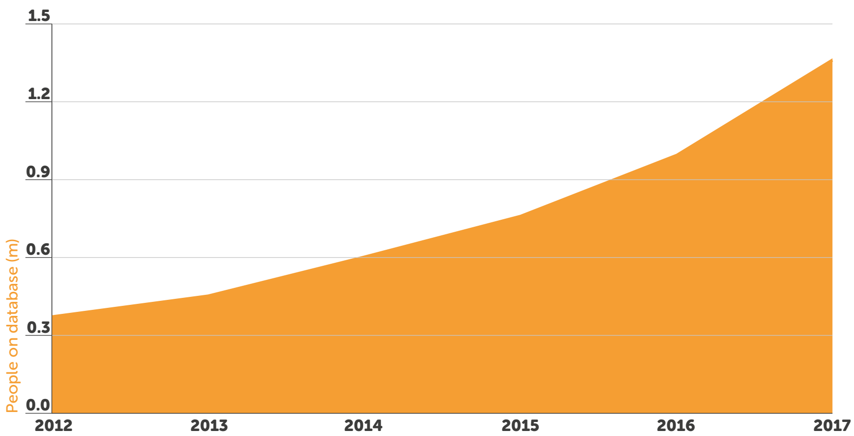
Top European markets

Country	Estimated market size (£m)
Germany	1,194
France	863
UK	749
Italy	578
Netherlands	202
Austria	181
Spain	166
Switzerland	142
Sweden	107
Norway	83
Total size	**4,265**

Gear4music database

1.36m

+ 37%



BUSINESS MODEL

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

We believe we can achieve this by leveraging technology to deliver an industry-leading customer experience, providing the products our customers want delivered to them quickly and efficiently.

Our specialist market knowledge has already helped us to become the largest retailer in the UK, and we are making excellent progress in Europe. A bespoke e-commerce platform allows us to efficiently operate 19 websites, and as we develop this platform further, widen our product ranges and increase our marketing reach and brand recognition, we strongly believe we can continue to grow our share of the £4.3bn European market and expand our reach beyond this.

Buy

- Own-brand products sourced and developed over the last 14 years with Far East manufacturers
- Other well-known brands are purchased direct from manufacturers and distributors, in the UK, Sweden and Germany
- 22-strong specialist buying team (FY16: 15)

Our products

At the year end we had over 37,000 products listed from over 710 manufacturers.

Branded products

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

Own-brand products

Ongoing development of Gear4music's own-brand product range has been a focus since Gear4music.com was launched in 2003, and now covers a wide and varied range with over 2,400 product listed.

Merchandise

- Over 38,000 SKUs at June 2017 (June 16: 33,000)
- 19 websites, 15 languages
- Original website content written by in-house content team
- In-house photography studios
- 'Broadcast standard' in-house video production facilities

The Gear4music product listing team added 5,000 new products in the year to the Gear4music websites, taking the total to 37,112 at 28 February 2017 and to over 38,000 in June 2017.

Our bespoke e-commerce platform enables us to efficiently operate 19 websites, in 15 languages and eight currencies, rapidly respond to changing customer behaviours and expectations, and allows us to expand into new geographical territories.

Retail

- Targeted online marketing
- Personalised remarketing platform
- Competitive pricing in eight currencies
- 150+ payment options offered across Europe
- UK consumer finance
- Multilingual customer advice and support team
- Extended warranties
- VIP loyalty scheme

Multiple distribution centre capability

- System now capable of efficiently managing all aspects of running multiple distribution locations
- Automatically selects best fulfilment location for every customer order

Enhanced shopping basket and checkout

- Improved part order and split order handling
- Improved billing and delivery address management
- Upgraded credit card risk management

Personalisation platform

- Rich and responsive transactional emails for registrations, orders and review requests
- Timeline-based analysis of historical sales data provides weighted purchase predictions and personalised recommendations by email

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.

Deliver

- 135,000 square feet in York, UK
- 38,000 square feet in Stockholm, Sweden
- 72,000 square feet in Mulheim, Germany
- Efficient in-house logistics with courier integration
- Wide range of domestic delivery options, including Saturday and Sunday
- Dispatch to over 190 countries

Fulfilment and logistics

- Weekend dispatch and seven-day delivery
- Traffic shaping for increased capacity
- Courier specific dispatch cut-off times
- Click and collect services from over 2,500 locations

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 13 different delivery service providers, to provide our customers with a class-leading range of delivery options.

STRATEGY AND OUR PROGRESS

Our mission is to become the best musical instrument and equipment retailer in Europe. Gear4music's strategy is built around four pillars of growth:

Our strategic priorities / Overview

INTERNATIONAL EXPANSION

We continue to develop and improve our customer proposition in each of the territories we operate. We'll achieve this by localising our websites to drive traffic and improve conversion, expanding our multilingual customer service and marketing teams and, where the business case supports it, by opening small distribution centres to improve delivery options and cut delivery times.

READ MORE ON PAGE 15

ACCELERATED DEVELOPMENT OF THE BESPOKE E-COMMERCE PLATFORM

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

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INTELLIGENT MARKETING

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

We will leverage the email subscriber base though email re-marketing and content personalisation, to enhance customer retention and increase the repeat purchase rate.

SUPPLY CHAIN DEVELOPMENT

We will continue to extend the number of products available to our customers, including those for next-day delivery, and to continue the expansion of our own-brand product ranges with new and exclusive products.

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

Progress

We have launched our European distribution network with the opening of distribution centres in Sweden and Germany to improve our local customer proposition in terms of delivery timescales and costs, and to enable local buying in Swedish Krona and Euros.

We have enabled delivery to another 150 countries to identify potential opportunities to increase our international presence outside of Europe. Once opportunities have been identified and validated, market-specific websites will be launched.

The acquisition of our software development team completed on 1 January 2017. Bringing software development in-house helps deliver the future cost-effective investment in platform development required to grow revenues and profitability. Investment enables us to respond to changing customer behaviours and expectations, by rapidly developing new features and functionality to drive website traffic, increase conversion rates and maximise operational efficiencies and reliability.

Examples of new features deployed during FY17 include the integration of multiple hubs to automatically select the most appropriate dispatch location, international 'click & collect', shopping basket and checkout enhancements, mobile website improvements and website cloudification.

Our objective is continual innovation and to scale our systems to ensure our growth is underpinned by a robust, class-leading e-commerce platform, and we have a pipeline of new features and upgrades to deploy during the next 12 months.

Our marketing strategy continues to prove effective, with a 25% increase in website visitors, conversion rates improving by 47 bps, and 39% more repeat customers.

A digital personalisation platform has been deployed and will continue to be developed and refined in FY18 to ensure customers receive relevant information and offers through all communication channels. A database of over 650,000 subscribers currently receive regular email promotions.

Our return on investment in marketing continues to improve, with spend as a proportion of revenue falling from 10.0% in FY15, to 8.7% in FY16, to 8.3% in FY17.

At 28 February 2017 we listed more than 37,000 products, up 37% since IPO, and there are opportunities to increase this significantly.

Own-brand products are an important part of our business and the range increased from 1,600 SKUs last year to over 2,400, and revenue increased by 58% during the year to £14.5m.

Our Swedish showroom opened in May 2017 to serve the local market and is already helping secure new procurement opportunities, including our recent appointment as the Scandinavian distributor for Behringer, one of the world's largest music equipment brands. We expect to open our German showroom in Autumn 2017.

Achievements

- 124% growth in international revenue to £21.3m
- Opened two distribution centres
- Launched international shipping

- Acquired software development team on 1 January 2017
- Team comprises 29 full-time software developers
- Invested £1.5m in FY17
- Launched new features around European configuration, mobile improvements and checkout and delivery enhancements

- 12.6 million website visitors (FY16: 10.1 million)
- 2.75% conversion rate (FY16: 2.28%)
- 340,000 active customers (FY16: 226,000)

- 37,100 SKUs listed from over 710 brands
- Over 2,400 own-brands

OUR INVESTMENT CASE

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

Competitive advantages and barriers to entry

We are an agile, predominantly online retailer, and have an increasingly well-recognised brand

Well capitalised and positioned to exploit opportunities within the market as they arise

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 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

We have proven and scalable distribution capabilities

'Gear4music' is the number one search term driving traffic in the category 'Music Shops' (source: Hitwise)

A strong own-brand offering has been developed over 14 years, and has established a reputation for quality products at affordable prices, whilst providing enhanced margin opportunities

The Directors and senior management have an intimate knowledge of the musical instrument and music equipment market

OUR KEY STRENGTHS

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

- Revenues have increased every year since launch in 2003
- Momentum stepped up following capital injections in 2012 and 2015
- 58% revenue growth in FY17, building on 46% revenue growth in FY16, and 37% in FY15
- Strong European growth validates website roll-out strategy
- Database of 1.36 million registered users, with active customers increasing by 50%

2 Bespoke and proprietary e-commerce platform delivers competitive advantage

- End-to-end solution encompassing all aspects of trading operations
- Intellectual property owned by Gear4music
- Currently supports 19 websites in 15 languages and eight currencies
- Ability to rapidly respond to changing customer behaviours and expectations
- Capability to expand into new markets
- Capacity to handle significantly increased volumes and website traffic
- Additional functionality in continuous development
- Software development team brought in-house in FY17 to facilitate closer integration and cost-effective future development

3 Specialist knowledge facilitates strong relationships with customers and suppliers

- Strong, committed and experienced management team
- Employees with in-depth specialist knowledge
- Expertise means Gear4music is trusted by major musical instrument and music equipment brands
- Offers a wide range of choice to customers and provides specialist advice during and after the sales process

4 Well-developed product ranges

- Over 37,000 products from over 710 brands
- Reputation for quality and value for money
- Over 2,400 own-brand SKUs, developed over a 14-year period
- Provide enhanced margin opportunities as volumes increase

5 Efficient logistics systems

- Operates from three modern facilities with a combined 245,000 square feet footprint
- The most appropriate courier delivery services are automatically selected from more than 2,800 permutations depending on the weight, size, value and destination of the goods being purchased

CHIEF EXECUTIVE'S STATEMENT

I am delighted to report on a year that saw record sales and profits whilst continuing to invest in the key strategic areas that further improve our customer proposition.

Andrew Wass
Chief Executive Officer

Introduction

When we joined AIM in June 2015, we were very confident that, with continued targeted investment of the funds from our IPO, we could build on the £24m revenues we had achieved in FY15, by improving our customer proposition through strategic investment into staff, systems, inventory and marketing, and expanding our presence in Europe.

I am thrilled that we have surpassed those expectations, having more than doubled our revenues to £56m, whilst increasing profitability to an all-time high.

Business review

We continue to make good progress on both our financial and commercial KPIs in our second year as a listed business:

Financial KPIs

	FY17	FY16
Revenue (Note 2)	**£56.1m**	£35.5m (+58%)
UK revenue (Note 2)	**£34.8m**	£26.0m (+34%)
International revenue (Note 2)	**£21.3m**	£9.5m (+124%)
EBITDA[1]	**£3.6m**	£1.1m (+236%)
Underlying EBITDA[1]	**£3.6m**	£1.7m (+112%)
Operating profit[1]	**£2.6m**	£0.3m
Underlying operating profit[1]	**£2.6m**	£0.9m (+192%)
Cash at year end	**£3.0m**	£3.5m (-14%)

Commercial KPIs

	FY17	FY16
Website visitors	**12.6m**	10.1m
Conversion rate	**2.75%**	2.28%
Average order value	**£124**	£116
Active customers	**340,000**	226,000
Products listed	**37,100**	31,500

1 Underlying profit measures for FY16 are shown before £0.6m of IPO-related costs – see Note 3 for reconciliation to IFRS profit measures.

These results have been delivered by the successful execution of the Group's strategy, and continued investment in our platform, people and operations, with much more to come.

Case study

SCANDINAVIAN EXPANSION

It's down to the efforts of the Gear4music teams that we've been able to take Scandinavian distribution from concept to having a functioning distribution centre and showroom in under 12 months. There's more to do and we're learning from our experiences, but I am very pleased with how the business is developing.

Robert Newport
Projects Director

Stockholm, Sweden

- 38,000 square feet, located near Stockholm's main airport
- Allows next-day deliveries across Scandinavia
- Annual revenue capacity estimate of £14m–£16m
- Now dispatching over 40% of Scandinavian orders
- Swedish showroom now open
- Local product sourcing underway
- New product distribution agreements signed

CHIEF EXECUTIVE'S STATEMENT CONTINUED

Our Swedish and German distribution centres are scaling well and will be well positioned to support the business in the busier second half of FY18.

Andrew Wass
Chief Executive Officer

Investing for the future

Our recent focus has been on improving our customer proposition alongside removing the next layer of barriers to growth, by ensuring our operational facilities and systems can support our medium and long-term ambitions.

Office space

Our staff are central to our success, and in order to build our teams and support the expansion of the business, we have an immediate requirement for additional UK office space. As such we are very pleased to announce the £5.3m freehold acquisition of a 50,000 square foot property at Holgate Park in York, which will become our long-term UK headquarters. The new site will provide the flexibility and capacity we require for ongoing growth, whilst causing minimal upheaval for existing staff.

The acquisition will be 100% debt funded with new debt facilities, providing significant cost savings when compared with leasing an equivalent building (should one have been available), and allowing for further expansion as required. To ease the transitional impact as we grow into the property, we have agreed a short-term lease-back arrangement with the vendor CPPGroup Plc for half of the building and the Board expects this will cover our interest costs for the first 12 months following completion on 30 June 2017.

The estimated financial impact has been considered in more detail in the Financial review on page 21.

Distribution expansion

Vacating our current office will increase our space for UK warehousing-related activities, enabling the business to continue to extract good value from the existing site until the lease expires in June 2020.

A core part of our growth strategy has been to invest in expanding our presence and further enhancing the customer service proposition in Europe. Having delivered 124% growth in European revenues during the year, now representing 38% of the Group's revenue, we remain committed to continued investment, thereby underlining our confidence in the region's long-term strategic value to the Group in helping us to build scale and shareholder value.

Our Swedish distribution centre became operational in November 2016, and I am pleased to report is performing well. We have successfully reduced our delivery timescales across Scandinavia, and reduced our courier costs across a wide range of products, improving the overall customer offer. Our German distribution centre began dispatching orders at the end of February 2017, and will be scaled up throughout the year to enhance our proposition across central Europe, whilst providing additional distribution capacity.

Showrooms

On 8 May 2017 we opened a showroom attached to our Swedish distribution centre, and in addition to serving the local Stockholm market, it is already helping us to secure new procurement opportunities. For example, we have recently been appointed as the Scandinavian distributor for Behringer, one of the world's largest music equipment brands. We expect to open our German showroom by Autumn 2017.

Systems development

The acquisition of our software development team completed on 1 January 2017, and is already allowing us to achieve more, react faster to developing trends, and further scale our systems to ensure our growth is underpinned by a robust, class-leading e-commerce platform.

Examples of new features deployed during FY17 include the integration of multiple hubs across many countries to automatically select the most appropriate dispatch location, international 'click & collect', shopping basket and checkout enhancements, mobile website improvements, and website cloudification. Our objective is continual innovation, and we have a pipeline of new features and upgrades to deploy during the next 12 months.

Case study

E-COMMERCE PLATFORM

It's been great for our team to formally become part of the Gear4music family, and with the project pipeline we have mapped out, I see many exciting opportunities ahead.

Tom Walder
Chief Technical Officer

e-commerce platform

Our websites are driven by a bespoke e-commerce platform and ERP solution, designed to deliver a great customer experience and deliver competitive advantage. It is built to scale and help us expand into new markets.

Supporting and accelerating our growth, the acquisition of our software development team completed on 1 January 2017. Having a more tightly integrated software team allows us to be more agile, reacting faster to business and customer needs.

CHIEF EXECUTIVE'S STATEMENT CONTINUED

The response to the Group's placing in May 2017 was extremely pleasing and I believe raising £4.2m reflects well on our progress to date and prospects.

Andrew Wass
Chief Executive Officer

International expansion

In addition to launching our European distribution network, we have enabled delivery to another 150 countries during the last year, and whilst at the early stages of development, it is clear our business model is relevant to customers all around the world. As the year progresses we will develop our worldwide proposition, and increase our international presence wherever there is an opportunity.

Product range extension

Own-brand products continue to be a key component of our success, and I am extremely pleased with the progress we have made, adding new products and building on existing ranges to increase our own-brand revenue by 58% during the year to £14.5m.

Across all our ranges we currently list more than 37,000 products, up 37% since IPO, but we still see opportunities to grow this significantly, and will achieve this by further expanding our team of specialist buyers.

Intelligent marketing

With in excess of 12 million website visitors, conversion rates improving by 47 bps, active customer numbers increasing to more than 339,000, and 39% more repeat customers than a year earlier, our marketing strategy has been highly effective.

However, there is much more to achieve, and our focus for the year ahead will be on improving our social media activities, particularly on mobile, and delivering a more personalised experience for our existing customers and website visitors.

Current trading and outlook

We have a strong record of targeted investment driving growth and shareholder returns. Our momentum across the Group, but particularly in Europe, gives us the confidence to accelerate investment in infrastructure in order to scale up further. The associated investment of c.£1 million will mean profitability will be more H2 weighted for the current year. The business continues to trade in line with our expectations, and our current investment strategy reinforces the confidence we have in our prospects for this year and beyond.

Andrew Wass
Chief Executive Officer
4 July 2017

Case study

NEW HEAD OFFICE

This property acquisition addresses a barrier to growth and makes good commercial sense. The news was well received by the team, and we're all looking forward to the move scheduled for late summer 2017.

Andrew Wass
Chief Executive Officer

New head office

Our staff are central to our success and UK office space was close to becoming a growth constraint. The addition of head office space in FY18 provides certainty and much needed office capacity sufficient to meet the Group's long term requirements.

The £5.3m freehold acquisition of a 50,000 square foot property at Holgate Park in York will provide the flexibility and capacity we require, whilst causing minimal upheaval for existing staff.

The acquisition will be 100% debt funded with new debt facilities and the estimated financial impact has been considered in more detail in the Financial review on page 21.

FINANCIAL REVIEW

Overview

The Group has delivered another strong financial performance, with underlying operating profit of £2.62m being £1.72m ahead of FY16. Profit growth has been achieved while the Group has continued to invest in people and operations, including the part-year cost of the Swedish and German distribution centres that are expected to generate tangible returns from the second half of this year.

Revenue

	FY17 £000	FY16 £000	Change %
UK revenue	**34,865**	26,016	34%
International revenue	**21,263**	9,473	124%
Revenue	**56,128**	35,489	58%

Revenue increased by £20.6m (58%) on FY16, building on growth of 46% and 37% in the previous two years. Revenue growth was 73% in the first half of the year and 50% in the second half when growth began to be measured against H2 FY16 revenue growth, by which time the IPO-growth capital deployed in the business was having a positive impact. As such the Board also monitors two-year revenue growth and going forward will report on this metric. Revenue growth from FY15 to FY17 was 132%, compared to 100% between FY14 and FY16.

Growth in the well-established UK market continues to be strong at 34% (FY16: 39%) but was out-stripped by international growth which increased 124% and accounted for 38% of Group revenues compared to 27% in FY16 and 23% in FY15. In FY17 the Group began shipping outside of Europe as part of our plans to identify potential areas of new opportunity, with these revenues accounting for less than 0.5% of total revenue.

The UK's EU Referendum vote and subsequent weakening of Sterling created currency-related revenue and margin opportunities as our products became cheaper in Europe, although our European revenue had already grown at 138% over the first four months of FY17 that preceded the vote.

	FY17 £000	FY16 £000	Change %
Other-brand product revenue	**39,351**	24,842	58%
Own-brand product revenue	**14,449**	9,164	58%
Other revenue	**2,328**	1,483	57%
Revenue	**56,128**	35,489	58%

We are particularly pleased with the progress made in our own-brand business. Sourcing own-brand products takes time and the opportunity was highlighted as a medium-term aspiration upon IPO, so it is reassuring to see revenue growth catch up and match the growth in other-branded product revenue. Own-brand revenue growth has increased from 27% in FY15, to 33% in FY16, and 58% this year, and the proportion of revenue that came from own-brand products in FY17 was flat at 25.7% (FY16: 25.8%).

Other revenue comprises carriage income, warranty revenue and commissions earned on facilitating point-of-sales credit for retail customers.

Gross profit

	FY17 £000	FY16 £000	Change %
Gross profit	**15,145**	9,186	+65%
Gross margin	**27.0%**	25.9%	+1.1ppts

The strong revenue performance contributed to a £6.0m gross profit increase on last year, with the gross margin improving from 25.9% to 27.0%, buoyed by improved own-brand product revenue growth and exchange rate fluctuations creating pricing and margin opportunities.

Some product-intake prices increased during FY17 due to the weakening of Sterling relative to the US Dollar. However, strong revenue growth enables further negotiations with suppliers and the leveraging of economies of scale to reduce the impact. Other-branded products are predominantly purchased in Sterling and are therefore less affected by fluctuations in exchange rates.

Local distribution centres will reduce delivery costs to customers in those home countries and adjacent territories, although reinvestment in our customer proposition will mean these savings will be largely passed on to the customer.

Administrative expenses and operating profit

	FY17 £000	FY16 £000	Change %
Recurring administrative expenses	**(12,529)**	(8,291)	(51%)
Exceptional administrative expenses	**–**	(606)	
Reported operating profit	**2,616**	289	805%
Underlying operating profit	**2,616**	895	192%

Recurring administrative expenses increased 51% compared to the 58% increase in revenue as the Group invested in European distribution centres and its people. These investments are central to delivering the Group's strategy and critical to medium and long-term prospects. As referred to in the Chief Executive's statement, there will be an initial 'overhead investment' phase involving upfront additional costs being incurred that take time to generate added value. These costs will be evident in H1 FY18.

Marketing costs in FY17 increased 51% on FY16 to £4.66m (FY16: £3.08m), compared with the 58% increase in revenue. This includes investment into European markets to build brand recognition where the return is lower than in the UK. Marketing expenses as a percentage of revenue reduced from 8.7% to 8.3%.

In FY17 labour costs increased 55% to £4.29m (FY16: £2.77m), as headcount increased to support current and future growth, with investment across the central functions, in Europe and in senior management appointments. Total labour costs as a percentage of revenue reduced from 7.8% to 7.6% and this will increase in H1 FY18 based on current labour cost run rates.

The European distribution centres incurred £0.48m of costs expensed as they became operational part-way through the year and began to scale up. The full-year cost effect of these investments and associated benefits will be evident in FY18.

FY17 underlying EBITDA of £3.62m equates to 6.4% of total revenue, compared to 4.7% last year. Exceptional administrative expenses of £606,000 in FY16 related to costs incurred in relation to the IPO, and as such did not repeat in FY17.

Financial expenses in FY16 included £233,000 of interest on private-equity loan notes that were settled in full on IPO in June 2015.

Reported profit before tax improved from break-even last year to a £2.64m profit this year, which translates into an EPS of 11.5 pence (diluted EPS of 11.4 pence).

Cash flow and net debt

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

	FY17 £000	FY16 £000
Opening cash	**3,548**	916
Profit/(loss) post exceptional expenses	**2,314**	(43)
Movement in working capital	**(3,518)**	(1,416)
Depreciation and amortisation	**1,001**	786
Financial expense	**47**	280
Other operating adjustments	**267**	58
Net cash from operating activities:	**111**	(335)
Net cash from investing activities:	**(2,295)**	(1,509)
Net cash from financing activities:	**1,637**	4,476
(Decrease)/increase in cash in the year	**(547)**	2,632
Closing cash	**3,001**	3,548

The business generated a good level of trading cash in the year and actively invested in working capital. Stock increased by £4.8m (69%) to fuel revenue growth and leverage buying economies of scale, whilst continuing to take all available supplier early-payment discounts. This was partly funded by a £2.5m increase in stock-loans and a £933,000 increase in trade payables.

Net cash from investing activities includes a £1.48m investment in the Group's software platform and £711,000 of capital expenditure on warehouse assets and improvements, mainly in Europe. No finance leases were drawn against any of this expenditure, and £194,000 finance lease capital was repaid.

Cash from financing activities includes a £1.9m net increase in stock finance drawn against own-brand stock.

Balance sheet and net assets

The Group had a strong year-end balance sheet, with net assets of £11.7m (FY16: £9.4m), and £3.0m cash (FY16: £3.5m).

	FY17 £000	FY16 £000
Software platform	**3,407**	2,483
Other intangible assets	**2,130**	755
Property, plant and equipment	**1,565**	1,239
Total non-current assets	**7,102**	4,477
Stock	**11,686**	6,906
Cash	**3,001**	3,548
Other current assets	**1,348**	740
Total current assets	**16,035**	11,194
Trade payables	**(4,651)**	(3,718)
Deferred consideration	**(1,331)**	–
Other current liabilities	**(4,018)**	(2,304)
Total current liabilities	**(10,000)**	(6,022)
Total non-current liabilities	**(1,415)**	(290)
Net assets	**11,722**	9,359

The investment in the software platform in the year was £1.48m (FY16: £0.93m) to further develop functionality and resilience. This takes total cumulative spend on the platform to the end of the year to £4.8m.

The Group had net cash (being cash less bank debt and finance lease liabilities) of £0.36m compared to £2.59m at last financial year end, as the business invested in stock and fixed assets.

Non-adjusting event after the reporting period

On 8 May 2017 the Group exchanged contracts to acquire the freehold of a 50,000 square foot property at Holgate Park in York, with completion agreed for 30 June 2017. The purchase price is £5.3m with 70% of the price funded by a mortgage at 2.04% above LIBOR on an initial five-year term. A second five-year term loan will be drawn for £1.80m at 2.85% above LIBOR.

On 18 May 2017 the Group completed a placing of 610,000 new Ordinary shares and issued 100,782 new Ordinary shares pursuant to the full and final exercise of a warrant instrument. This resulted in gross proceeds of £4,349,000, and net cash into the business of £4,178,000. More detail is provided on page 67.

Dividends

The Board remains confident in the cash generative nature of the core business, but in light of the debt-financed acquisition of the freehold head office premises and other planned investments to support future growth, the Board does not consider it appropriate to declare a dividend at this time. However the Board will review the shareholder distribution policy during the financial year ending 28 February 2018.

On behalf of the Board

Chris Scott
Chief Financial Officer
4 July 2017

KEY PERFORMANCE INDICATORS

We measure ourselves against a number of KPIs that reflect the key trading trends and are linked to the strategic pillars of growth.

Financial

Revenue £m

£56.1m

+ 58%

2017	£56.13m
2016	£35.49m
2015	£24.24m

Gross margin %

27.0%

+ 1.1ppts

2017	27.0%
2016	25.9%
2015	27.9%

Cash £m

£3.0m

- 15%

2017	£3.00m
2016	£3.55m
2015	£0.92m

Customer

Customer experience – Trustpilot rank

9.6

+ 0.1

2017	9.6
2016	9.5
2015	9.5

Total database size m

1.36m

+ 37%

2017	1.36m
2016	0.99m
2015	0.76m

Proportion of repeat customers %

23.7%

- 1.8ppts

2017	23.7%
2016	25.5%
2015	24.8%

Commercial

Unique visitors m

12.6m

+ 25%

2017	12.63m
2016	10.08m
2015	8.14m

Conversion %

2.75%

+ 0.47ppts

2017	2.75%
2016	2.28%
2015	1.96%

Average Order Value ('AOV') £

£124.02

+ 7%

2017	£124.02
2016	£115.74
2015	£108.96

SKUs listed

37,122

+ 18%

2017	37,122
2016	31,517
2015	27,188

Marketing costs as a percentage of total revenue %

8.3%

- 0.4ppts

2017	8.3%
2016	8.7%
2015	10.0%

Definitions

Unique visitors: a distinct person who visits a Gear4music site during a given period
Conversion: total number of online orders divided by the total number of unique visitors
Average Order Value: Total revenue (gross of credit notes) divided by the total number of orders
Total database size: Number of people whose details are held on the Gear4music database
Proportion of repeat customers: Number of customers in the period who have placed more than one order

OUR PEOPLE

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

Our team

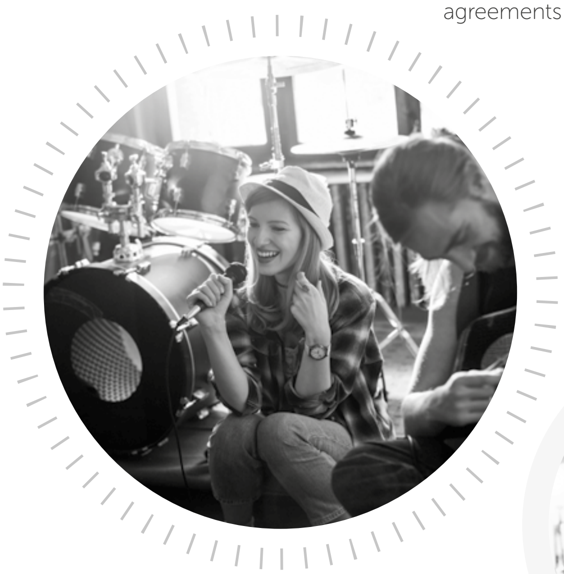
As at 28 February 2017 we employed 259 people across three countries, and many of them have first-hand musical instrument and equipment knowledge, playing in bands and producing their own music. Ongoing product training is routinely undertaken to ensure staff have relevant and up-to-date knowledge to 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.

Operational Board

In many ways, this has been a transformational year for the business, and to effectively manage further growth and operational complexities the Group formed an Operational Board on 1 March 2017 to support and complement the Plc Board, comprising a wide breadth and depth of operational and commercial experience.

The Operational Board meets at least once each month to analyse and discuss operational and commercial matters, and to identify any material matters for escalation to the Plc Board.



Executive Board

Andrew Wass
CEO

Chris Scott
CFO

Gareth Bevan
CCO

FOR THE FULL PLC BOARD REFER TO PAGES 34 AND 35

Operational Board

Tom Walder
Chief Technical Officer

Joined Jan 2017

Jonathan Meager
E-commerce Director

Joined 2007

Robert Newport
Projects Director

Joined May 2016

Senior management

Swedish Commercial Manager

Joined Nov 2016

German Commercial Manager

Joined March 2017

Head of UK Buying

Joined May 2013

Digital Marketing Manager

Joined April 2015

Swedish Logistics Manager

Joined Sept 2016

German Logistics Manager

Joined Nov 2016

UK Logistics Manager

Joined Nov 2005

Customer Service Manager

Joined Sept 2005

RISKS AND UNCERTAINTIES

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

The Board takes overall responsibility for risk management, with a focus on evaluating the nature and extent of significant risks, and formulating mitigations around the risks required to be taken in order to deliver the strategic objectives.

The Audit Committee has responsibility for overseeing the effectiveness of appropriate risk management processes and internal control systems. More detail of these processes is set-out in the Corporate Governance section.

The purpose of this section is to focus on the principal risks and uncertainties to our business model that could impact on our achieving our strategic objectives, and our future performance. A more comprehensive list was published in our Admission document that is available on our investor website.

Operations

Risk	Description	Mitigation
RAPID GROWTH	The Group's business has grown rapidly. Operations and practices adopted at earlier stages of the Group's development may be inappropriate for a business of an increased size and scale. The Group may need to expand and enhance its infrastructure and technology, and improve its operational and financial systems and procedures and controls in order to be able to match its anticipated growth. The Group may face challenges in matching the pace of its expansion with corresponding improvements and enhancements in its systems, controls and procedures. The Group will also need to expand, train and manage its growing employee base.	As detailed in the Corporate Governance section on pages 30 to 33, the Executive team and the Board actively monitors and responds, so as to maintain systems and practices that are appropriate for the operations and scale of the Group. The Group has recruited into key management positions and on 1 March 2017 formed an Operational Board to support the Plc Board. The Group has expanded its finance function with the addition of two management accountants, providing greater capacity and better segregation of duties, further improving the control environment.

Operations continued

Risk	Description	Mitigation
NEW JURISDICTIONS	The Group's expansion into new jurisdictions may not be successful. Further expansion into markets outside the UK would expose the Group to a variety of risks, including different regulatory requirements, complications with staffing and managing foreign operations, variations in consumer behaviour, fluctuations in currency exchange rates, potential political and economic instability, potential difficulties in enforcing contracts and intellectual property rights, the potential for higher rates of fraud and adverse tax consequences. The Directors have limited experience of the legal and regulatory regimes of jurisdictions outside the UK and their consequences for the Group's business. In addition, the Group will likely have to compete in new jurisdictions with companies already operating in the relevant market, which may understand the local market better than the Group. To the extent that the Group overestimates the potential of a new geographic market, incorrectly judges the timing of the development of a new geographic market or fails to anticipate the differences between a new geographic market and the UK, the Group's attempt to expand into new geographic markets may be unsuccessful.	The Board will routinely direct management to seek professional input into any such major developments. Advances into Europe will be in a measured and capital-efficient manner. The Group has set up local subsidiaries in Sweden and Germany and recruited local management familiar with local laws and regulations.
TECHNOLOGICAL CHANGES	Unless the Group is able to respond to technological advances, e.g. through adapting and optimising Gear4music's websites, on a cost-effective and timely basis, it may not be able to effectively build and/or maintain a competitive advantage.	The Group continues to allocate a significant ongoing annual software development budget, and in FY17 brought the development team in-house to increase control and efficiency.
DISTRIBUTION CENTRES	In FY16 the Group was reliant on a single distribution centre and warehouse. This dependency has been partly mitigated in FY17 by the Group opening two further distribution centres and warehouses, all holding stock for delivery directly to customers. Any disruption to distribution centres' efficient operation may therefore have an effect on the Group's business. Distribution centres may suffer prolonged power or equipment failures, failures in its information technology systems or networks or damage from fires, floods, other disasters or other unforeseen events which may not be covered by or may exceed the Group's insurance coverage.	The Group now operates from three locations. 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.

RISKS AND UNCERTAINTIES CONTINUED

Operations continued

Risk	Description	Mitigation
WAREHOUSING, ONWARD DISTRIBUTION TO CUSTOMERS AND LOGISTICS	The supply of product to customers in a timely manner is critical to the success of the Group. The Group therefore operates its own warehouses, run by senior management that have many years of experience in the sector. Any rapid increase in revenue may require further expansion of current warehouse space. There is a risk that the Group may experience interruptions to the operation of these logistics and distribution networks that could prevent the timely or proper delivery of products, which could damage the Group's reputation and deter customers, prospective customers, suppliers and/or prospective suppliers.	The Group has recently opened two more distribution centres with their own local logistics relationships, thereby reducing the dependency on any single site or local network. There is a continuous monitoring of capacity at the warehouses and there is a step plan in place that the Board believes should allow the Group to fulfil an increasing number of orders from the existing site. The Group maintains multiple delivery service providers to reduce the dependency on any single provider, and tracks service level agreements on an ongoing basis. This provides system flexibility to switch providers within a matter of days, if required.
CHANGE TO SEARCH ENGINES' ALGORITHMS	Changes to search engines' algorithms or terms of service could cause the Group's websites to be excluded from or ranked lower in natural search results. Search engines frequently modify their algorithms and ranking criteria to prevent their natural listings from being manipulated, which could impair the Group's 'Search Engine Optimisation' ('SEO') activities. If the Group is unable to recognise and adapt quickly to such modifications in search engine algorithms, the Group could suffer a significant decrease in traffic and revenue.	The Group will continue to operate SEO activities that adhere to search engine guidelines.
DATA SECURITY AND IT RELIABILITY	The Group relies heavily on its IT infrastructure and e-commerce system, and in particular its websites. If any one or more of its websites were to fail or be damaged this could impact the Group's ability to trade. If the Group's IT and data security systems do not function properly there could be website slowdown or unavailability, loss of data, a failure by the Group to protect the confidential information of its customers from security breaches, delays in transaction processing and the inability to accept and fulfil customer orders which could affect the Group's business.	The Group seeks to mitigate this risk by investing significant sums in IT infrastructure, including robust back-up systems, and in March 2017 moved the platform into the cloud. The Group has a disaster recovery plan in place, which has been designed to minimise the impact of data loss or corruption from hardware failure, human error, hacking or malware.

Brand and proposition

Risk	Description	Mitigation
MARKET RECOGNITION	Developing and maintaining the reputation of, and value associated with, the Group's brands is of central importance to the success of the Group. Brand identity is a critical factor in retaining existing and attracting new customers. The Group is reliant on its natural search result rankings and paid advertising as it seeks to build market share and attract new customers. Any failure by the Group to offer high-quality products across a range of instruments, manufacturers and price points, excellent customer service and efficient and reliable delivery could damage its reputation and brands, and could result in the loss of customer confidence and a reduction in purchases. Unfavourable publicity concerning the Group could also damage the Group's brands and its business. If the Group fails to maintain its brands or if excessive expenses are incurred in this effort, the Group's business may be affected.	Rigorous monitoring of customer feedback helps ensure issues are identified and rectified on a timely basis. Own-brand products are carefully selected and rigorously tested prior to initial order. Head of Marketing has been appointed to oversee and better coordinate all marketing activities.
COMPETITION IN ITS TARGET MARKETS	The UK and European retail market for musical instruments and music equipment is competitive. A number of competitors may have financial resources greater than those of the Group. Both Amazon and eBay sell musical instruments and music equipment.	The Group has a track record of successfully competing on a wide range of factors, including quality and range of products, price, product availability, product information, convenience, delivery options and service.

Resources and relationships

Risk	Description	Mitigation
SUPPLY AND SALE OF THIRD-PARTY BRANDED PRODUCTS	The Group purchases products from a number of large global musical instrument and music equipment brand owners, and the Group's business depends on its ability to source a range of products from well-recognised brands on commercially reasonable terms. The relationships between the Group and the third-party brand owners are generally based on annual contracts that the Group seeks to renew each year. The third-party brand owners may cease selling products to the Group on terms acceptable to it, fail to deliver sufficient quantities of products in a timely manner, terminate their relationship with the Group and enter into agreements with the Group's competitors, or experience raw material or labour shortages or increases in raw material or labour costs. Any disruption to the availability or supply of products to the Group or any deterioration to the terms on which products are supplied to the Group could affect its business.	Whilst sales of third-party branded products accounted for approximately 70% of the Group's turnover in FY17 (FY16: 71%), the Directors do not consider that the Group is significantly reliant on any one or more major brand/brand owner. The Directors believe that the relative size of the Group, its purchase volumes and the strength of its relationship with the brand owners, built over a prolonged period in many cases, make it unlikely that any such arrangements would be terminated.
RELIANCE ON SUB-CONTRACT MANUFACTURERS	The Group sub-contracts manufacture of its own-brand musical instruments and equipment to independent third-party businesses in South-East Asia. Any disruption to supply or issues such as poor product quality could have an adverse impact on the Group's reputation. The impact of any issues arising with sub-contractors' products is exacerbated by the lead times involved (12–14 weeks).	The Group has been successfully importing for over 14 years and has relationships with over 30 manufacturers providing resourcing options. The Board believes that the Group has established robust take-on and ongoing monitoring procedures, covering areas such as quality control and delivery performance, for new and existing sub-contract manufacturers that the Group seeks to adhere to rigidly.
DEPENDENCE ON KEY PERSONNEL	The loss of any key individual or the inability to attract appropriate personnel could impact upon the Group's future performance. Should the Group fail to retain or attract suitably qualified and experienced personnel, it may not be able to compete successfully.	The Board has recruited into key management positions and on 1 March 2017 appointed three further Directors to Gear4music Limited and formed an Operational Board. The senior management team is compensated through a combination of market-rate salary and longer-term share-based incentives to align key people's remuneration with the continued success of the Group.

CORPORATE GOVERNANCE REPORT

The UK Corporate Governance Code

Whilst the Group is listed on AIM, it is not required to adopt the provisions of the UK Corporate Governance Code ('the Code'). The Board, however, recognises the value and importance of high standards of corporate governance, and has adopted many aspects of the Code so far as the Board considers them appropriate and practical for a group of Gear4music's size.

The Board of Directors and Committees of the Board of Directors

The Board, which is headed by the Chairman, comprises five Directors of which three are Executive and two are Non-Executive, providing a broad range of relevant skills and experiences. The Board considers Ken Ford and Dean Murray to be 'independent' Non-Executives under the criteria identified in the Code. Directors' profiles are detailed on pages 34 and 35.

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

The role of the Board

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

The 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 has no involvement 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 reports from the CEO, CCO and CFO detailing the commercial, operational and financial performance of the Group. Further to formal Board meetings, the Board receives weekly key trend information covering all trading aspects of the business.

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

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

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

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

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

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

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

It is recognised that the Code does not treat the Chairman as independent and it is considered best practice that he should not sit on the Audit or Remuneration Committees. The Board, however, takes the view that as the number of Non-Executive Directors since 19 October 2016 is only two, including the Chairman, his participation will continue as the Committees gain the benefit of his external expertise and experience in areas which the Group considers important.

The table above shows the number of Board meetings and Audit Committee and Remuneration Committee meetings held in the period from 1 March 2016 to the date of approval of the Annual Report and Accounts. The table also show the attendance of each Director.

Re-election

At each Annual General Meeting one-third (or whole number less than one-third) of the Directors will retire by rotation. In addition, Directors are subject to re-election at the Annual General Meeting following their appointment.

Director	Role	Board meetings	Audit Committee meetings	Remuneration Committee meetings
Ken Ford	Non-Executive Chairman	12/12	3/3	5/5
Andrew Wass	CEO	12/12		
Chris Scott	CFO	12/12	3/3	5/5
Gareth Bevan	CCO	12/12		
Dean Murray	NED	12/12	3/3	5/5
Peter Armitage	NED (resigned 19 October 2016)	6/6		

Shareholder communications

The Chief Executive Officer and Chief Financial Officer regularly meet with institutional shareholders to foster a mutual understanding of objectives. The Directors encourage the participation of all shareholders, including private investors, at the Annual General Meeting and as a matter of policy the level of proxy votes (for, against and vote withheld) lodged on each resolution is declared at the meeting.

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.

The Board confirms that there are ongoing processes for identifying, evaluating and mitigating the significant risks faced by the Group. The processes have been in place from 1 March 2016 to the date of approval of the Annual Report and Accounts, and is consistent with the guidance for Directors on internal control issued by the Turnbull Committee.

The 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;
- detailed monthly budgeting and reporting of trading results, balance sheets and cash flows, with regular review by management of variances from budget;
- reporting on any non-compliance with internal financial controls and procedures; and
- review of reports issued by the external auditor.

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

On 1 March 2017 the Group formed an Operational Board with the appointment of three further Directors to the trading subsidiary, Gear4music Limited. The Operational Board will meet at least once each month to analyse and discuss operational and commercial matters, and to identify any material matters to escalate to the Plc Board.

CORPORATE GOVERNANCE REPORT CONTINUED

Audit Committee report

Overview

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

- to monitor and be satisfied with the truth and fairness of the Group's financial statements before submission to the Board for approval, ensuring their compliance with the appropriate accounting standards, the law and the AIM Rules;
- to monitor and review the effectiveness of the Group's system of internal control;
- to make recommendations to the Board in relation to the appointment of the external auditor and their remuneration, following appointment by the shareholders in a 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 once (usually during January) to discuss and agree the scope for the forthcoming external audit, and again (usually during April) to review the findings of the external audit in relation to internal control and the financial statements. At this meeting, the Committee carries out a full review of the year-end financial statements and of the audit, using as a basis the report to the Audit Committee prepared by the external auditor and taking into account any significant accounting policies, any changes to them and any significant estimates or judgements. Questions are asked of management of any significant or unusual transactions where the accounting treatment could be open to different interpretations.

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

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

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

External auditor and non-audit services

Fees in relation to services provided by the external auditor in FY17 and FY16 were:

	FY17	FY16
Audit fee	**40**	28
Tax fees	**60**	3
Other fees – IPO-related fees	**–**	137
Total fees	**100**	168

In FY16, given the one-off nature of the IPO fees, the Committee was satisfied that the external auditor did not have a self-interest threat.

The Committee has considered the ratio of audit fees to non-audit fees and is satisfied with the independence and objectivity of the auditor, KPMG LLP.

Remuneration Committee report

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

Membership of the Remuneration Committee

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

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

The Remuneration Committee meets at least twice a year.

Remuneration policy

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

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

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

Non-Executive Directors

Remuneration of the Non-Executive Directors is determined by the Executive Directors. Non-Executive Directors are not entitled to pensions beyond the required statutory 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 stating his annual fee and that his appointment is initially for a term of three years. 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' 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.

Directors' interests

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

Directors' share options

There is a Directors EMI share incentive plan in place for Chris Scott and Gareth Bevan, and an equivalent discretionary cash bonus plan for Andrew Wass, to reward the Executives for delivering success to the mutual benefit of shareholders, and specifically promote continuing earnings growth.

The first and only awards to date were made on 31 May 2016 further to the announcement of the Company's FY16 annual trading results and following due consideration by the Remuneration Committee. Subject to continued employment and meeting performance conditions, these awards are scheduled to vest on 31 May 2018.

Further awards are expected to be made following the announcement of the FY17 results.

Total remuneration

The remuneration of each of the Directors of the Group for the year ended 28 February 2017 is set out below. These values are included within the audited accounts:

	Basic salary £000	Fees £000	Benefits £000	Pensions £000	**Total FY17 £000**	Total FY16 £000
Executive						
Andrew Wass	185	–	1	3	**189**	179
Chris Scott	139	–	1	1	**141**	127
Gareth Bevan	110	–	1	1	**112**	95
Non-Executive						
Ken Ford (appointed 3 June 2015)	33	–	–	–	**33**	24
Dean Murray	31	–	–	–	**31**	30
Peter Armitage[1] (appointed 30 April 2015; resigned 19 October 2016)	–	19	–	–	**19**	23
Mark Buttler[1] (resigned 30 April 2015)	–	–	–	–	**–**	9
Total	**498**	**19**	**3**	**5**	**525**	**487**

1 Mark Buttler was KCP's appointed Investment Director and was replaced on 30 April 2015 by Peter Armitage. Peter Armitage resigned on 19 October 2016 on the sale of KCP's final shareholding in the Group.

BOARD OF DIRECTORS

Eric (Ken) Ford

Chairman and
Non-Executive Director

Age: 67

Ken was previously Chief Executive of Teather & Greenwood, the investment bank, becoming Deputy Chairman and Chairman of Corporate Finance. Ken brings a strong understanding of shareholder value, strategic planning and corporate transactions. Ken is a former Chairman of the Quoted Companies Alliance ('QCA') and member of the EU Advisory Committee to the Corporation of London. Ken's previous Directorships include Aberdeen Asset Management and Morgan Grenfell. Ken is currently Chairman of AIM-quoted companies BrainJuicer Group PLC, Nakama Group plc and Scientific Digital Imaging plc. Ken is a Fellow of the Chartered Securities Institute.

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

Andrew Wass

Chief Executive Officer

Age: 46

Andrew has over 20 years' business management experience, having founded Gear4music Limited (then called Soundpro Limited) in 1995. In 1998 he began selling IT systems for the audio recording market before launching 'Gear4music' in 2003. Since then Andrew has retained overall responsibility for driving the Group's growth. Between 1992 and 1998, Andrew set up and ran his own recording studio business, having studied Popular Music and Sound Recording at the University of Salford. Andrew is a keen pianist.

Christopher (Chris) Scott

Chief Financial Officer
and Company Secretary

Age: 41

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

Gareth Bevan
Chief Commercial Officer

Age: 39

Gareth joined Gear4music in July 2012. He was previously at DV247, a musical equipment retailer, where he was responsible for purchasing, sales and marketing. He has 17 years' experience in musical equipment retail.

Dean Murray
Non-Executive Director

Age: 54

Dean joined the Board of Gear4music in March 2012 as a Non-Executive Director and originally as Chairman. Dean is a Chartered Accountant, former Chief Financial Officer and Chief Operating Officer of Myriad Childrenswear Group, and is currently a Non-Executive Director of French Connection, and Chairman of Neville Johnson Limited and Yumi International Limited.

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

DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the year ended 28 February 2017.

Principal activity

The principal activity of the Group is the retail of musical instruments and equipment, through 19 Gear4music branded websites in 15 languages, and a showroom in York and Sweden. 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 29. This report includes sections on strategy and markets and considers key risks and key performance indicators.

A review of the Group's current operations and future developments is covered in the Chief Executive Officer's report and 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 40 to 75.

Dividends

The Directors do not recommend the payment of a dividend (FY16: nil).

Going concern

After making enquiries, the Directors have confidence that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Annual Report and Accounts. This is described in more detail in Note 1.

Directors

The Directors who served on the Board and on Board Committees during the year are set out on pages 34 and 35. One-third of the Directors are required to retire at the Annual General Meeting and can offer themselves for re-election.

There is a £2m Keyperson insurance policy in place pertaining to Andrew Wass.

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

Significant shareholders

The Company is informed that at 19 June 2017, individual registered shareholdings of more than 3% of the Company's issued share capital were as follows:

	Number of shares	% of issued share capital
Andrew Wass	7,161,993	34.3%
Old Mutual Plc	1,815,246	8.7%
BlackRock Investment Ltd	1,261,802	6.0%
Hargreave Hale Limited	1,083,268	5.2%
Octopus Investment Limited	1,023,503	4.9%
Seneca Partners Ltd	899,463	4.3%
Baillie Gifford & Co.	671,127	3.2%

Directors' shareholdings

The beneficial interests of the Directors in the share capital of the Company at 19 June 2017 were as follows:

	Number of shares	% of issued share capital
Executive Directors		
Andrew Wass	7,161,993	34.3%
Gareth Bevan	100,382	0.5%
Chris Scott	90,462	0.4%
Non-Executive Directors		
Dean Murray	199,520	1.0%
Ken Ford	20,000	0.1%

Chris Scott and Gareth Bevan hold share options over 9,978 shares each under the Director EMI plan, and Andrew Wass has a cash-settled option to an equivalent amount subject to the same performance conditions. Both plans and all awards are outlined in the Remuneration Committee report on pages 32 and 33.

The middle market price of the Company's Ordinary shares on 28 February 2017 was 660.0 pence (29 February 2016: 131.5 pence), and the range in the year was 99.5 pence to 670.5 pence, with an average price of 279.0 pence.

Research and development

The Group capitalised £1.48m during the year (FY16: £932,000) of software development costs relating to the in-house e-commerce software platform.

Financial instruments

The Group's policy and exposure to financial instruments is set out in Note 17.

Qualifying third-party indemnity

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

Employee involvement

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

Donations

During the year ended 28 February 2017 the Group made donations totalling £881 (FY16: £nil) to the Bromley Youth Music Trust.

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 28 February 2017 was 26 days (FY16: 30 days). This is a weighted average by invoice value, with reference to actual invoice and payment dates.

Disclosure of information to the auditor

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

Auditor

KPMG LLP has been Group auditor since 2012 and the Audit Committee has decided that, following the rotation of the current audit partner, it is appropriate to conduct a competitive tender process for audit services for the year ending 28 February 2018 onwards.

By order of the Board

Chris Scott
Chief Financial Officer
4 July 2017

Registered office:
Kettlestring Lane, Clifton Moor, York YO30 4XF

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Statement of Directors' responsibilities in respect of the Strategic Report, the Directors' report and the financial statements

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the Parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

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

We have audited the financial statements of Gear4music (Holdings) plc for the year ended 28 February 2017 set out on pages 40 to 75. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the EU. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

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.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' responsibilities statement set out on page 38, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 28 February 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the Parent Company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion 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.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where 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.

John Pass (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

4 July 2017

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 28 FEBRUARY 2017

	Note	Year ended 28 February 2017 £000	Year ended 29 February 2016 £000
Revenue		**56,128**	35,489
Cost of sales		**(40,983)**	(26,303)
Gross profit		**15,145**	9,186
Administrative expenses before exceptional items	3, 4	**(12,529)**	(8,291)
Administrative expenses – exceptional items	3, 4	**–**	(606)
Administrative expenses	3, 4	**(12,529)**	(8,897)
Operating profit	3	**2,616**	289
Financial income	6	**67**	–
Financial expense	6	**(47)**	(283)
Profit before tax		**2,636**	6
Taxation	7	**(322)**	(49)
Profit/(loss) for the year		**2,314**	(43)
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences – foreign operations		**10**	–
Total comprehensive income for the year		**2,324**	(43)
Basic profit/(loss) per share	5	**11.5p**	(0.2p)
Diluted profit/(loss) per share	5	**11.4p**	(0.2p)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 28 FEBRUARY 2017

	Note	Year ended 28 February 2017 £000	Year ended 29 February 2016 £000
Non-current assets			
Property, plant and equipment	8	**1,565**	1,239
Intangible assets	9	**5,537**	3,238
		7,102	4,477
Current assets			
Inventories	12	**11,686**	6,906
Trade and other receivables	13	**1,348**	740
Cash and cash equivalents	14	**3,001**	3,548
		16,035	11,194
Total assets		**23,137**	15,671
Current liabilities			
Other interest-bearing loans and borrowings	15	**(2,621)**	(834)
Trade and other payables	16	**(7,379)**	(5,188)
		(10,000)	(6,022)
Non-current liabilities			
Other interest-bearing loans and borrowings	15	**(24)**	(127)
Other payables	16	**(1,069)**	(59)
Deferred tax liability	11	**(322)**	(104)
		(1,415)	(290)
Total liabilities		**(11,415)**	(6,312)
Net assets		**11,722**	9,359
Equity			
Share capital	18	**2,016**	2,016
Share premium	18	**8,933**	8,933
Foreign currency translation reserve	18	**10**	–
Retained earnings	18	**763**	(1,590)
Total equity		**11,722**	9,359

The Notes 1 to 23 form part of these financial statements.

These financial statements were approved by the Board of Directors on 4 July 2017 and were signed on its behalf by:

Andrew Wass
Director
4 July 2017

Chris Scott
Director
4 July 2017

Company registered number: 07786708

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 28 FEBRUARY 2017

	Note	Year ended 28 February 2017 £000	Year ended 29 February 2016 £000
Share capital			
Opening		**2,016**	1,266
Issue of share capital		**–**	750
At 28 February 2017	18	**2,016**	2,016
Share premium			
Opening		**8,933**	–
Issue of shares		**–**	9,255
Share issue costs		**–**	(322)
At 28 February 2017	18	**8,933**	8,933
Foreign currency translation reserve			
Opening		**–**	–
Other comprehensive income		**10**	–
At 28 February 2017	18	**10**	–
Retained earnings			
Previous periods		**(1,590)**	(1,555)
Share-based payment charge	19	**39**	8
Profit/(loss) for the year		**2,314**	(43)
At 28 February 2017	18	**763**	(1,590)
Total equity	18	**11,722**	9,359

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 28 FEBRUARY 2017

	Note	Year ended 28 February 2017 £000	Year ended 29 February 2016 £000
Cash flows from operating activities			
Profit/(loss) for the year		**2,314**	(43)
Adjustments for:			
Depreciation and amortisation	3, 8, 9	**1,001**	786
Foreign exchange losses		**10**	–
Financial expense	6	**47**	280
Loss on sales of property, plant and equipment		**–**	1
Share-based payment charge		**39**	8
Taxation	7	**322**	49
		3,733	1,081
Increase in trade and other receivables	13	**(608)**	(524)
Increase in inventories	12	**(4,780)**	(1,581)
Increase in trade and other payables	16	**1,870**	689
		215	(335)
Tax paid	7	**(104)**	–
Net cash from operating activities		**111**	(335)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**–**	1
Acquisition of property, plant and equipment	8	**(717)**	(578)
Capitalised development expenditure	9	**(1,478)**	(932)
Acquisition of a business	9	**(100)**	–
Net cash from investing activities		**(2,295)**	(1,509)
Cash flows from financing activities			
Proceeds from pre-IPO issue of shares		**–**	32
Net proceeds from IPO		**–**	8,351
Proceeds from new borrowings	17	**1,878**	253
Interest paid		**(47)**	(130)
Repayment of redemption premium on loan notes		**–**	(602)
Repayment of loan notes		**–**	(2,484)
Repayment of other borrowings		**–**	(755)
Payment of finance lease liabilities		**(194)**	(189)
Net cash from financing activities		**1,637**	4,476
Net (decrease)/increase in cash and cash equivalents		**(547)**	2,632
Cash and cash equivalents at beginning of year		**3,548**	916
Cash and cash equivalents at end of year	14	**3,001**	3,548

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

NOTES (FORMING PART OF THE FINANCIAL STATEMENTS)

FOR THE YEAR ENDED 28 FEBRUARY 2017

General information

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

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

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

The registered office of Gear4music (Holdings) plc (Company number: 07786708), Gear4music Limited (Company number: 03113256) and Cagney Limited (dormant subsidiary; Company number: 04493300) is Kettlestring Lane, Clifton Moor, York YO30 4XF.

On 15 July 2016, the Group set up a Swedish subsidiary, 'Gear4music Sweden AB', as a 100% subsidiary of Gear4music Limited.

On 7 October 2016, the Group set up a German subsidiary, 'Gear4music GmbH', as a 100% subsidiary of Gear4music Limited.

On 10 October 2016, the Group set up a Norwegian subsidiary, 'Gear4music Norway AS', as a 100% subsidiary of Gear4music Limited. At 28 February 2017 this Company was dormant.

1 Accounting policies

1.1 Basis of preparation

The financial statements have been prepared in accordance with the AIM rules for Companies, and apply the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs'), and make amendments where necessary in order to comply with Companies Act 2006. The Company has elected to prepare its Parent Company financial statements in accordance with FRS 102; these are presented on pages 68 to 75.

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

Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as presented in the Admission document which is available on the Group's investor website.

Accounting period

The financial statements presented cover the years ended 28 February 2017 and 29 February 2016.

Measurement convention

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

1.2 Adoption of new and revised standards

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

- IFRS 9 Financial Instruments (effective for periods beginning on or after 1 January 2018). Given the nature of the Group's business and its debt structure, it is not expected to have a material effect on these financial statements;
- IFRS 15 Revenue from Contracts with Customers (effective for periods beginning on or after 1 January 2018) is not expected to have a significant impact on the Group's revenues as the majority of the Group's revenue is for product sales made direct to customers at standard prices and estimates are already made of anticipated returns;
- IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019). This fundamentally changes the accounting for leases by lessees. It eliminates the current IAS 17 dual accounting model, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases and, instead, introduces a single, on-balance sheet accounting model that is similar to current finance lease accounting. Operating leases disclosed in Note 20 are expected to come on balance sheet once this standard is adopted;
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (effective date to be confirmed);
- Amendments to IAS 7: Disclosure Initiative (effective date to be confirmed);
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (effective date to be confirmed); and
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective date to be confirmed).

1 Accounting policies continued

1.3 Going concern
The Group's business activities and position in the market are described in the Strategic Report. The Directors believe that given the Group has significant financial resources, and has demonstrated good growth in revenue and underlying profitability from operating activities, the Group is well placed to manage its business risks.

The Group's policy is to ensure that it has sufficient facilities to cover its future funding requirements. Short-term flexibility is available through trade finance and overdraft facilities. At 28 February 2017 the Group had £3.0m of cash and bank balances and HSBC have indicated they are supportive of renewing the Group's facilities in July 2017.

The Group is committed to completing a £5.325m property and has approved debt-funding in place, and will continue to invest in European distribution centres.

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

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

Transactions eliminated on consolidation
Intra-Group balances and transactions, and any unrealised income and expenses arising from intra-Group transactions, are eliminated.

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

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

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

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

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

(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.

NOTES (FORMING PART OF THE FINANCIAL STATEMENTS) CONTINUED

FOR THE YEAR ENDED 28 FEBRUARY 2017

1 Accounting policies continued

1.7 Non-derivative financial instruments

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

Trade and other receivables

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

Trade and other payables

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

Cash and cash equivalents

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

Interest-bearing borrowings

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

1.8 Property, plant and equipment

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

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

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

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

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

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

1.9 Business combinations

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

The Group measures goodwill at the acquisition date as:

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

Costs related to the acquisition are expensed as incurred.

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

Goodwill impairment testing

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

1 Accounting policies continued

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, 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 expenses in the statement of comprehensive income.

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

Other intangible assets

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

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

Amortisation

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

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

1.11 Inventories

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

A provision is made in respect of inventories as follows:

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

1.12 Impairment excluding inventories and deferred tax assets

Financial assets (including receivables)

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

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

Non-financial assets

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

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

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

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

NOTES (FORMING PART OF THE FINANCIAL STATEMENTS) CONTINUED

FOR THE YEAR ENDED 28 FEBRUARY 2017

1 Accounting policies continued

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 payments

The Group operates share option plans for qualifying employees of the Group. The fair value of these shares is determined using the Black-Scholes option pricing model and is expensed in the statement of comprehensive income as an employee expense on a straight-line basis over the vesting period after allowing for an estimate of the number of shares that are expected to vest with a corresponding increase in equity. The level of vesting is reviewed annually and the expense adjusted to reflect any changes in estimates.

1.14 Provisions

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

1.15 Revenue

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods. Revenue is measured at the fair value of the consideration received, including freight charges and duty where applicable, excluding discounts, rebates, VAT and other sales taxes or duty. Carriage income is recognised on recognition of the related product sales. 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.

The Group offers retail point of sale credit on orders over £250, through an agreement with an external credit provider. The Group does not retain any credit risk and commissions are recognised within revenue on recognition of the credit sale. In the year ended 28 February 2017, this income totalled £102,000 (2016: £37,900). No discount is offered on any sales made through this credit provider.

1.16 Expenses

Operating lease payments

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

Finance lease payments

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

Exceptional items

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

Government and other forms of grant

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

Financing income and expenses

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

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

1 Accounting policies continued

1.17 Taxation

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

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

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

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

1.18 Segmental reporting

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

2 Segmental reporting

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

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

Revenue by geography

	Year ended 28 February 2017 £000	Year ended 29 February 2016 £000
UK	**34,865**	26,016
Europe and the rest of the world	**21,263**	9,473
	56,128	35,489

Revenue by product category

	Year ended 28 February 2017 £000	Year ended 29 February 2016 £000
Other-brand products	**39,351**	24,842
Own-brand products	**14,449**	9,164
Other	**2,328**	1,483
	56,128	35,489

NOTES (FORMING PART OF THE FINANCIAL STATEMENTS) CONTINUED

FOR THE YEAR ENDED 28 FEBRUARY 2017

3 Expenses

Included in profit/(loss) are the following:

	Year ended 28 February 2017 £000	Year ended 29 February 2016 £000
Depreciation of tangible fixed assets	**391**	328
Amortisation of intangible assets	**610**	458
Amortisation of Government grants	**31**	35
Loss/(profit) on disposal of property, plant and equipment	**–**	1
Rentals under operating leases – land and buildings	**466**	262
Rentals under operating leases – plant and machinery	**11**	16
Auditor remuneration – audit of financial statements	**40**	28
Auditor remuneration – other	**60**	140
Exceptional items:		
Exceptional deal costs	**–**	606

Exceptional costs in 2016 related to professional fees incurred in relation to the Group's admission to the Alternative Investment Market ('AIM') on 3 June 2015, and a reconciliation is shown below and is useful in identifying the evolving profitability of the underlying business.

Reconciliation of operating profit to adjusted earnings before interest, taxation, depreciation and amortisation ('EBITDA') and adjusted profit before tax:

	Year ended 28 February 2017 £000	Year ended 29 February 2016 £000
Operating profit	**2,616**	289
Adjusted for:		
Exceptional costs within operating expenses	**–**	606
Underlying operating profit	**2,616**	895
Adjusted for:		
Amortisation and depreciation	**1,001**	786
Underlying EBITDA	**3,617**	1,681
Adjusted for:		
Amortisation and depreciation	**(1,001)**	(786)
Net financial income/(expenses)	**20**	(283)
Underlying PBT	**2,636**	612

4 Staff numbers and costs

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

	Year ended 28 February 2017 No.	Year ended 29 February 2016 No.
Administration	**87**	59
Selling and distribution	**123**	79
	210	138

4 Staff numbers and costs continued

The aggregate payroll costs of these persons were as follows:

	Year ended 28 February 2017 £000	Year ended 29 February 2016 £000
Wages and salaries	**3,808**	2,546
Equity-settled share-based payments (see Note 19)	**39**	8
Cash-settled share-based payments (see Note 19)	**57**	–
Social security costs	**333**	198
Contributions to defined contribution plans	**33**	13
Amounts paid to third parties in respect of Director's service	**19**	32
	4,289	2,797

Directors' remuneration is disclosed in Note 3 of the Notes to the Company financial statements on page 72.

5 Earnings per share

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

	Year ended 28 February 2017	Year ended 29 February 2016
Profit/(loss) attributable to equity shareholders of the Parent (£000)	**2,314**	(43)
Basic weighted average number of shares	**20,156,339**	18,236,293
Dilutive potential Ordinary shares	**79,288**	25,226
Diluted weighted average number of shares	**20,235,627**	18,261,519
Basic profit/(loss) per share	**11.5p**	(0.2)p
Diluted profit/(loss) per share	**11.4p**	(0.2)p

6 Finance income and expense

	Year ended 28 February 2017 £000	Year ended 29 February 2016 £000
Finance income		
Net foreign exchange gain	**67**	–
Total finance income	**67**	–
Finance expense		
Bank interest	**29**	26
Loan note interest measured at amortised cost	**–**	233
Finance leases	**18**	21
Net foreign exchange loss	**–**	3
Total finance expense	**47**	283

Loan note interest in 2016 comprised £233,000 due to Key Capital Partners, the Company's private equity investor. On 8 June 2015, the Group paid £4,469,477 to Key Capital Partners, of which £3,169,477 was settled in cash and £1,300,000 in equity, in full and final settlement of the loan notes and accumulated interest due. The fair value of the equity was considered to be equal to the value of the loan and therefore no gain or loss arose on this transaction.

NOTES (FORMING PART OF THE FINANCIAL STATEMENTS) CONTINUED

FOR THE YEAR ENDED 28 FEBRUARY 2017

7 Taxation

Recognised in the income statement

	Year ended 28 February 2017 £000	Year ended 29 February 2016 £000
Current tax expense		
UK Corporation Tax	**104**	–
Adjustments for prior periods	**–**	–
Current tax expense	**104**	–
Deferred tax expense		
Origination and reversal of temporary differences	**203**	188
Deferred tax rate change impact	**(7)**	(13)
Adjustments for prior periods	**22**	(126)
Deferred tax expense	**218**	49
Total tax expenses	**322**	49

The Corporation Tax rate applicable to the Company was 20% in the years ending 28 February 2017 and 29 February 2016. Reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly. The deferred tax asset at 28 February 2017 has been calculated based on these rates.

Reconciliation of effective tax rate

	Year ended 28 February 2017 £000	Year ended 29 February 2016 £000
Profit/(loss) for the period	**2,314**	(43)
Total tax charge	**322**	49
Profit/(loss) excluding taxation	**2,636**	6
Current tax at 20.00% (2016: 20.00%)		
Tax using the UK Corporation Tax rate for the relevant period:	**527**	1
Non-deductible expenses	**(189)**	115
Rate change	**(38)**	59
Adjustments relating to prior year – deferred tax	**22**	(126)
Total tax charge	**322**	49

8 Property, plant and equipment

	Plant and equipment £000	Fixtures and fittings £000	Motor Vehicles £000	Computer equipment £000	Total £000
Cost					
At 1 March 2015	193	1,252	–	239	1,684
Additions	270	218	–	90	578
Disposals	–	(6)	–	–	(6)
Balance at 29 February 2016 and 1 March 2016	463	1,464	–	329	2,256
Additions	90	443	64	120	717
Disposals	–	–	–	–	–
Balance at 28 February 2017	**553**	**1,907**	**64**	**449**	**2,973**
Depreciation and impairment					
At 1 March 2015	82	437	–	174	693
Depreciation charge for the year	98	185	–	45	328
Disposals	–	(4)	–	–	(4)
Balance at 29 February 2016 and 1 March 2016	180	618	–	219	1,017
Depreciation charge for the period	113	218	6	54	391
Disposals	–	–	–	–	–
Balance at 28 February 2017	**293**	**836**	**6**	**273**	**1,408**
Net book value as at 28 February 2017	**260**	**1,071**	**58**	**176**	**1,565**
Net book value as at 29 February 2016	283	846	–	110	1,239

Leased assets

At 28 February 2017, the net carrying amount of leased tangible fixed assets was £232,000 (2016: £423,000), and the accumulated depreciation against leased assets was £265,000 (2016: £284,000).

Security

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

9 Intangible assets

	Goodwill £000	Software platform £000	Brand £000	Total £000
Cost				
At 1 March 2015	417	2,435	564	3,416
Additions	–	932	–	932
Balance at 29 February 2016 and 1 March 2016	417	3,367	564	4,348
Additions	1,431	1,478	–	2,909
Balance at 28 February 2017	**1,848**	**4,845**	**564**	**7,257**
Amortisation				
At 1 March 2015	–	483	169	652
Amortisation for the year	–	401	57	458
Balance at 29 February 2016 and 1 March 2016	–	884	226	1,110
Amortisation for the year	–	554	56	610
Balance at 28 February 2017	**–**	**1,438**	**282**	**1,720**
Net book value as at 28 February 2017	**1,848**	**3,407**	**282**	**5,537**
Net book value as at 29 February 2016	417	2,483	338	3,238

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

NOTES (FORMING PART OF THE FINANCIAL STATEMENTS) CONTINUED

FOR THE YEAR ENDED 28 FEBRUARY 2017

9 Intangible assets continued

Acquisitions in the current period

On 1 January 2017, the Group acquired a software development business for £1.45m, satisfied in cash on a deferred consideration basis. The acquisition brings the outsourced software development team responsible for the Group's bespoke e-commerce platform into the Group.

The amounts recognised in respect of the purchase consideration and goodwill are set out below and subject to fair value adjustment on the date of acquisition, as the consideration was £18,000 for identifiable PPE assets payable on completion, and £1.5m payable in 15 quarterly instalments beginning on 1 January 2017. The fair value has been determined using a discount rate equal to the prevailing market rate for a similar instrument.

Effect of acquisition

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

	Recognised values on acquisition £000
Assets acquired:	
Property, plant and equipment	**18**
Identifiable assets	**18**
Goodwill	**1,431**
	1,449
Consideration paid:	
Initial cash price paid	**118**
Deferred consideration at fair value	**1,331**
Total consideration	**1,449**

Goodwill has arisen on the acquisition as the principal value-creating asset being acquired is the team. No other intangible assets arose on acquisition.

Contingent consideration

The £1.5m deferred consideration is contingent upon the team leader not performing services or being otherwise engaged by the vendor. The consideration is not automatically forfeited if the team leader leave the employment of the Group. The Directors believe 100% of the consideration will be payable.

Acquisition related costs

The Group incurred acquisition related costs of £25,000 relating to legal advice. These costs have been included in Administrative expenses in the Group's consolidated statement of comprehensive income.

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 team from Venditan Limited, the team responsible for the development of the Group's proprietary software platform.

Goodwill balances are denominated in Sterling:

	Year ended 28 February 2017 £000	Year ended 29 February 2016 £000
Gear4music Limited (formerly known as Red Submarine Limited)	**417**	417
Software development team	**1,431**	–
	1,848	417

9 Intangible assets continued

Impairment testing

In accordance with IAS 36 Impairment of Assets, the Group reviews the carrying value of its intangible assets. A detailed review was undertaken at 28 February 2017 to assess whether the carrying value of assets was supported by the net present value in use calculations based on cash-flow projections from formally approved budgets and longer-term forecasts.

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

A CGU is defined as the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups thereof. The Group is deemed to have a single CGU to which the goodwill, the software platform and the brand are allocated. An impairment review has been performed on this CGU. The recoverable amount of this CGU has been determined based on value-in-use calculations. In assessing value in use, a five-year forecast to 28 February 2022 was used to provide cash flow projections that have been discounted at a pre-tax discount rate of 10%. The cash flow projections are subject to key assumptions in respect of revenue growth, gross margin performance, overhead expenditure and capital expenditure. Management has reviewed and approved the assumptions inherent in the model:

- Revenue forecasts based on growth by geographical market, at a range of growth levels based on market size and estimate of opportunity, trends, specific projects underway and management's experience and expectation;
- Product costs are assumed to be broadly flat and gross margins are forecast to be retained at current levels over the five-year management forecast period; and
- Wage increases are a function of recruitment and a person-by-person review of current staff, with a range of percentage increases.

No impairment loss was identified in the current year (2016: £nil). The valuations indicate significant headroom and therefore a terminal growth rate assumption has not been needed to be applied in order to support the valuation of this CGU. Any reasonably possible change in other key assumptions, including the discount rate, would not result in an impairment of the related goodwill or other intangible assets.

10 Investments in subsidiaries

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

Subsidiaries	Registered office address	Registered number	Class of shares held	Ownership
Gear4music Limited	Kettlestring Lane, Clifton Moor, York, YO30 4XF	03113256	Ordinary	100%
Cagney Limited	Kettlestring Lane, Clifton Moor, York, YO30 4XF	04493300	Ordinary	100% via G4M Ltd
Gear4music Sweden AB	Tallbacksgatan 16 B, 195 72 Rosersberg, Stockholm County, Sweden	559070-4762	Ordinary	100% via G4M Ltd
Gear4music GmbH	c/o BMH Brautigam&Partner Rechtsanwalte, Schluterstr. 37, 10629 Berlin, 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

On 15 July 2016 and 7 October 2016 respectively, the Group set up Swedish ('Gear4music Sweden AB') and German ('Gear4music GmbH') subsidiaries to operate local distribution centres and showrooms. Initial investment in share capital was £4,550 in Sweden and £21,660 in Germany.

On 10 October 2016, the Group set up a Norwegian subsidiary, 'Gear4music Norway AS', and this Company remained dormant at 28 February 2017. Initial investment in share capital was £2,806.

All Group companies have 28 February financial year ends.

Cagney Limited and Gear4music Norway AS are dormant companies.

NOTES (FORMING PART OF THE FINANCIAL STATEMENTS) CONTINUED

FOR THE YEAR ENDED 28 FEBRUARY 2017

11 Deferred tax assets and liabilities

Movement in deferred tax during the year

	At 1 March 2016 £000	Recognised in income £000	**At 28 February 2017 £000**
Property, plant and equipment	(350)	(2)	**(352)**
Short-term timing differences	246	(216)	**30**
	(104)	(218)	**(322)**

Movement in deferred tax during the prior year

	At 1 March 2015 £000	Recognised in income £000	At 29 February 2016 £000
Property, plant and equipment	(345)	(5)	(350)
Short-term timing differences	290	(44)	246
	(55)	(49)	(104)

12 Inventories

	Year ended 28 February 2017 £000	Year ended 29 February 2016 £000
Finished goods	**11,686**	6,906

The cost of inventories recognised as an expense and included in cost of sales in the period amounted to £38.0m (£24.7m in the year ended 29 February 2016).

Management has included a provision of £69,500 (29 February 2016: £15,000), representing a 100% provision against returns stock subsequently found to be faulty, that is retained to be used for spare parts on the basis there is no direct NRV value, and a provision based on the expected product loss on dealing with returns stock.

13 Trade and other receivables

	Year ended 28 February 2017 £000	Year ended 29 February 2016 £000
Trade receivables	**1,123**	581
Prepayments	**225**	159
	1,348	740

Trade receivables includes cash lodged with payment providers, Amazon and the Group's consumer finance partner, and UK and international education and trade accounts where standard credit terms are 30 days.

14 Cash and cash equivalents

	Year ended 28 February 2017 £000	Year ended 29 February 2016 £000
Cash and cash equivalents per balance sheet	**3,001**	3,548
Cash and cash equivalents per cash flow statements	**3,001**	3,548

15 Other interest-bearing loans and borrowings

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

	Year ended 28 February 2017 £000	Year ended 29 February 2016 £000
Non-current liabilities		
Bank loans	**–**	–
Finance lease liabilities	**24**	127
	24	127
Current liabilities		
Bank loans	**2,520**	642
Finance lease liabilities	**101**	192
	2,621	834
Total liabilities		
Bank loans	**2,520**	642
Finance lease liabilities	**125**	319
	2,645	961

Bank loans comprise a Trade Finance facility provided by the Group's bankers, HSBC, and are secured by fixed and floating charges over the Group's assets. The interest rate on 180-day import loans drawn under the Trade Finance agreement is 2.45% p.a. over HSBC's Sterling Base Rate, and on an overdraft if and when drawn, is 3.25% over base. Interest on import loans is paid at the maturity of the relevant loan. Interest on an overdraft would be paid monthly in arrears. The Trade Finance facilities are due for review and renewal on or before 18 July 2017.

The head office freehold acquisition scheduled to complete on 30 June 2017 is debt-funded with HSBC, and this is in addition to the trading facilities outlined above.

All borrowings are denominated in Sterling.

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments at 28 February 2017 £000	Interest at 28 February 2017 £000	Principal at 28 February 2017 £000
Less than one year	**106**	**5**	**101**
Between one and five years	**24**	**–**	**24**
	130	**5**	**125**

	Minimum lease payments at 29 February 2016 £000	Interest at 29 February 2016 £000	Principal at 29 February 2016 £000
Less than one year	205	13	192
Between one and five years	132	5	127
	337	18	319

Finance leases relate to assets located at the head office site in York, with net book values of £232,000 (29 February 2016: £423,000).

NOTES (FORMING PART OF THE FINANCIAL STATEMENTS) CONTINUED

FOR THE YEAR ENDED 28 FEBRUARY 2017

16 Trade and other payables

	Year ended 28 February 2017 £000	Year ended 29 February 2016 £000
Current		
Trade payables	**4,970**	3,718
Accruals and deferred income	**1,151**	956
Contingent consideration	**393**	–
Government grants	**28**	28
Other taxation and social security	**837**	486
	7,379	5,188
Non-current		
Accruals and deferred income	**100**	–
Contingent consideration	**938**	–
Government grants	**31**	59
	1,069	59

Accruals at 28 February 2017 include:
- £630,000 (2016: £672,000) of rent accrued but not paid as per the commercial agreement reached with the landlord and the legal form of the property lease. This accrual started to unwind in 2017 with £42,000 unwinding in the year, and a further £147,000 is due to unwind within one year as the cash paid exceeds the expense, and £441,000 will unwind in subsequent years to the end of the lease in June 2020; and
- £100,000 bonus accrual relating to the estimated cash bonuses accrued relating to the Employee and Director EMI schemes, and Director Cash Plan (see Note 19).

Contingent consideration is due in relation to the acquisition of the software development team outlined in Note 9.

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

The Directors consider the carrying amount of trade and other payables approximates their fair value.

17 Financial instruments

Financial risk management

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

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

Risk management framework

Regular reviews of strategic risks are performed by the Board.

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

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

(a) Liquidity risk

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

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

17 Financial instruments continued

At 28 February 2017 the Group had £3.0m of cash and bank balances.

	Effective interest rate %	Face value and carrying amount Year ended 28 February 2017 £000	Total Year ended 28 February 2017 £000	Contractual cash flows Within 1 year £000	1–2 years £000	2–5 years £000	Over 5 years £000
Secured loans	**2.7**	**2,520**	**2,537**	**2,537**	**–**	**–**	**–**
Trade payables	**–**	**4,651**	**4,651**	**4,651**	**–**	**–**	**–**
		7,171	**7,188**	**7,188**	**–**	**–**	**–**

	Effective interest rate %	Face value and carrying amount Year ended 29 February 2016 £000	Total Year ended 29 February 2016 £000	Contractual cash flows Within 1 year £000	1–2 years £000	2–5 years £000	Over 5 years £000
Secured loans	3.0	642	645	645	–	–	–
Trade payables	–	3,718	3,718	3,718	–	–	–
		4,360	4,363	4,363	–	–	–

(b) Credit risk

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

The Group faces low credit risk as customers typically pay for their orders in full on shipment of the product. There are a small number of education accounts with schools and colleges that have 30-day terms (1.9% of 2017 revenue; 2.3% of 2016 revenue), and trade accounts (1.2% of 2017 revenue; 0.9% of 2016 revenue).

Funds lodged with Amazon, Digital River, Klarna and V12 Retail Finance totalling £394,000 on 28 February 2017 (29 February 2016: £175,000) is included in trade debtors.

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

(c) Interest rate risk

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

At 28 February 2017, the Group had cash reserves of £3.0m and could utilise these funds to 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 28 February 2017 £000	Year ended 29 February 2016 £000
Variable rate instruments		
Cash	**(3,001)**	(3,548)
Bank loans	**2,520**	642
	(481)	(2,906)
Fixed rate instruments		
Finance leases	**125**	319
Total net financial assets	**(356)**	(2,587)

NOTES (FORMING PART OF THE FINANCIAL STATEMENTS) CONTINUED

FOR THE YEAR ENDED 28 FEBRUARY 2017

17 Financial instruments continued

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 28 February 2017 £000	Year ended 29 February 2016 £000
	Impact on closing equity/profit and loss	Impact on closing equity/profit and loss
Increase of 50 basis points	**(6)**	(1)
Decrease of 50 basis points	**6**	1

(d) Foreign exchange risk

All borrowings are denominated in Sterling.

The Group sells into Europe and more recently the rest of the world in eight currencies, including Sterling and Euros. In the year ended 28 February 2017, 37% (2016: 26%) of total revenue were in non-Sterling currencies, of which 51% (2016: 60%) 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 opening of distribution centres in Sweden and Germany has increased the proportion of liabilities denominated in Swedish Krona and Euros, further extending the natural hedge. Surplus foreign currency holdings are reviewed on a daily basis and balances in excess of known liabilities are converted into Sterling, restricting the period between the transaction and the point of conversion, thereby reducing the transactional risk.

The Group purchases own-branded instruments and equipment from the Far East, transacting in US Dollars. The lead time from committed order to receipt of stock is typically 12–14 weeks, during which time the Group bears currency risk. The Group also trades with one supplier (2016: 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 weakening of Sterling following the UK's EU Referendum vote was of benefit to the Group as a net exporter. It increased own-branded product intake costs and the business sought to manage this by re-negotiating orders and investing in larger volumes to leverage purchasing economies of scale.

17 Financial instruments continued

	Year ended 28 February 2017 £000	Year ended 29 February 2016 £000
Trade and other receivables		
Sterling	**255**	211
Euro	**64**	125
Other European currencies	**804**	245
	1,123	581
Cash and cash equivalents		
Sterling	**2,486**	3,511
Euro	**205**	34
Other European currencies	**310**	3
	3,001	3,548
Trade payables		
Sterling	**4,329**	3,454
US Dollar	**400**	198
Euro	**93**	66
Other European currencies	**148**	–
	4,970	3,718
Local sales tax		
Sterling	**(163)**	126
Euro	**305**	221
Other European currencies	**552**	70
	694	417

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

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

Euro funds are retained to settle Euro-denominated payables. US Dollar-denominated trade payables are not currently bought forward against, but only represent a small exposure that can be otherwise managed.

(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, cash raised on IPO, and the utilisation of external borrowings.

NOTES (FORMING PART OF THE FINANCIAL STATEMENTS) CONTINUED

FOR THE YEAR ENDED 28 FEBRUARY 2017

17 Financial instruments continued

Fair values and carrying values of financial instruments

A comparison by category of the book values and fair values of the financial assets and liabilities of the Group at 28 February 2017 and 29 February 2016:

	28 February 2017		29 February 2016	
	Book value £000	**Fair value £000**	Book value £000	Fair value £000
Trade and other receivables	**1,348**	**1,348**	740	740
Cash and cash equivalents	**3,001**	**3,001**	3,548	3,548
Bank loans	**(2,520)**	**(2,520)**	(642)	(642)
Finance lease liabilities	**(126)**	**(140)**	(319)	(337)
Trade and other payables	**(7,117)**	**(7,117)**	(5,246)	(5,246)
Contingent consideration	**(1,400)**	**(1,331)**	–	–
	(6,814)	**(6,759)**	(1,919)	(1,937)

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

Trade and other payables and receivables

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

Cash and cash equivalents

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

Long-term and short-term borrowings

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

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

Derivative financial instruments

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

Contingent consideration

The contingent 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, measured at fair value, into a fair value hierarchy based on the valuation techniques used to determine fair value.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted priced included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 £000	Level 2 £000	Level 3 £000
28 February 2017			
Bank loans	**–**	**(2,520)**	**–**
Contingent consideration	**–**	**–**	**(1,331)**
	–	**(2,520)**	**(1,331)**
29 February 2016			
Bank loans	–	(642)	–
	–	(642)	–

17 Financial instruments continued

Reconciliation of Level 2 fair value:

	At 1 March 2016 £000	Movement £000	At 28 February 2017 £000
Bank loans	(642)	(1,878)	**(2,520)**

Reconciliation of Level 3 fair value:

	At 1 March 2016 £000	Payment less unwound discount £000	At 28 February 2017 £000
Contingent consideration	–	(1,331)	**(1,331)**

18 Share capital and reserves

	Year ended 28 February 2017 Number	Year ended 29 February 2016 Number
Share capital		
Authorised, called up and fully paid:		
Ordinary shares of 10p each	**20,156,339**	20,156,339

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.

Share premium

	Year ended 28 February 2017 £000	Year ended 29 February 2016 £000
Opening at 1 March	**8,933**	–
Issue of shares	**–**	9,255
Share issue costs	**–**	(322)
Closing at 28/29 February	**8,933**	8,933

Foreign currency translation reserve

	Year ended 28 February 2017 £000	Year ended 29 February 2016 £000
Opening at 1 March	**–**	–
Translation gain	**10**	–
Closing at 28/29 February	**10**	–

Retained earnings

	Year ended 28 February 2017 £000	Year ended 29 February 2016 £000
Opening at 1 March	**(1,590)**	(1,555)
Share-based payment charge	**39**	8
Profit/(loss) for the year	**2,314**	(43)
Closing at 28/29 February	**763**	(1,590)

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

NOTES (FORMING PART OF THE FINANCIAL STATEMENTS) CONTINUED

FOR THE YEAR ENDED 28 FEBRUARY 2017

19 Share-based payments

There are three incentive schemes in place – an Employees EMI scheme, a Directors EMI scheme relevant to Chris Scott and Gareth Bevan, and a Directors cash bonus plan relevant to Andrew Wass who, by virtue of his 39% shareholding, is cash rather than equity rewarded.

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

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

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

Employee EMI Plan

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

Awards under the Employee EMI 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 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.

Director EMI Plan

The Remuneration Committee has responsibility for the operation of the Director EMI Plan and may grant share options over shares to eligible employees, and retains discretion as to the operation of the plan.

Executive Directors of the Company are eligible to participate in the Director EMI Plan. Participation is at the discretion of the Remuneration Committee.

Awards under the Director EMI Plan may be exercisable at the end of the vesting period subject to meeting EPS-based targets between the date of grant and vest, and subject to service conditions.

Awards will be satisfied by the issue of new shares. The Company will grant a discretionary cash bonus to option holders of up to 25% of their annual salary at the time of award, deferred for a period of two years.

Director Cash Plan

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

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

Awards under the Director Cash Plan are not subject to any performance conditions. Awards will be exercisable at the end of the relevant vesting period subject to EPS-based performance conditions and continued employment.

Awards will be settled in cash.

19 Share-based payments continued

The terms and conditions of specific grants are as follows:

Grant date/employees entitled	Method of settlement accounting	Number of Instruments	Vesting conditions	Contractual life of options
Employee EMI Award 1 – Equity-settled award to eight key employees on IPO, granted by Parent on 3 June 2015	Equity	23,381	Continued employment	3 June 2018
Employee EMI Award 2 – Equity-settled award to one key employee, granted by Parent on 17 February 2016	Equity	1,845	Continued employment	17 February 2018
Employee EMI Award 3 – Equity-settled award to two key employees, granted by Parent on 26 May 2016	Equity	9,433	Continued employment	26 May 2018
Employee EMI Award 4 – Equity-settled award to 44 employees on IPO, granted by Parent on 31 May 2016	Equity	Initially 27,406; 2,795 forfeit; now 24,611	Continued employment	31 May 2018
Director EMI Award 1a – Equity-settled award to Chris Scott and Gareth Bevan, granted by Parent on 31 May 2016	Equity	19,956	EPS-based performance criteria and continued employment	31 May 2018
Director Award 1b – Cash-settled award to Andrew Wass, granted by Parent on 31 May 2016	Cash	Cash equivalent to result in the same monetary result as for the other two Directors	EPS-based performance criteria and continued employment	31 May 2018

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

	Weighted average exercise price 2017	**Number of options 2017**	Weighted average exercise price 2016	Number of options 2016
Outstanding at the beginning of the year	**Nil**	**25,226**	–	–
Forfeited during the year	**Nil**	**(2,795)**	–	–
Exercised during the year	**–**	**–**	–	–
Granted during the year	**Nil**	**56,795**	Nil	25,226
Lapsed during the year	**–**	**–**	–	–
Outstanding at the end of the year	**Nil**	**79,226**	Nil	25,226
Exercisable at the end of the year	**–**	**–**	–	–

No share options were exercised in the year. The first award to be eligible for exercise is on 17 February 2018.

The options outstanding at the year end have a nil exercise price and a weighted average contractual life of 1.25 years.

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

Date of grant	Share price on date of grant (pence)	Exercise price (pence)	Volatility (%)	Vesting period (yrs)	Dividend yield (%)	Risk free rate of interest (%)	**Fair value (pence)**
3 Jun 2015	143.0	0.0	1%	3	0%	0.70%	**143.0**
17 Feb 2016	135.0	0.0	1%	2	0%	0.70%	**135.0**
26 May 2016	132.5	0.0	11.8%	2	0%	0.45%	**132.5**
31 May 2016	132.5	0.0	11.8%	2	0%	0.43%	**132.5**
31 May 2016	132.5	0.0	11.8%	2	0%	0.43%	**132.5**

NOTES (FORMING PART OF THE FINANCIAL STATEMENTS) CONTINUED

FOR THE YEAR ENDED 28 FEBRUARY 2017

19 Share-based payments continued

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

	2017 £000	2016 £000
Equity-settled share-based payment expense	**39**	8
Cash-settled share-based payment expense	**57**	–
	96	8
Opening at 1 March	**8**	–
Recognised in equity	**47**	8
Recognised as a liability	**57**	–
	104	8

20 Commitments

Capital commitment

At 29 February 2016 there was a contractual minimum spend arrangement in place for £458,000, relating to a contract for software development services of the Group's e-commerce platform. On 1 January 2017 this arrangement was terminated on acquisition of the software development team.

Operating lease commitment

Non-cancellable operating lease rentals are payable as follows:

	Year ended 28 February 2017 £000	Year ended 29 February 2016 £000
Less than one year	**887**	283
Between one and five years	**3,103**	1,603
More than five years	**–**	–
	3,990	1,886

Operating lease commitments relate to property leases of the head office site in York, the software development office in Manchester, and distribution centres in Sweden and Germany.

Subsequent to the year end, notice was served on a lease of a building in Manchester, releasing the Group from their commitment to pay £40,000 under this lease agreement. The position reflected in the table above includes this commitment and reflects the commitment at the year-end date.

21 Related parties

In 2016 immediately prior to admission to AIM in June 2015, Chris Scott (CFO) and Gareth Bevan (CCO) were allotted an aggregate of 259,600 10 pence shares further to their exercise of pre-existing options, and Andrew Wass was allotted 64,920 10 pence shares in accordance with the investor agreement with Key Capital Partners. These shares had a market value of £451,083 on IPO.

In 2017 48 employees including Chris Scott and Gareth Bevan were granted a total of 56,795 equity-settled share options (2016: 25,226 options to nine employees), and Andrew Wass was awarded a cash-settled option (see Note 19).

Transactions with key management personnel

The compensation of key management personnel is as follows:

	Year ended 28 February 2017 £000	Year ended 29 February 2016 £000
Key management emoluments including social security costs	**470**	421
Company contributions to money purchase pension plans	**5**	4
	475	425

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

Four Directors are accruing retirement benefits under a money purchase scheme (2016: four).

22 Accounting estimates and judgements

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

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

- The basis for stock provision and by association the carrying value – given the nature of the products sold, product margins earned, and trading terms with suppliers, Management currently provide for faulty returns retained for spare parts, and an estimate of the product loss to deal with problem stock. At 28 February 2017 the provision is £69,519 (2016: £15,023) on gross stock of £11.76m (2016: £6.92m). There are no other provisions made.
- 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.
- Assumptions inherent in the goodwill impairment review – such calculations require judgement relating to the appropriate discount factors and the short, medium and long-term growth prospects. The impairment test carried out is based on five-year approved management forecast and a 10% discount rate (see Note 9).
- Direct software development costs are capitalised as intangible assets. Judgement is applied in assessing the flow of future economic benefit, and in identifying which costs are capitalised and which are written off as an expense. Alternative judgement could result in certain costs being expensed.
- The UEL of tangible and intangible fixed assets – management selected depreciation and amortisation periods appropriate to the assets held, and consistent with industry and accounting norm. Amortisation periods were independently reviewed as part of an intangible asset valuation exercise on IPO. Different UELs could be applied that would change the profit and loss charge and balance sheet carrying value.

23 Subsequent events

Equity raise

On 18 May 2017, the Company completed the placing of 610,000 new Ordinary Shares at a price of 690 pence per share, raising £4,209,000 in gross proceeds (£4,052,730 net proceeds). The Company also issued 100,782 new Ordinary Shares pursuant to the full exercise of a warrant instrument, and received a further £140,087 in gross proceeds (£125,887 net proceeds).

A total 710,782 new Ordinary Shares were admitted on 24 May 2017 taking the number of Ordinary Shares in issue from 20,156,339 to 20,867,121, representing dilution of 3.5%. The shares rank pari passu in all respects with the existing Ordinary Shares. Updated shareholdings are reported on page 36.

Freehold purchase

On 30 June 2017 the Group successfully completed the purchase of the new headquarters at Holgate Park, Holgate Road, York YO26 4GA for £5.325m, and the associated bank loans were successfully drawn. More detail is provided on pages 16 and 21.

COMPANY BALANCE SHEET

AS AT 28 FEBRUARY 2017

	Notes	2017 £000	2017 £000	2016 £000	2016 £000
Fixed assets					
Investments	5		**3,195**		3,006
Current assets					
Cash in hand and at bank	8	**10**		11	
Debtors (including £6.89m (2016: £7.21m) due after more than one year)	6, 7	**6,910**		7,216	
		6,920		7,227	
Creditors: amounts falling due within one year	9	**(34)**		(40)	
Net current assets			**6,886**		7,187
Total assets less current liabilities			**10,081**		10,193
Creditors: amounts falling due after more than one year			**–**		–
Net assets			**10,081**		10,193
Capital and reserves					
Called-up share capital	10		**2,016**		2,016
Share premium account	10		**8,933**		8,933
Profit and loss account	10		**(868)**		(756)
Shareholders' funds			**10,081**		10,193

The Notes 1 to 12 form part of these financial statements.

These financial statements were approved by the Board of Directors on 4 July 2017 and were signed on its behalf by:

Andrew Wass
Director
4 July 2017

Chris Scott
Director
4 July 2017

Company registered number: 07786708

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 28 FEBRUARY 2017

	Note	Year ended 28 February 2017 £000	Year ended 29 February 2016 £000
Share capital			
Opening		**2,016**	1,266
Issue of share capital		**–**	750
At 28 February 2017	10	**2,016**	2,016
Share premium			
Opening		**8,933**	–
Issue of shares		**–**	9,255
Share issue costs		**–**	(322)
At 28 February 2017	10	**8,933**	8,933
Retained earnings			
Previous periods		**(756)**	(1,616)
Share-based payments		**39**	8
(Loss)/profit for the year		**(151)**	852
At 28 February 2017	10	**(868)**	(756)
Total equity	10	**10,081**	10,193

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

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

FOR THE YEAR ENDED 28 FEBRUARY 2017

1 Accounting policies

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

1.1 Basis of preparation

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

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

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

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

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

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

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

Accounting period

The financial statements presented cover the years ended 28 February 2017 and 29 February 2016.

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 45.

1.3 Investment in subsidiaries

Investments in subsidiaries are stated at cost less any provision for impairment.

1.4 Classification of financial instruments issued by the Company

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

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

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

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

1.5 Basic financial instruments

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

Trade and other debtors

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

1 Accounting policies continued

Trade and other creditors

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Interest-bearing borrowings

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

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 CGU').

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 payments

The Company operates share-based option plans on behalf of the Group, and measures and recognises its share-based payment expense and re-charges it to other Group companies.

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.

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

FOR THE YEAR ENDED 28 FEBRUARY 2017

1 Accounting policies continued

1.10 Taxation

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

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

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

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

2 Expenses

Included in profit/loss are the following:

	Year ended 28 February 2017 £000	Year ended 29 February 2016 £000
Auditor remuneration – audit of financial statements	**40**	28
Auditor remuneration – other	**60**	140
Exceptional items:		
Exceptional deal costs	**–**	606

Exceptional costs in 2016 related to professional fees incurred in relation to the Company's admission to the Alternative Investment Market ('AIM') on 3 June 2015. 'Auditor remuneration – other' in 2016 included IPO-related fees and as such were of a one-off nature.

3 Directors' remuneration

	Year ended 28 February 2017 £000	Year ended 29 February 2016 £000
Directors' remuneration	**501**	451
Company contributions to money purchase pension schemes	**5**	4
Amounts paid to third parties in respect of Directors' service	**19**	32
	525	487

There are four Directors (2016: four) for whom retirement benefits are accruing under a money purchase pension scheme.

The aggregate remuneration of the highest paid Director was £189,000 (2016: £179,000), including Company pension contributions of £840 (2016: £1,680) were made to a money purchase scheme on their behalf.

4 Finance income and expense

	Year ended 28 February 2017 £000	Year ended 29 February 2016 £000
Finance income		
Dividend income	**–**	1,821
Interest income	**–**	30
Total finance income	**–**	1,851

On 22 May 2015 Gear4music Limited, a 100% owned subsidiary of Gear4music (Holdings) plc, paid a dividend of £1,821,145 to Gear4music (Holdings) plc.

4 Finance income and expense continued

	Year ended 28 February 2017 £000	Year ended 29 February 2016 £000
Finance expense		
Loan note interest	–	233
Total finance expense	–	233

Loan note interest was due to Key Capital Partners, the Company's private equity investor. On 8 June 2015 the Group paid £4,469,477 to Key Capital Partners, of which £3,169,477 was settled in cash and £1,300,000 in equity, in full and final settlement of the loan notes and accumulated interest due.

5 Fixed asset investments

	Subsidiary undertakings £000
Cost	
At 29 February 2016	3,006
Capital contribution	189
At 28 February 2017	**3,195**

Investments in subsidiary undertakings are included in the balance sheet at cost less any provision for diminution in value. The Company has the following investments in subsidiaries:

Subsidiaries	Registered office address	Registered number	Class of shares held	Ownership
Gear4music Limited	Kettlestring Lane, Clifton Moor, York YO30 4XF	03113256	Ordinary	100%
Cagney Limited	Kettlestring Lane, Clifton Moor, York YO30 4XF	04493300	Ordinary	100% via G4M Ltd
Gear4music Sweden AB	Tallbacksgatan 16 B, 195 72 Rosersberg, Stockholm County, Sweden	559070-4762	Ordinary	100% via G4M Ltd
Gear4music GmbH	c/o BMH Brautigam&Partner Rechtsanwalte, Schluterstr. 37, 10629 Berlin, Germany	HRB 29067	Ordinary	100% via G4M Ltd
Gear4music Norway AS	PO Box 2734, Solli, 0204 Oslo, Norway	917 313 210	Ordinary	100% via G4M Ltd

Cagney Limited and Gear4music Norway AS are dormant companies.

6 Deferred tax assets

Movement in deferred tax during the year

	At 1 March 2016 £000	Recognised in income statement £000	At 28 February 2017 £000
Unused tax losses	(128)	128	–
	(128)	128	–

Movement in deferred tax during the previous year

	At 1 March 2015 £000	Recognised in income statement £000	At 29 February 2016 £000
Unused tax losses	(161)	33	(128)
	(161)	33	(128)

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

FOR THE YEAR ENDED 28 FEBRUARY 2017

7 Debtors

Due within one year:

	Year ended 28 February 2017 £000	Year ended 29 February 2016 £000
Other debtors	**21**	5
	21	5

Due after more than one year:

	Year ended 28 February 2017 £000	Year ended 29 February 2016 £000
Amounts owed by Group undertakings	**6,889**	7,083
Deferred tax asset (see Note 6)	**–**	128
	6,889	7,211

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

8 Cash and cash equivalents

	Year ended 28 February 2017 £000	Year ended 29 February 2016 £000
Cash and cash equivalents per balance sheet	**10**	11
Cash and cash equivalents per cash flow statements	**10**	11

Significant non-cash transactions in 2016 included the Group paying £1.3m in equity to Key Capital Partners as part of the full settlement of their loan notes and accumulated interest.

9 Creditors: amounts falling due within one year

	Year ended 28 February 2017 £000	Year ended 29 February 2016 £000
Trade creditors	**7**	27
Accruals and deferred income	**27**	13
	34	40

10 Share capital and reserves

	Year ended 28 February 2017 Number	Year ended 29 February 2016 Number
Share capital		
Authorised, called-up and fully paid:		
Ordinary shares of 10 pence each	**20,156,339**	20,156,339

On 27 May 2015 and pursuant to the investor agreement between the Company and Key Capital Partners and shareholder resolution, the Company allotted and issued £32,452 'C' Ordinary shares in the capital of the Company, of which £12,980 were awarded to both Chris Scott and Gareth Bevan, and £6,492 to Andrew Wass. This took the total number of shares in issue at the time to 1,298,077.

On 3 June 2015, immediately following the Company's admission to AIM, the 'A', 'B', and 'C' Ordinary shares of £1 were each sub-divided into one class of Ordinary share of 10 pence each, and 7,175,569 new shares were issued, taking the total number of shares to 20,156,339.

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.

10 Share capital and reserves continued

Share premium

	Year ended 28 February 2017 £'000
Opening at 1 March	**8,933**
Issue of shares	**–**
Share issue costs	**–**
Closing at 28/29 February	**8,933**

Retained earnings

	Year ended 28 February 2017 £'000	Year ended 29 February 2016 £'000
Opening at 1 March	**(756)**	(1,616)
Share-based payment charge	**39**	8
Profit/(loss) for the year	**(151)**	852
Closing at 28/29 February	**(868)**	(756)

11 Related parties

In 2017 Chris Scott and Gareth Bevan were granted 9,978 equity-settled share options each, and Andrew Wass was awarded an equivalent cash-settled option to result in the same monetary value being returned on vesting.

12 Subsequent events

Equity raise

On 18 May 2017, the Company completed the placing of 610,000 new Ordinary Shares at a price of 690 pence per share, raising £4,209,000 in gross proceeds (£4,052,730 net proceeds). The Company also issued 100,782 new Ordinary Shares pursuant to the full exercise of a warrant instrument, and received a further £140,087 in gross proceeds.

A total 710,782 new Ordinary Shares were admitted on 24 May 2017 taking the number of Ordinary Shares in issue from 20,156,339 to 20,867,121, representing dilution of 3.5%. The shares rank pari passu in all respects with the existing Ordinary Shares.

NOTES

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