Gear4music (Holdings) plc
Annual report and accounts 2021

Transformational performance

Our purpose

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

Who we are

Operating in a £5.0bn European market, Gear4music is the UK's largest retailer of musical instruments and music equipment, having grown revenues from £24m in 2015 to £157m in 2021.

HIGHLIGHTS

FY21 has been a transformational year for the Group, during which we have delivered an exceptional financial performance whilst rising to the unprecedented operational challenges presented by COVID-19 and Brexit.

Improvements in gross margins have driven profits to record levels, amplified by exceptional sales growth and marketing efficiencies, which were driven by COVID-19 lockdowns, particularly evident during Q1 FY21.

The Group is in a strong position to build upon the significant success of FY21, as we accelerate the development of our bespoke e-commerce platform, strengthen our European distribution network by launching new operational hubs in Ireland and Spain, and consider acquisition opportunities.

REVENUE £m

£157.5m

+31%

2021	157.5
2020	120.3
2019*	118.2

GROSS MARGIN %

29.4%

+350bps

2021	29.4
2020	25.9
2019	22.8

EBITDA £m

£19.8m

+154%

2021	19.8
2020	7.8
2019*	2.3

NET DEBT/CASH £m

£2.7m

+£8.2m

2021	2.7
2020	(5.5)
2019	(7.5)

WEBSITE VISITORS m

36.0m

+27%

2021	36.0
2020	28.4
2019	27.1

CONVERSION RATE %

3.69%

+40bps

2021	3.69
2020	3.29
2019	3.40

* Revenue and EBITDA in 2019 were for 13-month period whereas 2020 and 2021 = 12-months.

Strategic Report

Corporate Governance

Financial Statements

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

Our product range is hitting all the right notes

Gear4music is an online retailer of musical instruments and music equipment, operating 20 websites in 15 languages and 9 currencies. The Group retails 57,900 SKUs across all major musical instrument and equipment categories, sourced from over 900 manufacturers, and range from £1 kazoos to digital pianos, drum kits and guitars costing thousands of pounds.

Our numbers

NUMBER OF ACTIVE CUSTOMERS

1,064,000

+32%

SKUs LISTED

57,900

+7%

NUMBER OF WEBSITES

20

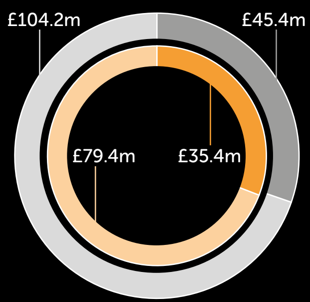
NUMBER OF LANGUAGES

15

NUMBER OF CURRENCIES

9

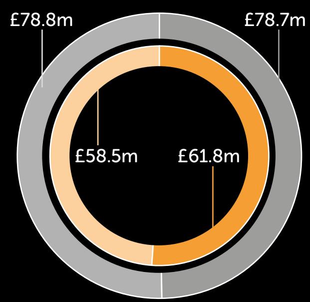
PRODUCT SPLIT



2021
Own brand
Other brand

2020
Own brand
Other brand

REVENUE BY GEOGRAPHY



2021
UK
International

2020
UK
International

Leading brands

Other brands

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

Own brands

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

Recent acquisitions

Premier, EDEN Bass Amplification

COVID-19 lockdowns through FY21 saw strong growth in product categories such as studio and recording, and guitar products continuing to sell very well, and a decline in categories such as PA, DJ and lighting, as live music shut down.

Our product range[1]

Guitars
Electric, acoustic and bass guitars, and related accessories

35% of product sales

Revenue **£52.3m**

Growth **66%**

Studio
Mixers, headphones, microphones, monitors and interfaces

16% of product sales

Revenue **£23.8m**

Growth **63%**

Keys
Acoustic and digital pianos, keyboards and synthesisers

22% of product sales

Revenue **£32.5m**

Growth **30%**

Drums
Electric, acoustic and percussion

9% of product sales

Revenue **£14.3m**

Growth **11%**

Live and PA
PA equipment, speakers, stands and microphones

11% of product sales

Revenue **£16.7m**

Growth **-23%**

Orchestral
Strings, brass, woodwind and accessories

6% of product sales

Revenue **£9.0m**

Growth **14%**

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

In tune with our customers, employees & partners

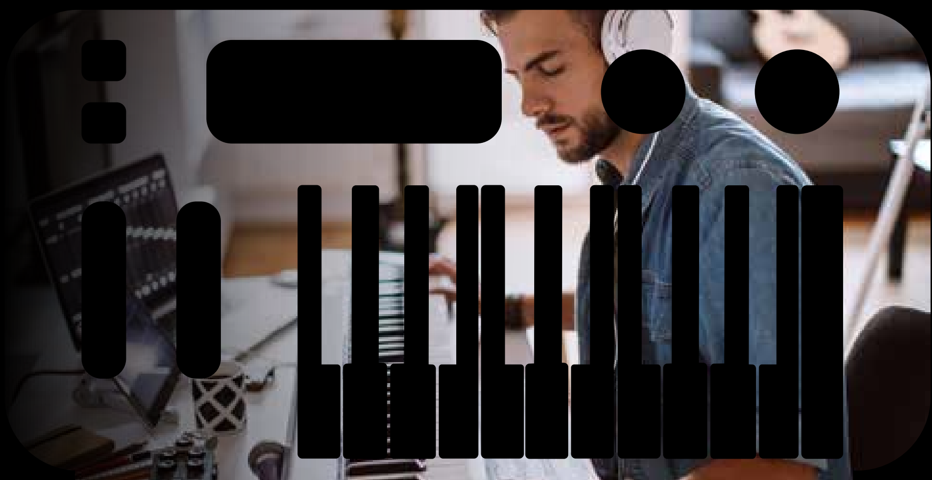
I am pleased to report another successful year but do so with mixed emotions as I reflect on the hardships that COVID-19 brought to so many over the year.

From the outset of the COVID-19 outbreak, our priority has been to safeguard the health and safety of our employees and to provide an uninterrupted service to our customers. We took the necessary precautions to keep our staff safe, including facilitating remote working and implementing extensive measures in our warehouses to enable social distancing, whilst ensuring our operations could continue with minimal impact.

The collective effort of our hard-working and dedicated teams has kept the operation running with minimal disruption to order processing and fulfilment throughout the various lockdown periods and, as a result, the significantly heightened customer demand has been met. I am pleased to report that we took the opportunity to recognise these momentous efforts and pay a one-off employee bonus in March 2021 as a token of our thanks.

Whilst COVID-19 has undoubtedly positively impacted the results in FY21, it is clear to me that the business continued to make operational and strategic improvements in the Group's stated ambitions of accelerating market share growth, improving gross margins and operating expense management.

KEN FORD
CHAIRMAN



OPERATIONAL AND COMMERCIAL PROGRESS

Whilst COVID-19 has undoubtedly positively impacted the results in FY21, it is clear to me that the business continued to make operational and strategic improvements in the Group's stated ambitions of accelerating market share growth, improving gross margins and operating expense management. In addition, we successfully and safely increased operational capacity to meet an unexpected significant increase in demand in Q1 FY21 and ahead of the FY21 peak trading period. The results reported today bear testament to success on each front.

We believe that the competitive retail landscape in musical instruments and equipment will look different post-COVID-19, as physical store operators struggle with the well reported accelerated channel shift to online.

The FY21 financial performance has been transformative in terms of strengthening the balance sheet and moving into a net cash position at the year end, and provides evidence and further confidence in terms of results that can be achieved when the market and internal efficiencies allow. The addition of a committed three-year £35m Revolving Credit Facility will open up further opportunities such as acquisition and accelerated investment for the Group as we progress through FY22.

This year has seen a step change in the opportunity for our business and, as a result, we have been able to commence new initiatives which will enable us to drive growth alongside our core business, whilst also launching and delivering on our acquisition strategy.

Achieving these results through challenging times, unlike anything we have seen before, reflects well on the significant efforts of the Executive and Senior Management team, and these results would not have been possible without the hard work, passion and dedication of all our colleagues across the business.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

In Q1 FY22, we launched an updated 'Supplier Code of Conduct' that formally commits our own-brand manufacturing partners to our extended and deepened expectations in relation to labour-related areas, health and safety, environmental and anti-corruption measures.

We are pleased to have supported several charities during the year, including York-based Jessie's Fund, which works all over the UK helping children who are seriously ill, disabled, or have special educational needs, to express themselves through music.

I am delighted to welcome Harriet Williams to the Board, and her e-commerce experience and expertise is already helping the business to further develop its strategy. This appointment takes the number of Non-Executive Directors on the Board to three, thereby matching the number of Executive Directors.

The Operational Board has been further strengthened with the addition of Eleni Buras, and her knowledge and skills in Performance Marketing will benefit Board-level management.

OUTLOOK

The Board remains confident that our customer proposition, operational infrastructure, strengthened balance sheet and access to capital will enable the Group to achieve its business objectives, namely accelerating market share gains and delivering operational efficiencies, during the current financial year and beyond.

KEN FORD
CHAIRMAN
21 June 2021

reasons to invest

COMPETITIVE ADVANTAGES AND BARRIERS TO ENTRY

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

- We are an agile, predominantly online retailer, and have a well-recognised brand
- We are the UK's largest retailer of musical instruments and music equipment
- Our bespoke e-commerce platform provides a high degree of operational flexibility and scalability which the Directors believe cannot easily be replicated

KEY STRENGTHS

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

REASONS

- Revenues have increased every year since launch in 2003
- Strong European growth validates website roll-out strategy
- Email database of 0.98 million registered users, with active customers increasing 32% in the year

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

- End-to-end solution encompassing all aspects of trading operations
- 67 in-house software developers providing cost effective development
- Currently supports 20 websites in 15 languages and nine 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

SEE STRATEGY IN ACTION ON PAGE 20

- A strong own-brand offering has been developed over 18 years, and has established a reputation for 'good' and 'better' quality products at affordable prices, whilst providing enhanced margin opportunities
- We have developed long-term relationships with the major branded musical instrument and music equipment manufacturers, placing us in a strong position during a period of retailer consolidation
- We have proven and scalable distribution capabilities
- The Directors and senior management have an intimate knowledge of the musical instrument and music equipment market

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 57,900 products from over 900 brands
- Reputation for quality and value for money
- Over 3,800 own-brand SKUs, developed over an 18-year period
- Enhanced margin opportunities as volumes increase

5. Efficient logistics systems

- Operates from three modern facilities with a combined footprint of 284,000 square feet
- The most appropriate courier delivery services are automatically selected from more than 24,100 permutations depending on the weight, size, value and destination of the goods being purchased

SEE STRATEGY IN ACTION ON PAGE 14

Composing our future growth strategy

BUSINESS REVIEW

It is a strong testament to the commitment, talent and flexibility of our teams, that we have been able to overcome many of the difficulties and complexities associated with COVID-19 and Brexit, and deliver record order volumes whilst maintaining high levels of service for our new and returning customers.

Q1 FY21 saw exceptional sales volumes as customers sought to take on new skills or enhance existing musical talent, in addition to using music to improve health and mental wellbeing. With high street shops also being closed, it became necessary for us to deliberately restrain marketing spend during Q1 to ensure our logistics operation was able to cope with heightened demand, whilst ensuring our operating environment remained safe for staff. This situation contributed to a one-off exceptional level of profitability during Q1.

Having delivered on our core strategic objectives for FY21, we are now in a strong position to begin the next phase of our growth journey. We continue to see significant opportunities in both our UK and European markets for further growth.

ANDREW WASS
CHIEF EXECUTIVE OFFICER

Demand remained strong throughout Q2 and Q3, during which time we focused much of our development resource on preparing for Brexit. As a result of our preparations and ability to satisfy a good level of EU-based demand locally, trading during Q4 remained relatively strong despite the new challenges of a UK-EU customs border, which would have otherwise significantly disrupted order fulfilment and revenues.

Revenues were driven throughout FY21 by very strong growth in our studio and recording category, with guitar products also continuing to sell well, alongside digital keyboards and pianos. Own-brand sales have been particularly strong as customers sought excellent value intermediate and beginner products, with new niches developing such as Sound Therapy instruments.

Building upon the excellent progress made with margins and operational efficiency during FY20, the Group has proven to be well positioned to deal with the challenges of FY21, achieving record sales and profitability whilst laying the foundations for future growth.

GROWTH STRATEGY & ACQUISITIONS

Development of our bespoke platform remains central to our digital growth strategy. During FY21, our in-house team of 67 developers made 1,396 deployments, launching new features including the ability to allow the sale and immediate download of digital software products, Apple Pay integration, and additional warehouse management and dispatch tools to support increasing order volumes. In addition, we began to lay the foundations for several significant growth orientated features to be launched during FY22.

Brexit related software projects and preparations required a significant amount of development resource during FY21, and having had the opportunity to fully understand and evaluate the impact of Brexit since 1 January 2021, our European growth strategy will now include the strengthening of our European distribution network, with the addition of two new logistics hubs during FY22.

Our new Irish hub in Dublin will serve the domestic and Northern Ireland markets, and our new Spanish hub in Barcelona will provide an improved customer experience by significantly reducing the delivery costs and timescales of orders being delivered across Southern Europe. Both hubs will be fully operational by H2 FY22, and will help to further reduce UK-EU cross-border administration costs, whilst increasing our overall capacity for holding additional inventory to further help mitigate any supply chain disruption.

Developing and expanding our own-brand product ranges is a key part of our ongoing strategy to support gross margins, and we are very pleased to have added the Premier and Eden brands into our portfolio, to accelerate our product range development and widen our geographical reach.

GROSS PROFIT

£46.4m

+48%

EBITDA

£19.8m

+154%

FINANCIAL KPIs

	FY21	FY20	Change
Revenue[1]	**£157.5m**	£120.3m	+31%
UK Revenue[1]	**£78.7m**	£61.8m	+27%
International Revenue[1]	**£78.8m**	£58.5m	+35%
Gross margin	**29.4%**	25.9%	+350bps
Gross profit	**£46.4m**	£31.2m	+48%
Total Administrative expenses[1]	**£30.9m**	£27.1m	+14%
European Administrative expenses[1]	**£3.8m**	£2.5m	+52%
EBITDA	**£19.8m**	£7.8m	+154%
Net profit	**£12.6m**	£2.6m	+385%
Net cash/(debt)[2]	**£2.7m**	£(5.5)m	+£8.2m

1 See Note 2 of the Financial Statements.
2 See Notes 15 and 16 of the Financial Statements.

COMMERCIAL KPIs

	FY21	FY20	Change
Website visitors	**36.0m**	28.4m	+27%
Conversion rate	**3.69%**	3.29%	+40bps
Average order value	**£116**	£117	-1%
Active customers	**1,064,000**	807,000	+32%
Products listed	**57,900**	54,200	+7%

See page 23 for commercial KPI definitions.

As a result of the change in market dynamics, our increased financial strength and the new £35m bank facility, we expect to consider further acquisition opportunities during FY22, building upon the recent acquisitions of the Premier and Eden brands. Attractive acquisition opportunities may include existing brands already sold by Gear4music that could be integrated into our own-brand portfolio, or profitable retailers operating in compatible parallel markets that would allow the Group to increase its reach and addressable market.

TRADING OUTLOOK

We are confident that a high proportion of new customers acquired during FY21 will continue to recognise the benefits that playing, creating and recording music can bring. As lockdowns across Europe begin to ease, live gigs and performances can hopefully be enjoyed at music venues again, creating demand for product categories such as PA systems and stage lighting that have slowed during the pandemic. We expect that alongside the accelerating shift to e-commerce, these factors will ensure the trading environment for the Group remains favourable.

I am proud of where we have taken the business in six years, growing revenues by over 550% between 2015 and 2021, and being able to meet customer demand during the last year, so that our customers could enjoy music at a time when they needed it the most.

Having delivered on our core strategic objectives for FY21, we are now in a strong position to begin the next phase of our growth journey. We continue to see significant opportunities in both our UK and European markets for further growth, which in addition to establishing new sales verticals and considering further acquisition opportunities, provides the Board with a high level of confidence the Group will continue to deliver long-term value for its stakeholders.

ANDREW WASS
CHIEF EXECUTIVE OFFICER
21 June 2021

REVENUE

£157.5m

+31%

INTERNATIONAL REVENUE

£78.8m

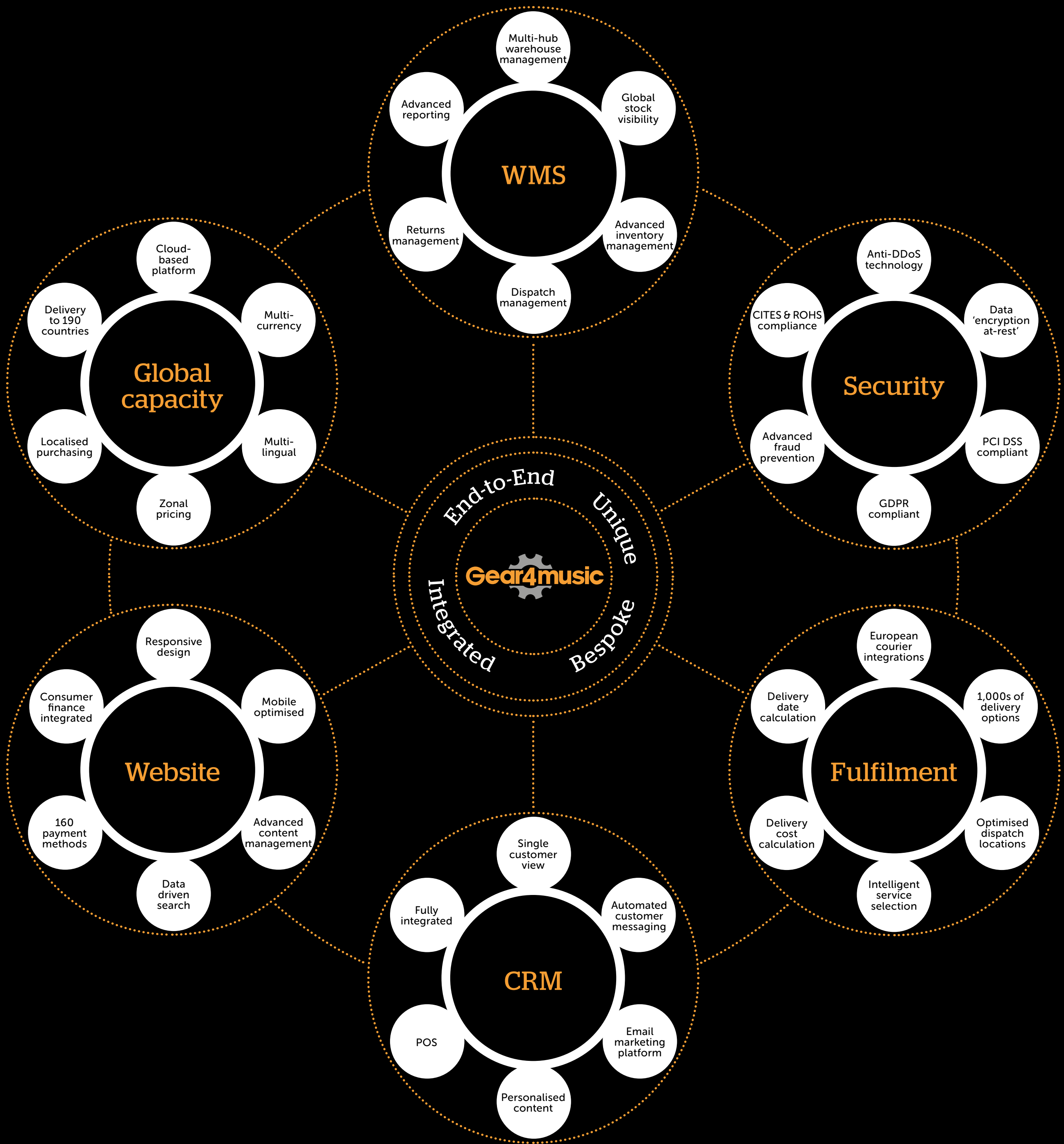
+35%

Our new Irish hub in Dublin will serve the domestic and Northern Ireland markets, and our new Spanish hub in Barcelona will provide an improved customer experience by significantly reducing the delivery costs and timescales of orders being delivered across Southern Europe.

We expect to consider further acquisition opportunities during FY22, building upon the recent acquisitions of the Premier and Eden brands.

Platform features

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



Significant European opportunity

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

The top ten European retail markets for musical instruments and music equipment (including the UK) are worth approximately £5.0bn and are undergoing a profound shift towards online retail.

The Board believes that the current dynamics of the UK competitive landscape post-COVID-19, in particular the significant degree of fragmentation with no large or dominant retailers, presents a consolidation opportunity. Whilst acquisitions of retail businesses do not form a core part of the current strategy, opportunities are reviewed on an ad hoc basis.

The top ten European retail markets for musical instruments and music equipment are worth approximately £5.0bn and are undergoing a profound shift towards online retail.

Our new Irish hub in Dublin will serve the domestic and Northern Ireland markets, and our new Spanish hub in Barcelona will provide an improved customer experience by significantly reducing the delivery costs and timescales of orders being delivered across Southern Europe.

ANDREW WASS
CHIEF EXECUTIVE OFFICER

OUR BUSINESS OVERVIEW

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

Our specialist market knowledge has already helped us to become the largest retailer in the UK, and we continue to make good progress in Europe. A bespoke e-commerce platform allows us to efficiently operate 20 websites, in 15 languages and nine currencies, and as we develop this platform further, widen our product ranges and increase our marketing reach and brand recognition, we strongly believe we can continue to grow our share of the £5.0bn European market and expand our reach beyond this.

UK MARKET WORTH

£880m

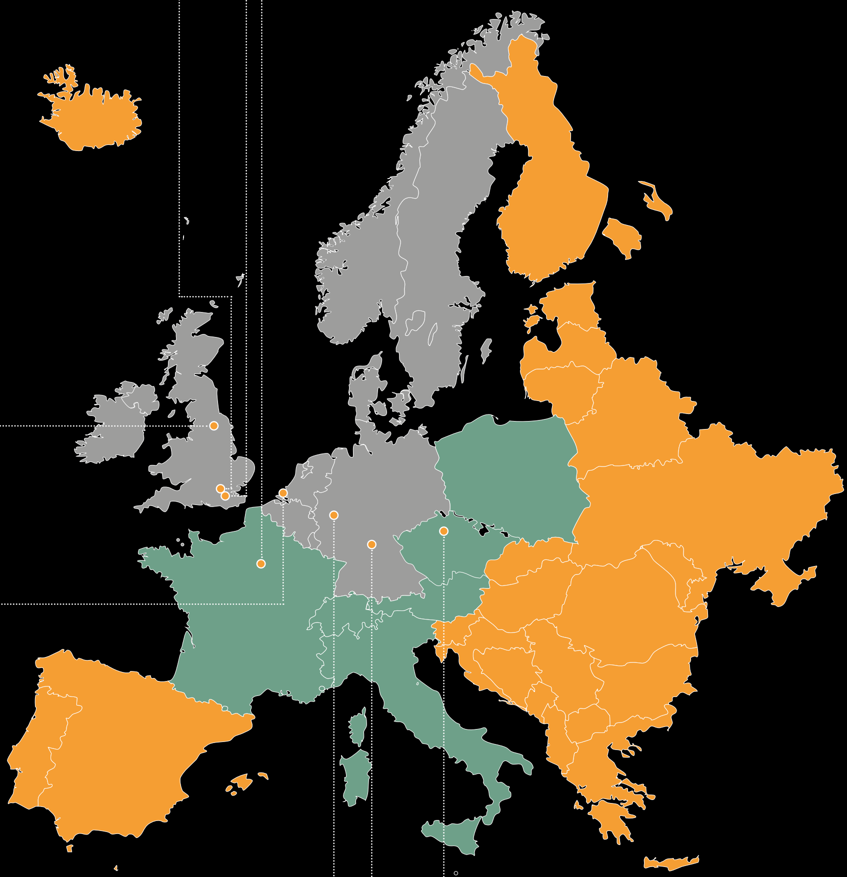
Operations | Locations (Revenues)

Gear4music
York | UK
2021: £157m
2020: £120m
+31%

S&T Audio (PMT)[1]
London | UK
2020: £44m
2019: £42m
+5%

Andertons
Guildford | UK
2020: £54m
2019: £43m
+25%

Woodbrass
Bought out of Administration
2020: £42m
2019: £46m
-9%



Kytary.cz
2020: £31m
2019: £18m
+72%

Bax Shop[1]
Goes | Netherlands
2019: £100m
2018: £96m
+4%

Musicstore[1]
Cologne | Germany
2019: £118m
2018: £99m
+19%

Thomann[1]
Burgebrach | Germany
2019: £847m
2018: £729m
+16%

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

Revenue data source: Music Trades 2020 or '1' = Filed accounts where available

TOP EUROPEAN MARKETS

Country	Estimated market size (£m)[1]
Germany	1,398
France	1,010
UK	880
Italy	677
Netherlands	236
Austria	212
Spain	194
Switzerland	166
Sweden	125
Norway	96
Total size	4,994

EUROPEAN MARKETS WORTH

£5.0bn

Turning up the volume on our European distribution

International expansion

EUROPEAN DISTRIBUTION EXPANSION

Having had the opportunity to fully understand and evaluate the impact of Brexit since 1 January 2021, our European growth strategy will now include the strengthening of our European distribution network, with the addition of two new logistics hubs during FY22.

Our new Irish hub in Dublin will serve the domestic and Northern Ireland markets, and our new Spanish hub in Barcelona will, importantly, provide an improved customer experience by significantly reducing the delivery costs and timescales of orders being delivered across Southern Europe. Both hubs will be fully operational by H2 FY22, and will help to further reduce UK-EU cross-border administration costs whilst increasing our overall capacity for holding additional inventory to further help mitigate any supply chain disruption.

Expanding internationally continues to be a key area of opportunity and focus for the Group. Localising our websites and customer experience is at the core of our growth strategy.

ROB NEWPORT
OPERATIONS DIRECTOR

STRENGTHENING EUROPEAN DISTRIBUTION

New hubs to be operational in Ireland and Spain by September 2021.

UK hub, York
- Inventory capacity: **£19m**
- Serves UK and ROW

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

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

New - Irish hub, Dublin
- Inventory capacity: **£2m**
- Serves Ireland & Northern Ireland

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

INTERNATIONAL REVENUE

£78.8m

+35%

EUROPEAN ADMINISTRATIVE EXPENSES

£3.8m

+52%

More accessible & affordable for all musicians

HOW WE WORK

We believe a successful...

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

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

PRODUCTS
Our own-brand product ranges have taken over 18 years to develop, working with some of the best manufacturers from around the world to ensure we build on our reputation for great quality at affordable prices. In addition, we have built strong relationships with the industry's biggest brand names, including Yamaha, Roland, Fender and many more.

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

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

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

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

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

OUR SERVICE

We believe that achieving...

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

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

SPECIALIST STAFF
In FY21, we employed 519 people (FY20: 466) across three countries, and many have first-hand musical instrument and equipment knowledge, playing in bands and producing their own music. Ongoing product training is routinely undertaken to ensure staff have relevant and up-to-date knowledge to enable them to advise customers.

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

AVERAGE NUMBER OF EMPLOYEES

519

ACROSS THREE COUNTRIES

OUR CUSTOMERS

Customer overview

Gear4music's customer base is primarily made up of private individuals (over 98%), from beginners and parents buying musical instruments and music equipment for their children, through to professional musicians.

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

On 31 March 2021 we had 0.98 million people registered to receive our email communications, up 51% from 0.65 million at 31 March 2020.

Active customers of 1.06 million (being customers who have purchased from Gear4music during the previous 12 months), are up 32% on FY20 (807,000).

As the Group continues to increase its European business it acquired a further 947,000 new customers in the period (FY20: 704,000), and 206,000 customers came back to us to place at least one follow-up order (FY20: 170,000).

Average order value of £116 was broadly in line with £117 in FY20.

CUSTOMER ENGAGEMENT

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

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

Improving customer experience is one of the key objectives when designing and implementing software development projects.

AT 31 MARCH 2021 WE HAD

0.98m

PEOPLE SUBSCRIBED ON OUR EMAIL DATABASE

OUR PRODUCTS

Product range

BRANDED PRODUCTS

Gear4music has developed long-term partnerships with many well-recognised brands within the music products industry, who rely on the specialist product knowledge of Gear4music's staff, the high 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 3,800 products listed.

In FY21, Gear4music acquired the Eden brand, and subsequent to the balance sheet date acquired the Premier brand. We continue to explore opportunities to acquire legacy brands.

AT THE YEAR END WE LISTED OVER

57,900

PRODUCTS FROM OVER

900

MANUFACTURERS

OWN-BRAND PRODUCT RANGE

3,800

PRODUCTS LISTED

Gear4music's strategy is built around...

3 pillars of growth

OUR STRATEGIC PRIORITIES

1. e-commerce excellence

EVOLVE

GROWTH STRATEGY

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

JONATHAN MEAGER
E-COMMERCE DIRECTOR

Overview

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

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

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

Progress

With over 30 million website visitors in the period, conversion rates over 3.5%, active customer numbers increasing to more than 1 million, and a 24% growth in repeat customers, our e-commerce strategy continues to prove highly effective.

Marketing activities are heavily data driven and focused on return on investment, and in FY21 investment continued to target higher-margin product groups. Marketing efficiency improved in FY21, in part down to COVID-19 and lower spend in financial Q1, as cost as a percentage of sales decreased from 7.7% in FY20 to 5.9% in FY21.

Our 4.8 Trustpilot rating from over 90,000 reviews is a reflection of our 'customer first' approach, the incredible efforts our team makes, and the attention to detail that is required to build customer trust and loyalty. We will continue to learn from our customers, and use our significant technical resource to design the new solutions required to satisfy an evolving market.

Our bespoke e-commerce platform is the cornerstone of our success and a major competitor differentiator, and our development team of 67 have worked tirelessly to design and deploy 1,396 updates and upgrades during the period.

WEBSITE VISITORS
36m
+27%

TRUSTPILOT RATING
4.8/5

2. Supply chain evolution

3. International expansion

IMPROVE ACCELERATE ENHANCE

2. Supply chain evolution

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

GARETH BEVAN
CHIEF COMMERCIAL OFFICER

Overview

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

Progress

Acquired the Premier and Eden brands and added them into our portfolio to accelerate our own brand product range.

At the year end, we listed 57,900 products, which is up by 7% in 12 months, and we know there are opportunities to increase this.

Whilst only representing 7% of listed SKUs, own-brand product sales accounted for 29% of revenue (FY20: 29%), increasing impressively by £10m to £45.4m in the year.

SKUs LISTED
57,900
+7%

OWN-BRAND REVENUE
£45.4m
+28%

3. International expansion

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

ROB NEWPORT
OPERATIONS DIRECTOR

Overview

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

Progress

With international sales increasing to £78.8m in what is a $16bn market, and representing over 50% of total sales for the first time, expanding internationally continues to be a key area of opportunity and focus for the Group. Localising our websites and customer experience is at the core of our growth strategy, and during the period we have expanded our multilingual customer service team, invested further into translation and marketing, and improved our local delivery and payment options.

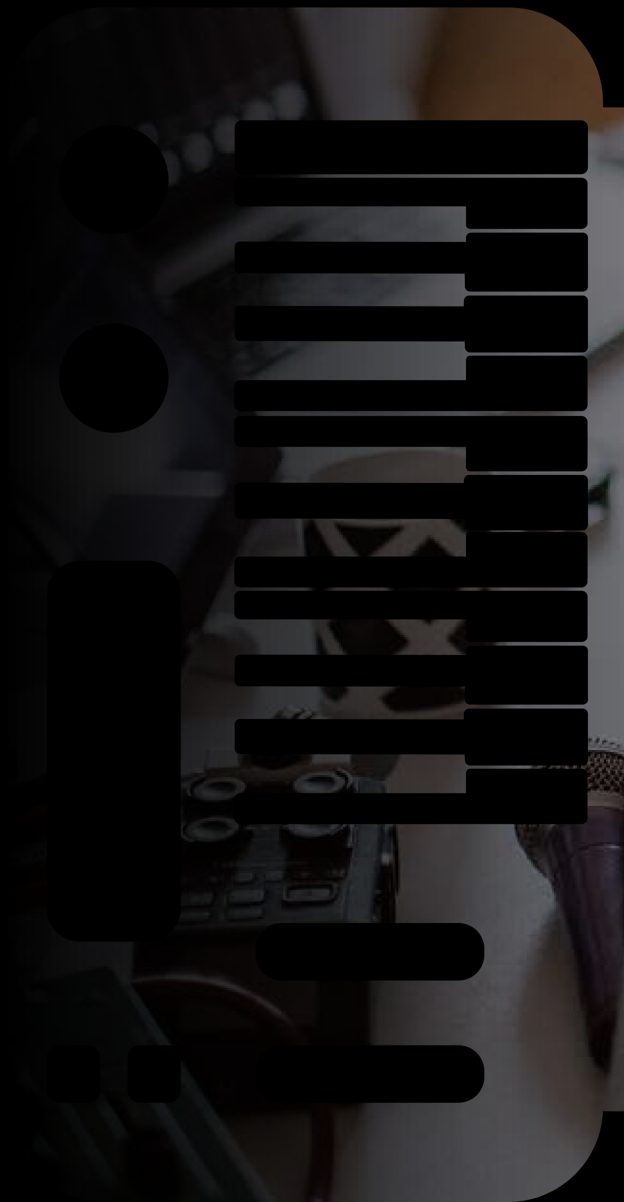
We have showrooms in Sweden and German to physically showcase our products, build our brand in the area, and create buying opportunities with local distributors.

In FY22, we will open distribution centres in Ireland and Spain to further enhance our Irish and Southern European proposition.

INTERNATIONAL SALES
£78.8m
+35%

Accelerating investment into our e-commerce platform

e-commerce excellence



TRANSFORMING OUR BESPOKE PLATFORM

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

Development of our bespoke platform remains central to our digital growth strategy. During FY21, our in-house team of 67 developers made 1,396 deployments, launching new features including the ability to allow the sale and immediate download of digital software products, Apple Pay integration, and additional warehouse management and dispatch tools to support increasing order volumes. In addition, we began to lay the foundations for several significant growth orientated features to be launched during FY22. Brexit related software projects and preparations required a significant amount of development resource during FY21.

READ MORE
ON PAGE 11

In FY21, we began to lay the foundations for several significant growth orientated features to be launched during FY22.

JONATHAN MEAGER
E-COMMERCE DIRECTOR

WEBSITE VISITORS

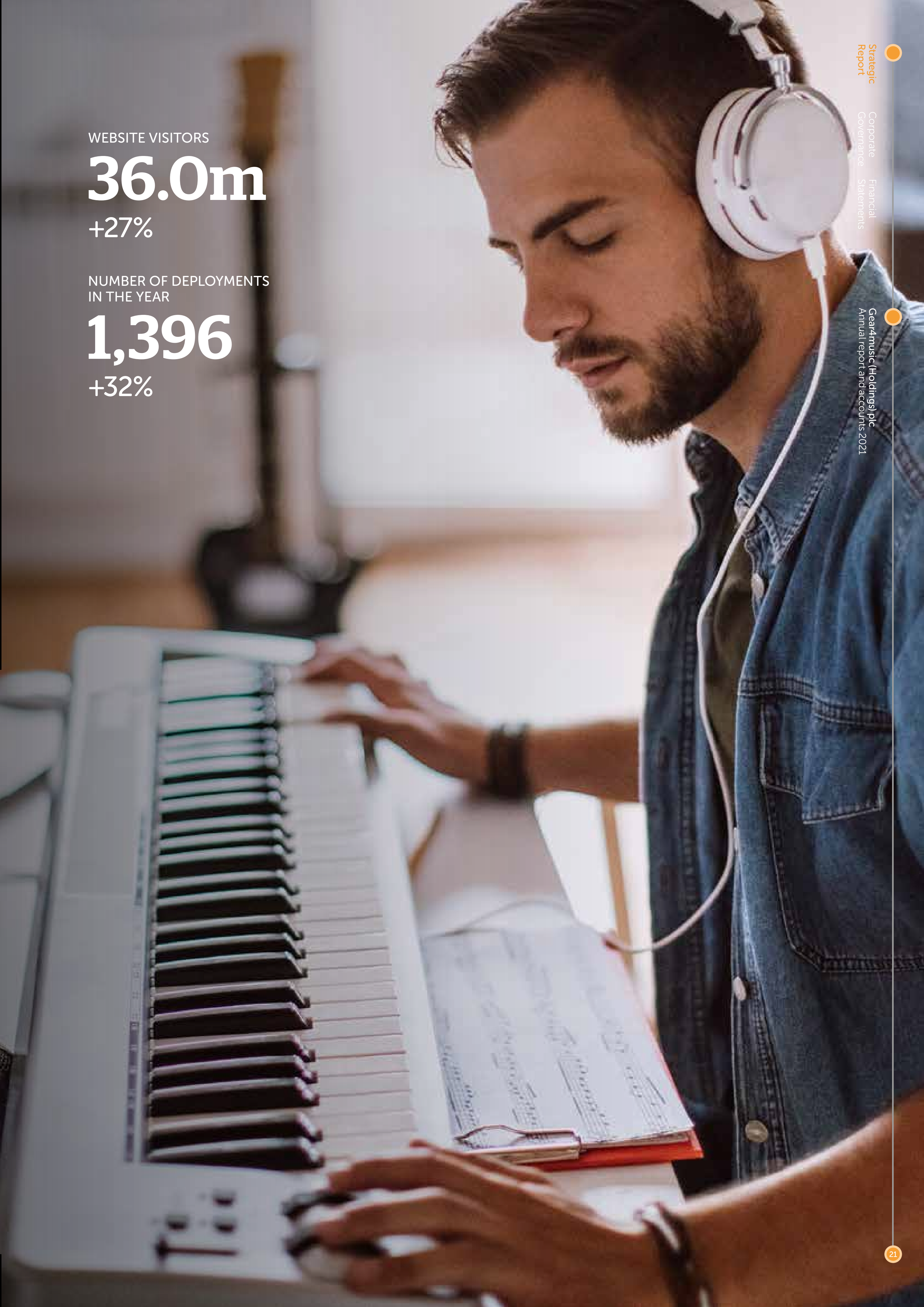
36.0m

+27%

NUMBER OF DEPLOYMENTS IN THE YEAR

1,396

+32%



We measure ourselves against a number of KPIs

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

Financial

REVENUE £M

£157.5m

+31%

2021 (12 months) 157.5

2020 (12 months) 120.3

2019 (13 months) 13.0

GROSS MARGIN %

29.4%

+350bps

2021 29.4

2020 25.9

2019 22.8

NET CASH/(DEBT) £M

£2.7m

+£8.2m

2021 2.7

2020 (5.5)

2019 (7.5)

Commercial

MARKETING RETURN
Marketing costs as % of total revenue

5.9%
-180bps

2021	5.9
2020	7.7
2019	8.2

UNIQUE VISITORS m

36.0m
+27%

2021 (12 months)	36.0
2020 (12 months)	28.4
2019 (13 months)	27.1

CONVERSION %

3.69%
+40bps

2021	3.69
2020	3.29
2019	3.40

AVERAGE ORDER VALUE £

£116.47
-1%

2021	116.47
2020	116.74
2019	117.39

SKUS LISTED

57,900
+7%

2021	57,900
2020	54,200
2019	51,600

Customer

CUSTOMER EXPERIENCE
Trustpilot rank

4.8/5

2021	4.8
2020	4.8
2019	4.7[1]

1 Converted from 9.4/10.

NUMBER OF REPEAT CUSTOMERS

205,700
+21%

2021	205,700
2020	169,600
2019	148,900

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.

Repeat customers: Customers in the year who have placed more than one order.

SEE STRATEGY AND PROGRESS ON PAGE 18

Our operational focus has produced a transformational performance

The good progress and momentum generated in FY20 has been carried into FY21, and amplified by COVID-19 related factors, leading the business to deliver an exceptionally strong financial performance including record sales, profits, and cash generation.

CHRIS SCOTT
CHIEF FINANCIAL OFFICER

OVERVIEW

As an online retailer operating in a niche sector where physical stores temporarily closed during COVID-19 lockdowns, coupled with the benefits of playing musical instruments and equipment on mental health and wellbeing which came to the fore, we benefited from unusually high demand, particularly in Q1.

Our priority throughout the pandemic has been to ensure the safety of our colleagues by following government guidelines, and we were able to keep our distribution centres largely open through the lockdown. COVID-19 has undoubtedly impacted our FY21 reported results in a number of ways.

The good progress and momentum generated in FY20 has been carried into FY21, and amplified by COVID-19 related factors, leading the business to deliver an exceptionally strong financial performance including record sales (£157.5m), profits (EBITDA of £19.8m) and cash generation (cash from operating activities of £14.9m).

REVENUE

	FY21 £m	FY20 £m
UK revenue	**78.7**	61.8
International revenue	**78.8**	58.5
Revenue	**157.5**	120.3

Revenue increased by £37.2m (31%) on last year, to £157.5m, with growth of 42% in H1 as COVID-19 restrictions across Europe led to very high customer demand, and 23% in H2. Given the impact of COVID-19 on the FY21 results, it will be important to consider two-year revenue growth as a relevant benchmark for H1 FY22.

UK growth of 27% takes our UK market share to an estimated 8.9% (FY20: 7.2%). International growth of 35% took international sales to over 50% of the Group total for the first time, and continues to represent a significant opportunity. Revenues from sales outside of Europe accounted for 1.3% of total revenue in both FY21 and FY20.

REVENUE

£157.5m

+31%

INTERNATIONAL REVENUE

£78.8m

+35%

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

We continue to make progress in our own-brand business with revenues of £45.4m accounting for 29% of total revenue (FY20: 29%) from just 3,800 SKUs representing 7% of the total range (FY20: 3,400 SKUs).

Other brand revenue growth in FY20 was impacted by our cutting out less profitable sales, and growth in FY21 accelerated to 31%.

Carriage income increased by 45% to £7.1m as more customers were willing to pay for value-added upgraded delivery services.

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

GROSS PROFIT

	FY21	FY20	Change
Product sales (£m)	**149.6**	114.8	
Product profit (£m)	**50.9**	35.1	+45%
Product margin	**34.1%**	30.5%	+360bps
Carriage costs (£m)	**11.7**	8.8	+33%
Carriage costs as % of sales	**7.4%**	7.3%	+10bps
Gross profit (£m)	**46.4**	31.2	+48%
Gross margin	**29.4%**	25.9%	+350bps

In FY20, we focused on cutting out lower margin sales and focusing our efforts and resources on higher margin products, and this discipline and momentum continued into FY21. In Q1 FY21, the COVID-19 lockdown brought very high demand in certain product categories, and where stock levels were low and supply was limited, prices were increased to manage demand.

We invested in stock throughout the year to support the strong revenue growth, and as a precautionary measure against supply chain disruption coming out of COVID-19 and Brexit.

Strong revenue growth and a material step-up in gross margin combined to generate a £15.2m (48%) increase in gross profit in the year. Gross margin improved 350bps as a result of a 360bps improvement in product margin, driven by marked improvements in both own and other-brand margins.

The Group benefits from increasing buying scale relative to its UK competitors, and its ability to source other-branded products in Swedish Krona and Euros, and receive product directly into our European distribution centres, which has been an important Brexit mitigation measure.

The Group purchases its own-brand products in US Dollars and product margin can be impacted by exchange rate fluctuations. The Group has various mitigating tools and own-brand margins improved in FY21.

Gear4music includes 'costs of delivery' within cost of sales which is a different accounting treatment to some other e-commerce retailers. Delivery costs were £11.7m in the year and represented 7.4% of total revenue (FY20: 7.3%).

GROSS PROFIT

£46.4m

+48%

ADMINISTRATIVE EXPENSES AND OPERATING PROFIT

Operating profit of £15.4m represents an £11.3m (279%) improvement on FY20 (FY20: £4.1m).

	FY21 £m	FY20 £m
UK Administrative expenses	**(27.1)**	(24.6)
European Administrative expenses	**(3.8)**	(2.5)
Total Administrative expenses	**(30.9)**	(27.1)
Operating profit	**15.4**	4.1

Total administrative expenses increased 14% on FY20 relative to a revenue increase of 31%.

Combined marketing and labour costs of £21.5m accounted for 69% of total administrative expenses (FY20: 70%):

- Marketing expenditure reduced in FY21: Marketing costs of £9.2m (FY20: £9.3m) equated to 5.9% of revenues (FY20: 7.7%) as the business made further progress on improving return on investment. Marketing investment, particularly in Q1, was restricted to manage demand whilst we ensured our distribution centres were COVID-19 secure, and as a result returns were higher in H1 (5.3% of revenue) than in H2 (6.3%).
- Labour costs in FY21 increased to £12.3m representing a 27% increase on FY20, reflecting an 11% increase in headcount, and COVID-19 related inefficiencies particularly in our distribution centres. Labour costs accounted for 7.8% of sales (FY20: 8.1%).

FY21 EBITDA of £19.8m is £12.0m (154%) higher than last year reflecting a continuation of the commercial progress made in FY20 and a COVID-19 impact.

OTHER EXPENSES AND NET PROFIT

Net financial expenses of £0.8m (FY20: £1.0m) include £0.4m of IFRS 16 lease interest (FY20: £0.4m), £0.2m bank interest (FY20: £0.4m), and a £0.2m net foreign exchange loss (FY20: £0.1m loss).

The Group reports a profit before tax of £14.6m which is an £11.5m improvement on FY20, and after tax translates into a basic EPS of 60.3p (FY20: 12.4p) and diluted EPS of 59.7p (FY20: 12.2p), the highest reported since IPO in 2015.

OPERATING PROFIT

£15.4m

+279%

NET CASH AT YEAR END

£2.7m

+£8.2m

NET ASSETS

£34.3m

+59%

CASH FLOW

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

Cash decreased by £1.6m over the year as surplus cash generation was used to pay down debt, putting the Group in a £2.7m net cash position at the year end (31 March 2020: net debt of £5.5m).

The business actively invested in stock throughout the year to support the strong sales growth, mitigate any COVID-19 supply chain issues, and build stock in European distribution centres ahead of the UK leaving the EU.

Net cash outflow from investing activities of £4.5m includes £3.2m of capitalised software development costs (FY20: £2.8m) and £1.2m of tangible fixed additions (FY20: £0.7m). Depreciation and amortisation of £3.2m (FY20: £2.5m) is added back in 'net cash from operating activities' with respect to these asset categories.

Net cash outflow from financing activities of £12.0m (FY20: £1.0m outflow) includes £9.9m repayment of borrowing (FY20: £0.5m) and £1.4m payment of lease liabilities (FY20: £1.2m).

BALANCE SHEET

As a result of the performance in the year, the Group has a strong year end balance sheet, with net assets of £34.3m (FY20: £21.6m), and net cash of £2.7m (FY20 net debt: £5.5m).

	31 March 2021 £m	31 March 2020 £m
Property, plant and equipment	11.2	11.2
IFRS 16 Right-of-use asset	7.9	9.0
Software platform	8.4	7.1
Other intangible assets	2.0	2.0
Total non-current assets	29.5	29.3
Stock	28.4	22.0
Cash	6.2	7.8
Other current assets	3.6	2.5
Total current assets	38.2	32.3
Trade payables	(11.4)	(10.1)
Loans and Borrowings	(0.6)	(10.0)
Lease liabilities	(1.1)	(1.1)
Other current liabilities	(7.5)	(4.3)
Total current liabilities	(20.6)	(25.5)
Loans and Borrowings	(2.9)	(3.4)
Lease liabilities	(8.3)	(9.5)
Other non-current liabilities	(1.6)	(1.6)
Total non-current liabilities	(12.8)	(14.5)
Net assets	34.3	21.6

Capital expenditure in property, plant and equipment of £1.2m partly related to making our properties as COVID-19 secure as they can be, and supporting our colleagues in homeworking. We capitalised £3.2m (FY20: £2.8m) of software development costs relating to our bespoke e-commerce platform, including a number of Brexit-related deployments and projects focusing back on growth. Platform amortisation in the year was £1.9m (FY20: £1.5m) taking net book value to £8.4m (31 March 2020: £7.1m).

The Group had net cash of £2.7m at the year end (31 March 2020 net debt: £5.5m) having used surplus cash to fund own-brand stock increases rather than drawing import loans, to reduce the interest cost. Year end debt of £3.5m includes commercial loans of £3.4m relating to and secured by our freehold head office (45% loan to value).

DIVIDENDS

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

CHRIS SCOTT
CHIEF FINANCIAL OFFICER
21 June 2021

In tune with our developed approach to social responsibility

The foundations of a successful business are built on the hard work of a team of talented and motivated individuals. We strongly believe in growing our talent by recruiting the best people, identifying individual strengths, and providing development opportunities with the scope for career progression.

OUR PEOPLE

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

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

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

COVID-19

Our teams have worked tremendously hard across the year to keep our operation running smoothly.

We introduced many measures to keep our workplaces safe and COVID-secure, examples including contactless entry system to all our UK sites with FaceStation technology, temperature testing in entrance halls, and rapid flow self-testing kits available for staff to collect from Gear4music premises from April 2021 to support the Government COVID testing scheme.

We continue to invest in our facilities to make our office a great place to work and collaborate once it is safe for everyone to fully return. Improvements in the year were largely COVID-19 focused but also include on-site electric car charging points and a licensed extension to the on-site café facility – something we plan to celebrate with our colleagues at a summer BBQ!

As a thank you for the collective efforts of our amazing teams, we took the decision to pay a one-off discretionary bonus in the month of March, equivalent to 1.5% of basic annual salary.

COMMUNICATION – LAUNCH OF INTRANET

We continually strive to improve the communication we have with our people, and significant progress was made in May 2021 with the introduction of an upgraded intranet.

This medium quickly and easily shares information about recent company news including policy updates, new starter welcomes, and internal promotions and changes. Every department has its own dedicated page for resources, helping support cross-departmental working. A new organisational chart and structure with photos will help our colleagues to better understand 'who is who' as the business grows in size.

A business for musicians run by musicians

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

We offer generous staff discounts on musical products and equipment, and estimate the majority of our team have made a relevant purchase.

RECRUITMENT AND RETENTION

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

As at 31 March 2021, 55 employees are participating in Group share option plans in recognition of their contribution to the continuing success of the business.

We continue to create job opportunities in our communities, and in FY21 our average headcount increased by 11% from 466 to 519, and our retention levels are good.

MENTAL HEALTH

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

In FY22, we will double the number of certified Mental Health First Aiders we have across the business to over 20. This will provide managers across all our UK sites with additional tools, resources and knowledge to support their people better.

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

AVERAGE NUMBER OF EMPLOYEES

519

+11%

GENDER PAY GAP REPORT

We take gender equality very seriously across all of our business, from the shop floor to the boardroom and in FY21 we appointed Harriet Williams, Vice President Global e-commerce at the LEGO Group as Non-Executive Director, and Eleni Buras joins the Operational Board as Performance Marketing Director.

As of April 2020, our mean gender pay gap was 13.6% (2019: 6.5%):

- Women's hourly rate is 13.6% lower (mean) and 0.2% higher (median).
- Top salary quartile has 82.9% men and 17.1% women.
- Upper middle salary quartile has 72.0% men and 28.0% women.
- Lower middle salary quartile has 80.0% men and 20.0% women.
- Lower salary quartile has 74.7% men and 25.3% women.
- 0.3% of men and 0.0% of women received bonus pay.

The mean reflects the fact that the top three highest paid employees are male, and that in 2019 Andrew Wass (CEO) took a six-month voluntary pay reduction. The median reflects that there are proportionally more females in the upper middle quartile.

MODERN SLAVERY

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

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

We sell many well-known other-branded products and in the year ending 31 March 2021 third-party brands accounted for 66% of our sales. We purchase these products from European-based suppliers, many of whom are part of larger global organisations. These organisations acknowledge and generally publish their commitment to anti-slavery practices.

Our own-branded products are sourced from manufacturers in several countries around the globe and are often manufactured to our own specification and design. As of 31 March 2021, we had active relationships with over 60 manufacturers, predominantly in the Far East.

We conduct our own independent inspections of third-party facilities involved in the manufacture our products. During these inspections we carry out extensive checks and produce written 'factory inspection' reports that are shared with the managers and/or owners of the facilities, and include formal recommendations to be actioned where appropriate. We will stop using any factories that fail to meet the standards that we set.

Since first publication of our policy in September 2017 to COVID-19 lockdown, we conducted 40 factory inspections. Responses to our factory inspections to date have been positive.

In FY21 and FY22 to date COVID-19 and the associated international travel restrictions have impacted our ability to conduct inspections in person. We responded by conducting virtual tours of new factories that we have started working with, and been vigilant in gathering as much information on each new factory as possible. Given the first opportunity, we will visit all new factories in person.

In FY22 Q1, we have extended and deepened our requirements into broader labour-related areas, health and safety, environment, and anti-corruption matters, and formalised these requirements in a single 'Supplier Code of Conduct'. All of our current suppliers have signed up to our Code.

ENVIRONMENT

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

Our carbon intensity is reported in the Directors' report on page 48, and improved in the year due to COVID-19-related office homeworking. Initiatives in FY21 included adding electric car charging points at our Head office.

Initiatives started in FY20 have enjoyed a full-year benefit in FY21, including our revamped packaging to provide more secure shipping solutions and reduce our usage of packaging materials to block and brace the product, a new void fill solution made from near 100% recycled materials, and reduced paper use from paperless trade integrations with couriers and paperless invoicing.

Charitable partnerships

Like Gear4music, we are based in York, and we were delighted a year ago when Gear4music offered us a supportive partnership: as two York-based organisations, both with music at their core, we have much in common. The company's support has enabled us to help many more children, like Shabana and Bertie, and we're truly grateful.

LESLEY SCHATZBERGER
JESSIE'S FUND

Jessie's Fund

Jessie's Fund is a small charity which works all over the UK helping children who are seriously ill, disabled, or have special educational needs to express themselves through music.

The majority of children we work with are not able to communicate verbally: Jessie's Fund can offer them a vital means of connecting with the world around them. We provide music therapy and interactive music sessions in children's hospices, special schools, hospitals and even in children's own homes.

Like Gear4music, we are based in York, and we were delighted a year ago when Gear4music offered us a supportive partnership: as two York-based organisations, both with music at their core, we have much in common. The company's support has enabled us to help many more children, like Shabana and Bertie, and we're truly grateful.

Shabana receives care at Little Bridge House, the children's hospice in Taunton. The music therapist there told us "On the surface you may initially think Shabana might not be able to respond or interact readily, and yet, when you really spend quality time with her, gently singing and listening to her tiny vocalisations and watching the corners of her mouth turn up into a little smile, you know that you are beginning to connect with her. After about 20 minutes of just being with this young lady, she suddenly lifted her head up and burst into song, and her voice was actually stronger than mine and it rang out down the corridor for all to hear." Shabana's parents say "We have never seen her so animated and showing her joy so much as with the music therapy."

Bertie (not his real name) visits Haven House Children's Hospice for respite care, and though he has little control over his movements, he has his own way of dancing and showing how much joy he gets in his music therapy sessions. Like other children's hospices supported by Jessie's Fund, Haven House, which is on the border of Essex and North East London, looks after children and young people who have life-limiting conditions. One mum wrote to the music therapist "Thank you for all the amazing work you do. It means so much to us and has really enriched William's life – he loves his music sessions."

Changing Lives

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

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

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

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

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

20%

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

Music for All

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

The Board recognises

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

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

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

FOR MORE INFORMATION:
WWW.GEAR4MUSICPLC.COM

OPERATIONS

Risk	Description	Mitigation
COVID-19	COVID-19 has had a significant and enduring impact on people, societies, business and national economies. It is difficult to predict the level and shape of consumer demand post-lockdown, and the short-term and permanent impacts in different markets. COVID-19 has had a significant impact on retail and warehousing operations. Consumer confidence and disposable income may be lower and more difficult to forecast post-lockdown. Shopping habits may have changed post-lockdown. During a pandemic, operational capability and capacity could be impacted if one or more distribution centres were forced to close. Supply chains and product availability could be adversely impacted.	The safety of our employees and customers has been, and continues to be, our top priority. By effectively adapting our working practices, all of our distribution centres have been able to largely remain open through the pandemic. Where possible we have increased our stock levels and continue to place significant own and other-brand stock orders to maintain good availability across our ranges. Our supply chains do not appear to have been materially impacted. Indications are that some of the shopping habits that consumers have displayed during lockdown, including the accelerated channel shift to online, are likely to persist post-lockdown. The Group is financially robust and well placed to benefit from the transition to a new normal.
Brexit	Uncertainties remain following the UK leaving the EU on 31 December 2020, and could impact on consumer confidence and the ability of the Group to maintain sales growth. Cross-border checks create administrative challenges in moving products across the UK-EU border and have led to delays at certain ports, making it difficult for Gear4music to move products across borders to customers and/or between distribution centres. Country of Origin rules have resulted in duties on cross-border movements, potentially making Gear4music less competitive. Controls on the freedom of movement of people may impact the availability of European workers in the UK.	Gear4music is actively working to minimise cross-border activity with European DCs fulfilling a higher proportion of European demand: set target to reduce cross-border sales from c.15% to below 10% by the end of FY22. The Group benefits from having well-established trading subsidiaries in Sweden and Germany, and will further benefit from the addition of Irish and Spanish hubs in FY22. Software development solutions successfully mitigated significant administration charges. Competitor activity and offerings are regularly reviewed to remain abreast of market developments and identify risks and opportunities. Fluctuating exchange rates are regularly reviewed, and operational and financial mitigations considered. Buying products and incurring proportionally more other costs in Euros and Krona provides a natural hedge and partly mitigates currency risk.

OPERATIONS CONTINUED

Risk	Description	Mitigation
Change management	*Rapid growth* The Group's business has grown rapidly from revenues of £24m in FY15, to over £157m in FY21. 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 to match its growth. The Group will need to expand, train and manage its growing employee base. *New markets* Further expansion into markets outside the UK could 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 Group will likely have to compete with companies already established in the relevant market, and may better understand the local market. *Mergers and acquisitions* Growth through acquisition is dependent on identifying appropriate targets, negotiating and delivering transactions, and the successful integration of businesses into the Group.	The Plc and Operational Boards actively monitor and respond to developments, so as to maintain systems and practices that are appropriate for the operations and scale of the Group. Following the growing pains of FY19, FY20 was a period of consolidation with a high proportion of senior management time and software development resource dedicated to improving internal processes and controls, and overall Group resilience. The Group operates a rigorous recruitment process and continues to recruit into key management positions. The Group has again expanded its Operational Board providing greater capacity and further improving the control environment, and in FY21 created a new Finance Director role to provide financial support to the wider operational and commercial business. Prior to any such major developments management would extensively research the opportunity and routinely take appropriate professional advice. The Group has set up and established local subsidiaries in Sweden and Germany, and recruited local management familiar with local laws and regulations. Any future advances will continue to be in a measured, capital and cost-efficient manner.
IT and Cyber security	*Data security and IT reliability* The Group relies heavily on its IT infrastructure and e-commerce system. If any one or more of its websites were to fail or be damaged this could impact the Group's ability to trade. If the Group's IT and data security systems do not function properly there could be website slowdown or unavailability, loss of data, a failure by the Group to protect the confidential information of its customers, delays in transaction processing, or the inability to accept and fulfil customer orders, which could affect the Group's business. *Technological changes* Unless the Group is able to respond to technological advances it may not be able to effectively build and/or maintain a competitive advantage. *Search engine algorithms* Changes to search engines algorithms or terms of service could cause the Group's websites to be excluded from or ranked lower in natural search results and suffer a significant decrease in traffic and revenue.	The Group seeks to mitigate this risk by investing in IT infrastructure including robust cloud-based backup systems. The Group has a disaster recovery plan in place which has been designed to minimise the impact of data loss or corruption from hardware failure, human error, hacking or malware. The Group continues to allocate a significant annual budget to software development: £3.2m was capitalised in FY21, and have plans to increase this spend in FY22. Software development is in-house enabling the Group to assert greater control and drive cost efficiency to help mitigate such risks. The Group will continue to operate search engine optimisation activities that adhere to search engine guidelines.

OPERATIONS CONTINUED

Risk	Description	Mitigation
Warehousing and Distribution	*Distribution centres* Any disruption to a distribution centre's efficient operation may have an effect on the Group's business. Distribution centres may suffer prolonged power or equipment failures, failures in its IT 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. *Logistics* The supply of product to customers in a timely manner is critical to the success of the Group. The Group therefore operates its own warehouses, run by senior management that have significant experience in the sector. There is a risk that the Group may experience interruptions to the operation of these logistics and distribution networks that could prevent the timely or proper delivery of products, which could damage the Group's reputation, deter customers, prospective customers, suppliers and/or prospective suppliers.	The Group operates from three locations, mitigating the risk of over-dependence on any single location. The Group, in conjunction with its insurance broker, ensures sufficient and appropriate insurance cover is in place. This includes business interruption cover. The Group has a formal disaster recovery plan in place that details actions in specific situations. There are regular reviews of capacity across locations and follow-up plans developed that the Board believes should allow the Group to fulfil an increasing number of orders from the existing sites and identify step-changes for consideration as and when required. The Group operates from three distribution centres, each with their own local logistics relationships, thereby reducing the dependency on any single site or local network. The Group maintains multiple delivery service providers to reduce the dependency on any single provider, and tracks service level agreements on an ongoing basis. This provides system flexibility to switch providers within a matter of days if required.

BRAND AND PROPOSITION

Risk	Description	Mitigation
Brand	Developing and maintaining the reputation of the Group's brands is important to the ongoing success of the Group. Brand identity is an important factor in retaining existing and attracting new customers. A failure by the Group to offer high quality products across a range of instruments, manufacturers and price points, excellent customer service, and efficient and reliable delivery could damage its reputation and brands, and could result in the loss of customer confidence. Unfavourable publicity concerning the Group could damage the Group's brands and its business.	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. Financial PR advisors assist in external communications.
Competition	The UK and European retail market for musical instruments and music equipment is competitive. Competitors in certain markets may compete aggressively on price for a period of time. Competitors may have financial resources greater than those of the Group. Amazon sells musical instruments and music equipment.	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. Amazon's focus is on the lower AOV accessory end of the market and, as they do not have showrooms or specialist customer support.

RESOURCES AND RELATIONSHIPS

Risk	Description	Mitigation
Supply chain	*Third-party branded products* The Group's business depends on its ability to source a range of products from well-recognised third-party brands on commercially viable terms. Relationships are generally based on annual contracts that the Group seeks to renew each year. Third-party brand owners may stop supplying the Group on terms acceptable to it, fail to deliver sufficient quantities of products in a timely manner, or terminate their relationship with the Group. Any disruption to the availability or supply of products to the Group or any deterioration to the terms on which products are supplied to the Group could affect its business. *Own brand – reliance on subcontract manufacturers* The Group subcontracts manufacture of its own-brand musical instruments and equipment to independent third-party businesses in the Far East. 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 subcontractors' products is exacerbated by the lead times involved (12–16 weeks).	Whilst sales of third-party branded products accounted for approximately 66% of the Group's turnover in FY21 (FY20: 66%), 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. The Group has been successfully importing for over 18 years and has relationships with over 30 manufacturers providing resourcing options. The Board believes that the Group has robust take-on and ongoing monitoring procedures covering areas such as quality control and delivery performance for new and existing manufacturers that the Group seeks to adhere to rigidly.

In tune with our stakeholders

ASSESSMENT OF PROSPECTS AND VIABILITY

In FY21, the Group invested significant time and effort successfully managing the challenges of operating distribution centres through the COVID-19 pandemic, and as a result and as reported in these financial statements, the Group reports a significant increase in profits and profitability, a stronger balance sheet, and net cash at the year end. The evolving COVID-19 situation is kept under regular review.

OPERATIONS

The Group's business activities and position in the market, together with the factors that are likely to affect future development and performance are set out in the Strategic Report on pages 1 to 39.

The Directors have considered the Group's growth prospects in the period to 31 March 2023 based on its customer proposition and online offering in the UK and Europe, and concluded that potential growth rates remain strong as the reported channel shift to online accelerated during COVID-19. The Group has conducted various stress tests, none of which resulted in a change to the assessment of the Group as a going concern.

There is a diverse supply chain with no key dependencies.

FINANCES

The Group's policy is to ensure that it has sufficient facilities to cover its future funding requirements. At 31 March 2021, the Group had net cash of £2.7m (31 March 2020: net debt of £5.5m), with £6.2m cash (31 March 2020: £7.8m cash). On 21 April 2021, the Group secured a £35m three-year committed Revolving Credit Facility with its bankers, HSBC. This significant headroom has been factored into the Directors' going concern assessment.

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

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

NET CASH FROM OPERATING ACTIVITIES

£14.9m

+101%

NET PROFIT

£12.6m

+385%

NET ASSETS

£34.3m

+59%

NET CASH

£2.7m

+£8.2m

S172 STATEMENT

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

Our impacts on, and engagement with, our key stakeholder groups are considered within the implementation of our Group strategy. The stakeholder groups are: employees, customers, our suppliers, the environment and our shareholders.

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

OUR STAKEHOLDERS ARE AT THE HEART OF OUR MODEL

Stakeholder	How we engage
Employees We strongly believe in growing our talent by recruiting the best people, identifying individual strengths, and providing development opportunities with the scope for career progression as a result.	We introduced many measures to keep our workplaces safe and COVID-secure, examples including contactless entry system to all our UK sites with FaceStation technology, temperature testing in entrance halls, and rapid flow self-testing kits available for staff to collect from Gear4music premises. We continue to invest in our facilities to make our office a great place to work and collaborate once it is safe for everyone to fully return. Improvements in the year were largely COVID-19 focused but also include on-site electric car charging points and a licensed extension to the on-site café facility. As a thank you for the collective efforts of our amazing teams, we took the decision to pay a one-off discretionary bonus in the month of March, equivalent to 1.5% of basic annual salary. In May 2021, we introduced a new intranet to quickly and easily share information about recent company news including policy updates, new starter welcomes, and internal promotions and changes. Every department has its own dedicated page for resources, helping support cross-departmental working. A new organisational chart and structure with photos will help our colleagues to better understand 'who is who' as the business grows in size.  Gear4music has signed the Charter for Employers Positive about Mental Health. This means we are committed to creating a supportive and open culture where colleagues feel able to talk about mental health confidently, and aspire to appropriately support the mental wellbeing of all staff – we are proud to be classified as a 'Mindful Employer'. Our Employee Assistance Programme remains a highly utilised support tool, providing all employees with access to online resources, 24/7 helpline and counselling services. We continue to support our employee's wellbeing with our Mental Health and Wellbeing Policy in place.
Suppliers We work closely with our suppliers in a transparent way, operating on shared values and high standards, enabling our suppliers to participate in our success as we grow.	We pay our suppliers to agreed terms to given them the certainty they require. In normal non-COVID times, we conduct our own independent inspections of third-party facilities involved in the manufacture our own-brand products. During these inspections, we carry out extensive checks and produce written 'factory inspection' reports that are shared with the managers and/or owners of the facilities. In FY21, COVID-19 and the associated international travel restrictions have impacted our ability to conduct inspections in person. We responded by conducting virtual tours of new factories that we have started working with, and been vigilant in gathering as much information on each new factory as possible. Given the first opportunity, we will visit all new factories in person. In FY22 Q1, we have extended and deepened our requirements into broader labour-related areas, health and safety, environment, and anti-corruption matters, and formalised these requirements in a single 'Supplier Code of Conduct'. All of our current suppliers have signed up to our Code.

OUR STAKEHOLDERS ARE AT THE HEART OF OUR MODEL

Stakeholder	How we engage
Customers Effective communication with our customers is central to understanding their needs and wants, and developing our customer proposition.	We monitor and respond to Trustpilot reviews, and look to learn from things that didn't meet the customer's expectation. We invest significant resource in generating high quality engaging content, in terms of product descriptions, and studio quality photographic and video content. Improving customer experience is one of the key objectives when designing and implementing software development projects.
Community We recognise our responsibility to reduce our environmental impact, and can achieve this through technology, continuous improvements in operational efficiency, and doing things in new ways.	We continue to work with partner charities including Jessie's Fund, Changing Lives, and Music for All. Our carbon intensity is reported in the Directors' report on page 48, and improved in the year due to COVID-19-related office homeworking. Initiatives in FY21 included adding electric car charging points at our Head office. Initiatives started in FY20 have enjoyed a full-year benefit in FY21, including our revamped packaging to provide more secure shipping solutions and reduce our usage of packaging materials to block and brace the product, a new void fill solution made from near 100% recycled materials, and reduced paper use from paperless trade integrations with couriers and paperless invoicing.
Shareholders The Group seeks to maintain a regular dialogue with both existing and potential investors to ensure that its strategy, business model and performance are clearly understood. Understanding what investors and analysts think and helping these audiences understand our business, is an important part of taking our business forward.	The Chief Executive Officer and Chief Financial Officer regularly meet with investors and analysts to provide them with updates on the Group's business and to obtain feedback regarding the market's expectations of the Group. The Group's NOMAD and public relations advisor provide written feedback after these presentations and meetings, and this feedback is shared with the Board. The Group invites all shareholders to attend its Annual General Meeting where they can meet and question the Directors, and express ideas or concerns. The Notice of the Meeting is sent to shareholders at least 21 days before the meeting and the chairs of the Board and all committees together with all other Directors, routinely attend the AGM and are available to answer questions raised by shareholders. Where voting decisions are not in line with the Group's expectations the Board will engage with those shareholders to understand and address any issues. The Board receives copies of all articles relating to the Group that are published in the financial press, via its public relations advisors. The Annual Report and Accounts is published on the Company's investor website and can be accessed by shareholders.

The Strategic Report on pages 1 to 39 was approved by the Board on 21 June 2021 and signed on its behalf:

ANDREW WASS
DIRECTOR
21 June 2021

CHRIS SCOTT
DIRECTOR
21 June 2021

Providing leadership to the Group

ERIC (KEN) FORD
CHAIRMAN AND NON-EXECUTIVE DIRECTOR

Ken was previously Chief Executive of the quoted investment bank Teather & Greenwood. Ken brings over 37 years' City experience and a strong understanding of shareholder value, strategic planning and corporate transactions. Ken is a former Chairman of the Quoted Companies Alliance ('QCA') and is a Fellow of the Chartered Securities Institute.

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

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

ANDREW WASS
CHIEF EXECUTIVE OFFICER

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

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

CHRISTOPHER (CHRIS) SCOTT
CHIEF FINANCIAL OFFICER AND COMPANY SECRETARY

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

GARETH BEVAN
CHIEF COMMERCIAL OFFICER

Gareth joined Gear4music in July 2012. He was previously at DV247, the largest UK-based musical equipment retailer at that time, where he was responsible for purchasing, sales and marketing. He has over 20 years' experience in musical equipment retail.

DEAN MURRAY
NON-EXECUTIVE DIRECTOR

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

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

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

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

HARRIET WILLIAMS
NON-EXECUTIVE DIRECTOR

Harriet has spent the last 18 years working in the retail sector for some of the world's leading consumer brands, where she has led e-commerce and omnichannel sales, marketing, strategy and business development initiatives in the UK and internationally. Harriet is currently Vice President Global e-commerce at the LEGO Group.

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

Chairman's introduction

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

KEN FORD
CHAIRMAN

QUOTED COMPANIES ALLIANCE CORPORATE GOVERNANCE CODE

The Directors apply the Quoted Companies Alliance Corporate Governance Code ('the QCA Code'), a proportionate, principles-based approach constructed around ten broad principles with accompanying guidance, and this section outlines how the Group operates in each of these key areas. The Group's application of the QCA Code is detailed on its website at www.gear4musicplc.com/investors/corporate-governance/.

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

THE ROLE OF THE BOARD

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

The Group is controlled by the Board of Directors. The Board is headed by the Chairman, comprises six Directors, of which three are Executive and three are Non-Executive, meeting the QCA Code's guidance that a board should have at least two independent Non-Executive Directors. It is recognised that the Chief Executive Officer, being a major shareholder, risks individual dominance of the Board but the Board's view is that the independent Non-Executive Directors and Committees mitigate this risk.

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

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

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

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

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

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

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

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

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

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

The table below shows the number of Board meetings and Audit Committee and the Remuneration Committee meetings held in the period from 1 April 2020 to the date of approval of the Annual Report and Accounts. The table also show the attendance of each Director:

Director	Role	Board meetings	Audit Committee meetings	Remuneration Committee meetings
Ken Ford	Non-Executive Chairman	12/12	3/3	2/2
Andrew Wass	Chief Executive Officer	12/12		
Chris Scott	Chief Financial Officer	12/12	3/3	2/2
Gareth Bevan	Chief Commercial Officer	12/12		
Dean Murray	Non-Executive Director	12/12	3/3	2/2
Harriet Williams	Non-Executive Director	5/5		

The Board of Directors and Committees of the Board of Directors

The Board, which is headed by the Chairman, comprises six Directors of which three are Executive and three are Non-Executive, providing a broad range of relevant skills and experiences. The Board considers Ken Ford, Dean Murray and Harriet Williams to be 'independent' Non-Executives under the criteria identified in the QCA Code. Directors' profiles are detailed on page 40.

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

RE-ELECTION

At each Annual General Meeting ('AGM') one-third (or whole number less than one-third) of the Directors retires by rotation, and in September 2020 this was Andrew Wass and Dean Murray.

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

SHAREHOLDER COMMUNICATIONS

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

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

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

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

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

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

INTERNAL CONTROLS

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

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

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

The Board confirms that there are ongoing processes for identifying, evaluating and mitigating the significant risks faced by the Group.

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

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

There is no internal audit department.

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

AUDIT COMMITTEE REPORT

OVERVIEW

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

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

MEMBERSHIP OF THE 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 COMMITTEE

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

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

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

The 1998 Public Interest Disclosure Act and the 2013 Enterprise and Regulatory Reform Act (together 'the Acts') aims to promote greater openness in the workplace and ensures 'whistleblowers' are protected. The Group maintains a policy in accordance with the Acts which allows employees to raise concerns on a confidential basis if they have reasonable grounds in believing that there is serious malpractice within the Group. The policy is designed to deal with concerns, which must be raised without malice and in good faith, in relation to specific issues which are in the public interest and which fall outside the scope of other Group policies and procedures. There is a specific complaints procedure laid down and action will be taken in those cases where the complaint is shown to be justified. The individual making the disclosure will be informed of what action is to be taken and a formal written record will be kept of each stage of the procedure.

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

EXTERNAL AUDITOR AND NON-AUDIT SERVICES

In FY20, Grant Thornton UK LLP was appointed auditor to the Group and Company.

Fees in relation to services provided by the external auditor in FY21 and FY20 were:

	FY21	FY20
Audit fee	100	90
Non-audit fees: other audit related services	5	–
Total fees	105	90

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

REMUNERATION COMMITTEE REPORT

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

MEMBERSHIP OF THE REMUNERATION COMMITTEE

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

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

The Remuneration Committee meets at least twice a year.

REMUNERATION POLICY

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

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

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

NON-EXECUTIVE DIRECTORS

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

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

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

DIRECTORS' INTERESTS

Details of the Directors' shareholdings are included in the Directors' report on page 47.

DIRECTORS' REMUNERATION

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

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

The remuneration of each of the Directors for the year ended 31 March 2021 is set out below. In FY20, Andrew Wass took a six-month voluntary pay reduction in light of FY19 financial performance. These values are included within the audited accounts:

	Basic salary £000	Benefits £000	Pensions £000	Total FY21 £000	Total FY20 £000
Executive					
Andrew Wass	219	2	7	**228**	119
Chris Scott	174	2	6	**182**	174
Gareth Bevan	162	2	5	**169**	160
Non-Executive					
Ken Ford	36	–	–	**36**	36
Dean Murray	34	–	1	**35**	34
Harriet Williams, appointed 1 January 21	10	–	–	**10**	–
Total	**635**	**6**	**19**	**660**	**523**

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

DIRECTORS' SHARE OPTIONS

Executive	Scheme	1 April 2020	Awarded during period	Lapsed during the period	31 March 2021	Date granted
Andrew Wass	Director cash plan 2017	–	–	–	–	June 2017
	LTIP	45,000	–	–	45,000	Nov 2018
Chris Scott	CSOP	3,606	–	3,606	–	June 2017
	LTIP	45,000	–	–	45,000	Nov 2018
Gareth Bevan	CSOP	3,606	–	3,606	–	June 2017
	LTIP	52,500	–	–	52,500	Nov 2018

CSOP

There was a CSOP share incentive plan in place for Chris Scott and Gareth Bevan and equivalent discretionary cash bonus plan for Andrew Wass. The required performance conditions were not met and these awards lapsed in the year.

LTIP

In FY19, an LTIP was put in place to incentivise the six Directors of Gear4music Limited, including Andrew Wass, Gareth Bevan and Chris Scott.

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

Award vesting date	Previous hurdle price	Amended hurdle price	Maximum number of shares vesting
July 2021	£13.00	£8.00	27,300
July 2022	£16.00	£9.50	29,400
July 2023	£20.00	£11.00	33,600
July 2024	£24.00	£13.00	35,700
July 2025	£29.00	£15.00	39,900
July 2026	£35.00	£17.00	44,100

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

The cost of the amendment was covered by way of bonus in FY21 and Andrew Wass, Chris Scott, and Gareth Bevan received bonuses of £2,334, £2,334 and £2,490 respectively.

KEN FORD
CHAIRMAN AND NON-EXECUTIVE DIRECTOR
21 June 2021

The Directors present their report and the audited financial statements for the year ended 31 March 2021.

PRINCIPAL ACTIVITY

The principal activity of the Group is the retail of musical instruments and equipment, through 20 Gear4music branded websites in 15 languages, and showrooms in York, Sweden and Germany. It retails own and other-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 39. 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's statement and the financial review reports.

FINANCIAL RESULTS

Details of the Group's financial results and position are set out in the Consolidated Statement of Profit and Loss and Other Comprehensive Income, other primary statements and notes to the accounts on pages 58 to 84.

DIVIDENDS

The Directors do not recommend the payment of a dividend (FY20: nil).

GOING CONCERN

After making appropriate enquiries, the Directors have confidence that the Group has adequate resources to continue in operational existence for the foreseeable future, and continue to adopt the going concern basis in preparing the annual report and accounts. This is described in more detail in Note 1 notes to the financial statements.

DIRECTORS

The Directors who served on the Board and on Board Committees during the year are set out on page 40 and pages 43 to 46. One-third of the Directors are required to retire at the AGM and can offer themselves for re-election.

Information on Directors' remuneration and share option rights is given in the Remuneration Committee report on pages 45 and 46.

SIGNIFICANT SHAREHOLDERS

The Company is informed that at 30 April 2021, 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	6,351,993	30.3%
AXA Investment Managers	2,751,193	13.1%
Standard Life Aberdeen plc	2,042,412	9.8%
TB Amati Investment Funds	1,857,289	8.9%
Cannaccord Genuity Group Inc.	1,515,722	7.2%
Premier Miton Group	759,481	3.6%
Octopus Investments Limited	668,345	3.2%

DIRECTORS' SHAREHOLDINGS

The beneficial interests of the Directors in the share capital of the Company at 1 April 2020 and 31 March 2021 were as follows:

	1 April 2020 Number of shares	31 March 2021 Number of shares	31 March 2021 % of issued share capital
Executive Directors			
Andrew Wass	7,161,993	6,351,993	30.3%
Gareth Bevan	114,760	84,760	0.4%
Chris Scott	104,840	74,840	0.4%
Non-Executive Directors			
Dean Murray	197,520	167,520	0.8%
Ken Ford	40,000	40,000	0.2%

In October 2020, the Board's Remuneration Committee rebased the share price hurdles to ensure that the LTIP continued to provide appropriate incentivisation to senior management, including Andrew Wass, Gareth Bevan and Chris Scott.

All share option plans and are outlined in the Remuneration Committee report on pages 45 and 46 and on pages 81 and 82.

The middle market price of the Company's Ordinary shares on 31 March 2021 was 825.0 pence (31 March 2020: 172.5 pence), and the range in the year was 170.0 pence to 855.0 pence, with an average price of 570.0 pence.

RESEARCH AND DEVELOPMENT

The Group capitalised £3.2m of software development costs during the year (FY20: £2.8m) and expensed £155,000 of R&D costs (FY20: £136,000) relating to the in-house e-commerce software platform.

Amortisation of the software platform totalled £1.9m in the year (FY20: £1.6m).

FINANCIAL INSTRUMENTS

The Group's policy and exposure to financial instruments is set out in Note 19 to the financial statements.

QUALIFYING THIRD-PARTY INDEMNITY

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

EMPLOYEE INVOLVEMENT

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

DONATIONS

During the year ended 31 March 2021 the Group made charitable donations totalling £5,300 (FY20: £nil).

SUPPLIER PAYMENT POLICY AND PRACTICE

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

The number of creditor days outstanding at 31 March 2021 was 26 days (31 March 2020: 24 days). This is a weighted average by invoice value, with reference to actual invoice and payment dates.

GREENHOUSE GAS EMISSIONS

The disclosures required under 'Streamlined Energy and Reporting' ('SECR') are included below, and insight into initiatives to reduce the direct environmental impact of the Group are detailed on page 29.

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

Energy use in the year ended 31 March 2021 was impacted by Head office homeworking for large periods of the year, and as a result Head office electricity consumption was down 18% and gas down 11% on the previous year, equating to an estimated 221,425 kWh.

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

CORPORATE GOVERNANCE

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

AUDITOR

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

By order of the Board

CHRIS SCOTT
CHIEF FINANCIAL OFFICER
21 June 2021

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES
in respect of the Annual Report and the Financial Statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have to prepare the Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and they have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Company and Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- for the Group financial statements, state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements;
- for the Parent Company financial statements, state whether applicable UK Accounting standards have been followed, subjected to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The Directors confirm that:

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

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

To the best of our knowledge:

- the Group financial statements, prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report and Directors' report include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

ANDREW WASS
DIRECTOR
21 June 2021

CHRIS SCOTT
DIRECTOR
21 June 2021

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

OPINION

OUR OPINION ON THE FINANCIAL STATEMENTS IS UNMODIFIED

We have audited the financial statements of Gear4music (Holdings) plc ('the Parent Company') and its subsidiaries ('the Group') for the year ended 31 March 2021, which comprise the Consolidated Statement of Profit and Loss and Other Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Company Balance Sheet, the Company Statement of Changes in Equity and Notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

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

CONCLUSIONS RELATING TO GOING CONCERN

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

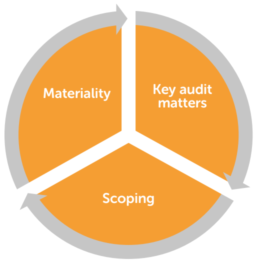
A description of our evaluation of management's assessment of the ability to continue to adopt the going concern basis of accounting, and the key observations arising with respect to that evaluation is included in the Key Audit Matters section of our report.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue.

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

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

Grant Thornton



OVERVIEW OF OUR AUDIT APPROACH

Overall materiality: Group: £706,500, which represents 0.45% of the Group's revenue. Parent Company: £285,000, which represents 2% of the Parent Company's total assets.

Key audit matters were identified as:

- Going concern (same as previous year);
- Improper revenue recognition (same as previous year); and
- Capitalisation of internally generated development costs (same as previous year).

Our auditor's report for the year ended 31 March 2020 included one key audit matter that has not been reported as a key audit matter in our current year's report. This related to the valuation of goodwill and other intangible assets which is not deemed to be a key audit matter in the current year due to the significant headroom in management's forecasts and the lack of sensitivity to the key assumptions used by management in these forecasts.

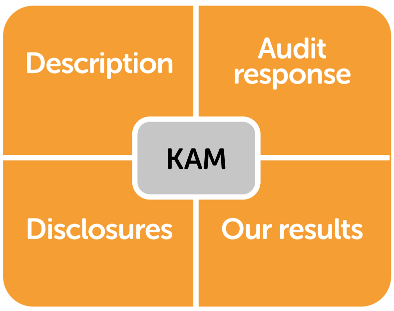
We have performed the following audit work:

- An audit of the financial statements of the Parent Company and of the financial information using component materiality for Gear4music (Holdings) plc, and the trading subsidiary Gear4music Limited (full-scope audits).
- Analytical procedures at Group level on Gear4music Sweden AB, Gear4music GmbH, Gear4music Norway AS and Cagney Limited.

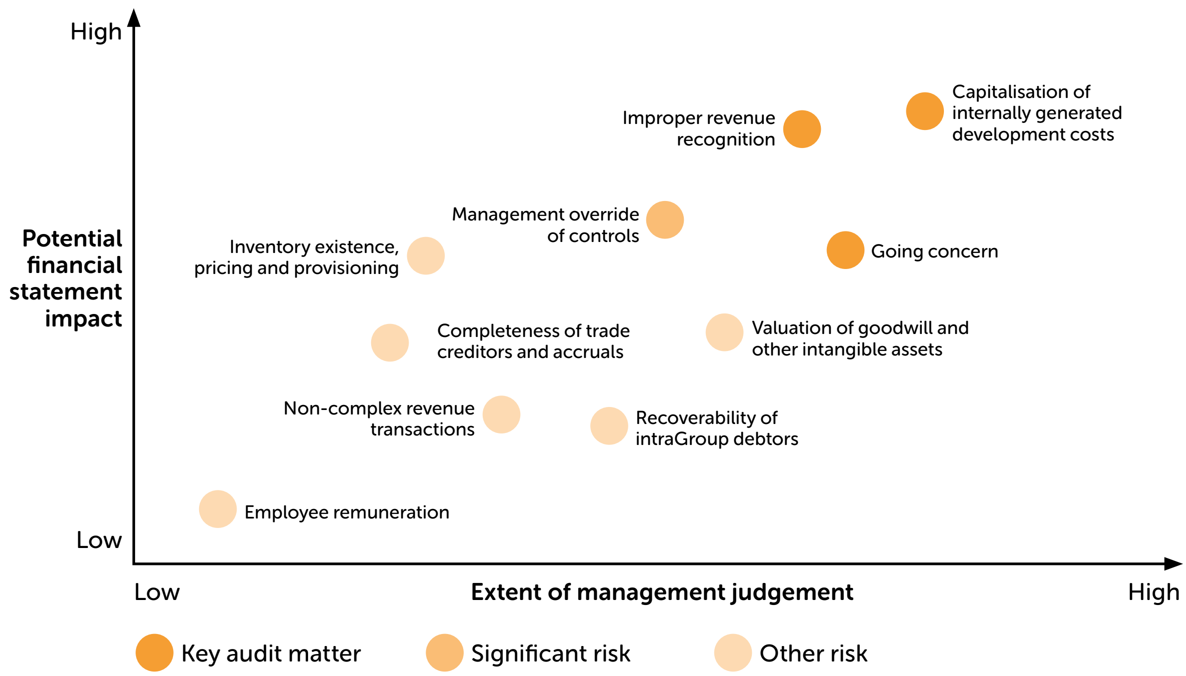
In total, our audit procedures covered 95% of the Group's total cash, 95% of the Group's revenue and 97% of the Group's profit before tax.

KEY AUDIT MATTERS

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



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



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

Key Audit Matter – Applicable for both Group and Parent Company	How our scope addressed the matter
GOING CONCERN We have identified a key audit matter related to going concern as one of the most significant assessed risks of material misstatement due to fraud and error as a result of the judgment required to conclude whether there is a material uncertainty related to going concern. In the current macroeconomic environment there is significantly more judgement applied in developing cash flow forecasts, including management's forecasts supporting their assessment as to whether that the Group and Parent Company will continue to be able to operate throughout the Going Concern period. The Directors have concluded, based on the various scenarios developed, that the Group has sufficient resources available to meet its liabilities as they fall due and have concluded that there are no material uncertainties around the going concern assumptions.	In responding to the key audit matter, we performed the following audit procedures: • Obtaining an understanding of the design and implementation of controls over management's going concern assessment; • Obtaining management's forecasts covering the period to 31 March 2023 and assessing their integrity and suitability as a basis for management to assess going concern; • Evaluating the key assumptions within the cash flow forecasts, including the quantum and timing of cash outflows and inflows, and determining whether these have been applied appropriately. We also considered whether the assumptions were consistent with our understanding of the business, with current lockdown restriction guidance, and with the expected wider economic impact of COVID-19; • Assessing the accuracy of management's past forecasting by comparing management's forecasts for the last three financial periods to the actual results for those periods and considering any impact on our assessment of the current year cash flow forecast; • Corroborating the existence of the Group's new loan facilities, which were negotiated post year end, and related covenant requirements for the period covered by management's forecasts, and confirming no breaches of covenants are forecast; • Reviewing management's reverse stress testing and sensitivity analyses and ensuring that this appropriately considers the current and potential future impact of COVID-19 on the Group's financial performance; • Reviewing post year end management accounts for indication of any significant post balance sheet events which could impact going concern; and • Assessing the adequacy of the going concern disclosures included within the Annual Report and Financial Statements.
RELEVANT DISCLOSURES IN THE ANNUAL REPORT AND ACCOUNTS 2021 The Group's accounting policies on the Going Concern assumption are shown in Note 1.1 to the financial statements. Additional disclosure is included in the Financial Review on pages 24 to 27, and 36 and 37.	**OUR RESULTS** Based on our audit work, we are satisfied that the assumptions made in management's assessment of the use of the going concern assumption in preparation of financial statements were appropriate. We have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Company's ability to continue as a going concern for the going concern period to 31 March 2023.

Key Audit Matter – Group	How our scope addressed the matter – Group
IMPROPER REVENUE RECOGNITION We identified improper revenue recognition as one of the most significant assessed risks of material misstatement due to fraud. Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. We determined that the significant risk in revenue is related to manual adjustments to revenue in the year, including those in respect of the sales cut-off provision, the warranty income provision and the returns provision. There are judgements and estimates which are susceptible to management bias in these calculations.	In responding to the key audit matter, we performed the following audit procedures: • Obtaining an understanding of the relevant processes and controls in place over revenue recognition, including those related to the posting and reconciliation of revenue, and confirmed they were implemented as designed by performing a walkthrough; • Assessing the relevant accounting policies for consistency and appropriateness with the financial reporting framework, including IFRS 15 'Revenue from Contracts for Customers'; • Utilising data analytics to identify unusual postings to the revenue balance by interrogating the revenue population, including the analysis of revenue postings from inception to cash, and identifying any unexpected ledger postings, including manual entries, which we agreed to supporting documentation. We tested the operating effectiveness of controls over the payment provider and bank reconciliation process to support this detailed analysis; • Challenging and corroborating the judgements and assumptions used in management's cut-off adjustment calculation and selecting a sample of dispatches made close to the year end, agreeing through to proof of delivery to confirm the cut-off was appropriate; • Performing substantive analytical procedures on the cut-off provision with reference to the provision recognised in the prior year, and the value of revenue transactions around the year end; • Recalculating the warranty income recognised in the year and challenging management on inputs into the model, including the expected timing that the related performance obligation will be satisfied; • Performing substantive analytical procedures on the credit note provision with reference to the average value of returns per month and the value of revenue around the year end; and • Selecting a sample of post year end credit notes to test the completeness and accuracy of the credit note provision at the year end.
RELEVANT DISCLOSURES IN THE ANNUAL REPORT AND ACCOUNTS 2021 The Group's accounting policy on revenue recognition is shown in Note 1.15 to the financial statements. Related disclosures are included in Note 2 to the financial statements.	**OUR RESULTS** Based on our audit work, we did not identify any material misstatements in the revenue recognised in the year to 31 March 2021.
CAPITALISATION OF INTERNALLY GENERATED DEVELOPMENT COSTS We identified the capitalisation of internally generated development costs relating to the Group's bespoke platform as one of the most significant assessed risks of material misstatement due to error. There are judgements made by management in respect of capitalising internally generated costs and as such there is a risk that the specific requirements under International Accounting Standards (IAS) 38 'Intangible Assets' regarding capitalisation of internally generated intangible assets are not met.	**OUR RESULTS** In responding to the key audit matter, we performed the following audit procedures: • Obtaining an understanding of the relevant processes and controls in place over the capitalisation of internally generated development costs and confirmed they were implemented as designed by performing a walkthrough; • Challenging management's capitalisation policy for intangible assets to ensure it is reasonable and in accordance with the relevant financial reporting framework; • Assessing whether the nature of the expenditure met the criteria for capitalisation set out in the standard and challenging management on the quantum of the costs which were capitalised in the year; and • Selecting a sample of development costs capitalised during the year to supporting evidence, including employment contracts, payroll records and development project schedules, to assess whether they have been appropriately capitalised.
RELEVANT DISCLOSURES IN THE ANNUAL REPORT AND ACCOUNTS 2021 The Group's accounting policy on revenue recognition is shown in Note 1.10 to the financial statements. Related disclosures are included in Note 10 to the financial statements.	**OUR RESULTS** Based on our audit work, we have identified that the capitalisation of internally generated development costs has been accounted for in accordance with the Group's accounting policies. We have not identified any material misstatements with respect to capitalisation of these costs.

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

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

OUR APPLICATION OF MATERIALITY

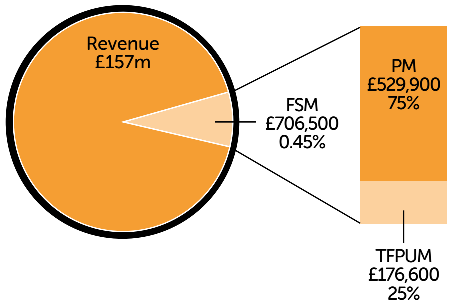
We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.

Materiality was determined as follows:

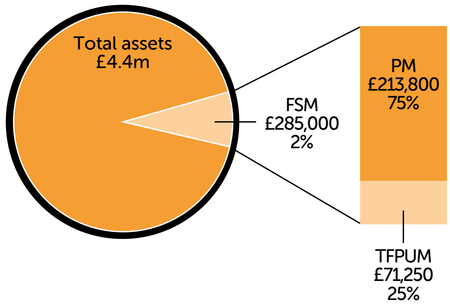
Materiality measure	Group	Parent Company
MATERIALITY FOR FINANCIAL STATEMENTS AS A WHOLE	We define materiality as the magnitude of misstatement in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial statements. We use materiality in determining the nature, timing and extent of our audit work.	
Materiality threshold	£706,500 which is 0.45% of revenue.	£285,000 which is 2% of total assets.
Significant judgements made by the auditor in determining the materiality	In determining materiality, we made the following significant judgements: • the selection of an appropriate benchmark; • the selection of an appropriate percentage to apply to that benchmark; and • the consideration of other qualitative factors. We determined that revenue was the most appropriate benchmark for the Group due to it being a key performance indicator for the Group's stakeholders and it being less volatile than earnings for the Group. The benchmark used for the year ended 31 March 2021 is the same as the benchmark used for the year ended 31 March 2020, however a higher % of revenue has been used. This reflects the increase in overall performance and profitability in the year. The materiality is higher due to this increase and the increase in revenues.	In determining materiality, we made the following significant judgements: • the selection of an appropriate benchmark; • the selection of an appropriate percentage to apply to that benchmark; and • the consideration of other qualitative factors. We determined that total assets was the most appropriate benchmark given the activities of the Parent Company primarily being a holding company and its major activities relate to fixed assets included in the financial statements. The benchmark used for the year ended 31 March 2021 is the same as the benchmark used for the year ended 31 March 2020, however the materiality is lower due to a reduction in total assets.
PERFORMANCE MATERIALITY USED TO DRIVE THE EXTENT OF OUR TESTING	We set performance materiality at an amount less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.	
Performance materiality threshold	£529,900 which is 75% of financial statement materiality.	£213,800 which is 75% of financial statement materiality.
Significant judgements made by the auditor in determining the performance materiality	In determining materiality, we made the following significant judgements: • assessment of the strength of the control environment of the Group and the entities within it; • consideration of control findings and misstatements from the prior year audit; and • assessment of the strength of the information systems used for key business processes and reporting. This was the second year of auditing the financial statements of Gear4music (Holdings) plc and we applied a higher % of performance materiality to reflect the knowledge gained in our first year.	Performance materiality for the Parent Company has been calculated to be consistent with the Group in line with the significant judgements made for the Group.
COMMUNICATION OF MISSTATEMENTS TO THE AUDIT COMMITTEE	We determine a threshold for reporting unadjusted differences to the Audit Committee.	
Threshold for communication	£35,300 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£14,300 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

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

OVERALL MATERIALITY – GROUP



OVERALL MATERIALITY – PARENT COMPANY



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

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

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

- Documenting our understanding of, and evaluating, the processes and controls relevant to the key audit matters outline above;
- Evaluation by the Group audit team of identified components to assess the significance of that component and to determine the planned audit response based on a measure of materiality, considering each as a percentage of the Group's revenue, profit before tax, cash and cash equivalents, and total assets;
- Performing full scope audit procedures on the Parent Company, Gear4music (Holdings) plc, and the Group's trading subsidiary, Gear4music Limited. The components subject to full scope audit procedures cover 95% of the consolidated revenues;
- Performing analytical procedures on Gear4music Sweden AB, Gear4music GmbH, Gear4music Norway AS and Cagney Limited, using Group materiality;
- An assessment of material accounting policies for compliance with the financial reporting framework;
- No separate component auditors were used, with the Group audit team undertaking all work to support the Group audit opinion.

OTHER INFORMATION

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

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

We have nothing to report in this regard.

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

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

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

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

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

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

RESPONSIBILITIES OF DIRECTORS FOR THE FINANCIAL STATEMENTS

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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

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

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

- We obtained an understanding of the legal and regulatory frameworks applicable to the Company, and the industry in which it operates. We determined that the following laws and regulations were most significant; financial reporting legislation (IFRS and Companies Act 2006), the Financial Services and Markets Act 2000 and relevant tax compliance legislation for the Group. In addition, we concluded that there are other laws and regulations that may have an effect on the determination of the amounts and disclosures in the financial statements including those laws and regulations relating to health and safety, and employment;
- We understood how the Parent Company and the Group is complying with those legal and regulatory frameworks by making inquiries of management and those responsible for legal and compliance procedures. We corroborated our inquiries through inspection of Board minutes.
- We enquired of management whether there were any known or suspected instances of non-compliance with laws and regulations or fraud that could have a material impact on the financial statements. We corroborated the results of our enquiries to supporting documentation such as Board minute reviews and papers provided to the Audit Committee. From the procedures performed we did not identify any material matters relating to non-compliance with laws and regulation or matters in relation to fraud.
- To assess the potential risks of material misstatement, we obtained an understanding of:
  - the Group's operations, including the nature of its revenue sources, expected financial statement disclosures and business risks that may result in risk of material misstatement; and
  - the Group's control environment including the adequacy of procedures for authorisation of transactions.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls.
- Audit procedures performed by the engagement team included:
  - evaluating the processes and controls established to address the risks related to irregularities and fraud;
  - journal entry testing, in particular journals determined to have a large impact on profit or that are indicative of unusual transactions based on our understanding of the business; and
  - challenging assumptions and judgements made by management in its significant accounting estimates.
- Team communications in respect of potential non-compliance with laws and regulations and fraud included the potential for fraud in revenue recognition and areas of significant management judgement, including those related to the capitalisation of internally generated development costs. These are also reported as key audit matters in the key audit matter section of our report where the matter and the specific procedures we performed in response to the key audit matter are described in more detail.
- We assessed the appropriateness of the collective competence and capabilities of the engagement team, including consideration of the engagement team's knowledge and understanding of the industry in which the client operates in, and their practical experience through training and participation with audit engagements of a similar nature.
- We did not identify any material matters relating to non-compliance with laws and regulation.

USE OF OUR REPORT

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

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

21 June 2021

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

	Note	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Revenue		157,451	120,326
Cost of sales		(111,097)	(89,170)
Gross profit		46,354	31,156
Administrative expenses	3,4	(30,945)	(27,089)
Operating profit		15,409	4,067
Financial expenses	6	(770)	(989)
Profit before tax		14,639	3,078
Taxation	7	(1,998)	(488)
Profit for the year		12,641	2,590
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Revaluation of property, plant and equipment	8	–	309
Deferred tax movements	12	8	(93)
Items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences – foreign operations		(17)	(37)
Total comprehensive income for the year		12,632	2,769
Basic profit per share	5	60.3p	12.4p
Diluted profit per share	5	59.7p	12.2p

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Non-current assets			
Property, plant and equipment	8	**11,190**	11,219
Right-of-use assets	9	**7,871**	8,962
Intangible assets	10	**10,395**	9,084
		29,456	29,265
Current assets			
Inventories	13	**28,430**	22,015
Trade and other receivables	14	**3,647**	2,501
Cash and cash equivalents	15	**6,203**	7,839
		38,280	32,355
Total assets		**67,736**	61,620
Current liabilities			
Interest-bearing loans and borrowings	16	**(575)**	(9,949)
Trade and other payables	17	**(18,938)**	(14,442)
Lease liabilities	18	**(1,099)**	(1,148)
		(20,612)	(25,539)
Non-current liabilities			
Interest-bearing loans and borrowings	16	**(2,901)**	(3,439)
Other payables	17	**(110)**	(107)
Lease liabilities	18	**(8,315)**	(9,519)
Deferred tax liability	12	**(1,486)**	(1,407)
		(12,812)	(14,472)
Total liabilities		**(33,424)**	(40,011)
Net assets		**34,312**	21,609
Equity			
Share capital	20	**2,095**	2,095
Share premium	20	**13,165**	13,152
Foreign currency translation reserve	20	**(51)**	(34)
Revaluation reserve	20	**1,640**	1,674
Retained earnings	20	**17,463**	4,722
Total equity		**34,312**	21,609

Notes 1 to 22 form part of these financial statements.

These financial statements were approved by the Board of Directors on 21 June 2021 and were signed on its behalf by:

ANDREW WASS
DIRECTOR
21 June 2021

CHRIS SCOTT
DIRECTOR
21 June 2021

Company registered number: 07786708

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £000	Share premium £000	Foreign currency translation reserve £000	Revaluation reserve £000	Retained earnings £000	Total equity £000
Balance at 31 March 2019	**2,095**	**13,152**	**3**	**1,424**	**2,033**	**18,707**
Comprehensive income for the year						
Profit for the year	–	–	–	–	2,590	2,590
Other comprehensive income	–	–	(37)	–	(34)	(71)
Freehold property revaluation	–	–	–	309	–	309
Deferred tax impact of revaluation	–	–	–	(59)	–	(59)
Share-based payments charge	–	–	–	–	133	133
Total comprehensive income for the year	–	–	(37)	250	2,689	2,902
Balance at 31 March 2020	**2,095**	**13,152**	**(34)**	**1,674**	**4,722**	**21,609**
Comprehensive income for the year						
Profit for the year	–	–	–	–	12,641	12,641
Other comprehensive income	–	–	(17)	–	10	(7)
Deferred tax adjustment – timing difference	–	–	–	–	(8)	(8)
Share-based payments charge	–	–	–	–	64	64
Depreciation transfer	–	–	–	(34)	34	–
Total comprehensive income for the year	–	–	(17)	(34)	12,741	12,690
Transactions with owners						
Issue of shares	–	13	–	–	–	13
Total transactions with owners	–	13	–	–	–	13
Balance at 31 March 2021	**2,095**	**13,165**	**(51)**	**1,640**	**17,463**	**34,312**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Cash flows from operating activities			
Profit for the year		12,641	2,590
Adjustments for:			
Depreciation and amortisation	3	4,372	3,687
Financial expense	6	770	989
(Profit)/loss on sale of property, plant and equipment		(4)	11
Share-based payment charge		64	133
Taxation	7	1,998	488
		19,841	7,898
Increase in trade and other receivables	14	(1,181)	(844)
Increase in inventories	13	(6,415)	(3,354)
Increase in trade and other payables	17	2,687	3,273
		14,932	6,973
Tax (paid)/received	7	(37)	501
Net cash from operating activities		14,895	7,474
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		14	50
Acquisition of property, plant and equipment	8	(1,166)	(740)
Capitalised development expenditure	10	(3,186)	(2,820)
Acquisition of a business	10	(200)	(400)
Net cash from investing activities		(4,538)	(3,910)
Cash flows from financing activities			
Cash from share issue		13	–
Proceeds from new borrowings	16	29	1,565
Interest paid		(692)	(806)
Repayment of borrowings	16	(9,948)	(546)
Payment of lease liabilities	18	(1,379)	(1,205)
Net cash from financing activities		(11,977)	(992)
Net (decrease)/increase in cash and cash equivalents		(1,620)	2,572
Cash and cash equivalents at beginning of year		7,839	5,304
Foreign exchange movement		(16)	(37)
Cash and cash equivalents at end of period	15	6,203	7,839

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

NOTES
(FORMING PART OF THE FINANCIAL STATEMENTS)

GENERAL INFORMATION

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

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

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

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

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

On 20 April 2021, the Group incorporated an Irish subsidiary, Gear4music Ireland Limited.

1 ACCOUNTING POLICIES

1.1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with the AIM rules for Companies, and apply the recognition, measurement and disclosure requirements of International accounting standards in conformity with the Companies Act 2006. The Company has elected to prepare its Parent Company financial statements in accordance with FRS 102; these are presented on pages 85 to 91.

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

Subjective judgements made by the Directors in the application of these accounting policies that could have significant effect on the financial statements are considered in Note 1.19.

Accounting period

The financial statements presented cover the years ended 31 March 2021 and 31 March 2020.

Measurement convention

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

1.2 ADOPTION OF NEW AND REVISED STANDARDS

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

The following new standards, and amendments to standards, have been adopted by the Group for the first time during the year ending 31 March 2021, and the impact was not material:

- Amendments to References to the Conceptual Framework in IFRS Standards
- Amendments to IFRS 3: Business Combinations
- Amendments to IAS 1 and IAS 8: Definition of Material
- Amendments to IFRS 9, IAS 39 and IFRS7: Interest Rate Benchmark Reform
- Amendment to IFRS 16: COVID-19-Related Rent Concessions
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2

1.3 GOING CONCERN

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

In FY21, the Group invested significant time and effort successfully managing the challenges of operating distribution centres through the COVID-19 pandemic, and as a result and as reported in these financial statements, the Group reports a significant increase in profits and profitability, a stronger balance sheet, and net cash at the year end. The evolving COVID-19 situation is kept under regular review.

The Directors have considered the Group's growth prospects in the period to 31 March 2023 based on its customer proposition and online offering in the UK and Europe, and concluded that potential growth rates remain strong as the reported channel shift to online accelerated during COVID-19. The Group has conducted various stress tests, none of which resulted in a change to the assessment of the Group as a going concern.

There is a diverse supply chain with no key dependencies.

The Group's policy is to ensure that it has sufficient facilities to cover its future funding requirements. At 31 March 2021, the Group had net cash of £2.7m (31 March 2020: net debt of £5.5m), with £6.2m cash (31 March 2020: £7.8m). On 21 April 2021, the Group secured a £35m three-year committed Revolving Credit Facility with its bankers, HSBC. This significant headroom has been factored into the Directors' going concern assessment.

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

1.4 BASIS OF CONSOLIDATION

Subsidiaries

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

Transactions eliminated on consolidation

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

1.5 FOREIGN CURRENCY

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

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

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

Functional currency

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

1.6 CLASSIFICATION OF FINANCIAL INSTRUMENTS ISSUED BY THE GROUP

In accordance with IAS 32, financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

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

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

1.7 NON-DERIVATIVE FINANCIAL INSTRUMENTS

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

Trade and other receivables

Trade and other receivables are recognised initially at transaction price. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any expected credit losses. The Directors have concluded that any such credit losses are immaterial.

Trade and other payables

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

Cash and cash equivalents

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

Interest-bearing borrowings

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

1 ACCOUNTING POLICIES CONTINUED

1.8 PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

Land and buildings are stated at fair value.

Revaluation

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

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

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

1.9 BUSINESS COMBINATIONS

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

The Group measures goodwill at the acquisition date as:

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

Costs related to the acquisition are expensed as incurred.

Goodwill impairment testing

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

1.10 INTANGIBLE ASSETS

Software platform

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

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

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

Other intangible assets

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

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

Amortisation

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

- Brand 10 years
- 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. 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.

1.13 EMPLOYEE BENEFITS

Defined contribution plans

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

Share-based payment transactions

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

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

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

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 ACCOUNTING POLICIES CONTINUED

1.15 REVENUE

Product sales and carriage income

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

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

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

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

Revenue is measured at the fair value of the consideration received, including freight charges and duty where applicable, excluding discounts, rebates, VAT and other sales taxes or duty. Returns are dealt with on receipt of the product into the warehouse which triggers an automatic credit, and an estimate for returns is provided for at the year end. This balance is held within accruals and deferred income (Note 17). The value of inventory for sales returns is included in inventory at the year end (Note 13).

Other revenue

The Group offers customers extended paid-for warranties on a two-to-six-year basis, depending on the product. Warranty income is recognised 'over time' under IFRS 15, by assuming an inputs method that measures progress by reference to costs incurred towards satisfying that performance obligation as compared to the total expected costs. A contract liability is recognised for consideration received in respect of unsatisfied performance obligations as deferred income in the statement of financial position (Note 17).

The Group offers retail point of sale credit on orders over £250, through agreements with external credit providers. The Group does not retain any credit risk and commissions are recognised within revenue on recognition of the credit sale. In the year ended 31 March 2021, this income totalled £309,000 (FY20: £285,000). No discount is offered on any sales made through these credit providers.

1.16 EXPENSES AND OTHER INCOME

Finance lease payments

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

Government and other forms of grant

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

Financing income and expenses

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

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

Other income

Other income comprises property income and marketing support.

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 has been identified as the Executive Directors.

1.19 ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of consolidated financial information in conformity with International accounting standards in conformity with the requirements of the Companies Act 2006, requires management to make judgements, estimates and assumptions concerning the future, that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. These judgements are based on historical experience and management's best knowledge at the time and the actual results may ultimately differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis and revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

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

Judgements

- Impairment assessments – Property, plant and equipment, and intangible assets are reviewed for impairment, and value in use calculations are prepared using management's assumptions and estimates.
- Direct software development costs are capitalised as intangible assets. Judgement is applied in assessing the flow of future economic benefit, and in identifying which costs are capitalised and which are written off as an expense. Alternative judgement could result in certain costs being expensed or capitalised.
- The useful life of tangible and intangible fixed assets – management selected depreciation and amortisation periods appropriate to the assets held, and consistent with industry and accounting norm. Amortisation periods were independently reviewed as part of an intangible asset valuation exercise on IPO and are reviewed each year by the Directors. Different UELs could be applied that would change the Profit and loss charge, and Balance sheet carrying value.

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

Estimates

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

2 SEGMENTAL REPORTING

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

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

Revenue by Geography

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
UK	78,690	61,821
Europe and Rest of the World	78,761	58,505
	157,451	120,326

Administrative expenses by Geography

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
UK	27,109	24,562
Europe	3,836	2,527
	30,945	27,089

The majority of Group assets are held in the UK except for local right-of-use assets and property, plant and equipment, and cash in Sweden (31 March 2021: £4.3m; 31 March 2020: £4.5m) and Germany (31 March 2021: £2.5m; 31 March 2020: £2.7m).

2 SEGMENTAL REPORTING CONTINUED

Revenue by Product category

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Other-brand products	**104,199**	79,416
Own-brand products	**45,368**	35,432
Carriage income	**7,135**	4,930
Warranty income	**545**	337
Other	**204**	211
	157,451	120,326

3 EXPENSES AND OTHER INCOME

Included in profit/loss are the following:

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Depreciation of Property, plant and equipment	**1,185**	909
Depreciation of Right-of-use assets	**1,219**	1,215
Amortisation of Intangible assets	**1,968**	1,563
Amortisation of government grants	**11**	8
(Profit)/loss on disposal of property, plant and equipment	**(4)**	11
R&D expenditure recognised as an expense	**155**	136
Rentals – plant and machinery	**21**	23
Auditor remuneration – audit of these financial statements	**45**	40
Auditor remuneration – this year's audit of financial statements of subsidiaries	**55**	50
Auditor remuneration – non-audit fees – other audit related services	**5**	–

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Other income	**688**	604

4 STAFF NUMBERS AND COSTS

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

	Year ended 31 March 2021 Number	Year ended 31 March 2020 Number
Administration	**196**	179
Selling and distribution	**323**	287
	519	466

The aggregate payroll costs of these persons were as follows:

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Wages and salaries	**10,105**	7,736
Social security costs	**1,451**	1,167
Contributions to defined contribution plans	**691**	659
	12,247	9,562

Directors' remuneration is detailed in the Remuneration report on pages 45 and 46 which forms part of these financial statements, and disclosed in Note 3 of the Notes to the Company Financial Statements on page 89.

5 EARNINGS PER SHARE

Diluted profit per share is calculated by dividing the net profit for the year attributable to Ordinary shareholders by the weighted average number of Ordinary shares outstanding during the year plus the weighted average number of Ordinary shares that would be issued on the conversion of CSOP and LTIP dilutive potential Ordinary shares (see Note 21) into Ordinary shares.

	Year ended 31 March 2021	Year ended 31 March 2020
Profit attributable to equity shareholders of the parent (£000)	12,641	2,590
Basic weighted average number of shares	20,948,595	20,945,328
Dilutive potential Ordinary shares	218,033	228,119
Diluted weighted average number of shares	21,166,628	21,173,447
Basic profit per share	60.3p	12.4p
Diluted profit per share	59.7p	12.2p

6 FINANCE INCOME AND EXPENSES

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Fair value movement	–	5
Total finance income	–	5

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Bank interest	196	389
IFRS 16 lease interest	403	442
Net foreign exchange loss	161	144
Unwinding of discount on deferred consideration	10	19
Total finance expense	770	994
Total net finance expense	770	989

7 TAXATION

Recognised in the income statement

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Current tax expense		
UK corporation tax	1,201	(77)
Overseas corporation tax	94	45
Adjustments for prior periods	625	91
Current tax expense	1,919	59
Deferred tax expense		
Origination and reversal of temporary differences	989	266
Deferred tax rate change impact	–	82
Adjustments for prior periods	(903)	81
Deferred tax expense	86	429
Total tax expense	2,005	488

The corporation tax rate applicable to the Company was 19% for the year ended 31 March 2021, and 19% for the year ended 31 March 2020. The Budget of 11 March 2020 reversed the expected reduction in corporation tax rate to 17% from 1 April 2020. The corporation tax rate has therefore remained at 19% and was substantively enacted on 17 March 2020. The deferred tax assets and liabilities at 31 March 2021 have been calculated based on that rate.

At the Budget announcement on 3 March 2021, the UK Government has stated its intention to raise the corporation tax rate to 25% from 1 April 2023 although this has yet to be substantively enacted in legislation.

Adjustments for prior periods include an £138,000 deferred tax credit in respect of carried forward tax losses resulting from the recognition of a previously unrecognised deferred tax asset in respect of losses where utilisation was previously deemed too uncertain in Gear4music (Holdings) plc and recognition of a £765,000 deferred tax asset on c.£3.75m of losses brought forward in Gear4music Limited arising from the Company's FY19 R&D claim. These losses were previously surrendered for a tax credit at 14.5% in the Company's original tax filing, which has led to a corporation tax charge of £621,000.

7 TAXATION CONTINUED
RECONCILIATION OF EFFECTIVE TAX RATE

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Profit for the year	12,641	2,590
Total tax charge	1,998	488
Profit excluding taxation	14,639	3,078
Current tax at 19% (2020: 19.0%)		
Tax using the UK corporation tax rate for the relevant year:	2,781	584
Non-deductible expenses	(27)	22
Deferred tax rate change impact	–	82
Adjustments relating to prior year – deferred tax	(903)	81
Adjustments relating to prior year – current tax	624	91
R&D claim additional deduction	(470)	(420)
Impact of overseas tax rate	(1)	2
Deferred tax assets not recognised	1	46
Total tax charge	2,005	488

8 TANGIBLE FIXED ASSETS
PROPERTY, PLANT AND EQUIPMENT

	Plant and equipment £000	Fixtures and fittings £000	Motor vehicles £000	Computer equipment £000	Land and buildings £000	Total £000
Cost or Valuation						
At 1 April 2019	1,259	4,384	62	778	7,350	13,833
Additions	435	558	–	122	–	1,115
Disposals	(62)	–	–	–	–	(62)
Revaluation	–	–	–	–	150	150
Balance at 31 March 2020	1,632	4,942	62	900	7,500	15,036
Additions	215	757	–	194	–	1,166
Disposals	–	–	(32)	–	–	(32)
Balance at 31 March 2021	1,847	5,699	30	1,094	7,500	16,170
Depreciation and impairment						
At 1 April 2019	656	1,744	28	480	159	3,067
Depreciation charge for the year	252	520	8	129	–	909
Disposals	–	–	–	–	–	–
Revaluation	–	–	–	–	(159)	(159)
Balance at 31 March 2020	908	2,264	36	609	–	3,817
Depreciation charge for the year	314	556	5	160	150	1,185
Disposals	–	–	(22)	–	–	(22)
Balance at 31 March 2021	1,222	2,820	19	769	150	4,980
Net book value as at 31 March 2021	625	2,879	11	325	7,350	11,190
Net book value as at 31 March 2020	724	2,678	26	291	7,500	11,219
Net book value as at 31 March 2019	603	2,640	34	298	7,191	10,766

FREEHOLD PROPERTY VALUATION
At 31 March 2020, the freehold office premises at Holgate Park were revalued at market value using information provided by an independent chartered surveyor. The valuation was carried out in accordance with the provisions of RICS Appraisal and Valuation Standards ('The Red Book'). The appraisal was carried out using Level 3 inputs observable inputs including prices for recent market transactions for similar properties and incorporates adjustments for factors specific to the property in question, including plot size, location, encumbrances and current use. Management have reviewed the fair value as at 31 March 2021 and concluded that this would not be materially different.

If the property had not been revalued the net book value would have been £5,211,000.

RIGHT-OF-USE ASSETS
Included in motor vehicles at 31 March 2021 is a right-of-use asset with a net book value of £45,000 that has not been reclassified on immateriality grounds.

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

9 RIGHT-OF-USE ASSETS

LEASEHOLD PROPERTIES

The Group has four leased properties: distribution centre and showrooms in York, Sweden and Germany, and a software development office in Manchester. The associated right-of-use assets are as follows:

	Short leasehold properties £000
Cost	
Transition on adoption of IFRS 16 on 1 April 2019	10,177
Additions	–
Balance at 31 March 2020	10,177
Additions	128
Balance at 31 March 2021	**10,305**
Depreciation	
At 1 April 2019	–
Depreciation charge for the year	1,215
Balance at 31 March 2020	1,215
Depreciation charge for the year	1,219
Balance at 31 March 2021	**2,434**
Net book value as at 31 March 2021	**7,871**
Net book value as at 31 March 2020	8,962
Net book value as at 31 March 2019	10,177

10 INTANGIBLE ASSETS

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

	Goodwill £000	Software platform £000	Brand £000	Total £000
Cost				
At 1 April 2019	1,848	9,241	564	11,653
Additions	–	2,820	–	2,820
Balance at 31 March 2020	1,848	12,061	564	14,473
Additions	–	3,186	93	3,279
Balance at 31 March 2021	**1,848**	**15,247**	**657**	**17,752**
Amortisation				
At 1 April 2019	–	3,427	399	3,826
Amortisation for the year	–	1,507	56	1,563
Balance at 31 March 2020	–	4,934	455	5,389
Amortisation for the year	–	1,912	56	1,968
Balance at 31 March 2021	**–**	**6,846**	**511**	**7,357**
Net book value as at 31 March 2021	**1,848**	**8,401**	**146**	**10,395**
Net book value as at 31 March 2020	1,848	7,127	109	9,084
Net book value as at 31 March 2019	1,848	5,814	165	7,827

GOODWILL

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

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

Goodwill balances are denominated in Sterling:

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Gear4music Limited	**417**	417
Software development business	**1,431**	1,431
	1,848	1,848

NOTES
(FORMING PART OF THE FINANCIAL STATEMENTS) CONTINUED

10 INTANGIBLE ASSETS CONTINUED

IMPAIRMENT TESTING

In accordance with IAS 36 Impairment of Assets, the Group reviews the carrying value of its intangible assets. A detailed review was undertaken at 31 March 2021 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. The carrying value of these intangibles, the proportion of the freehold property occupied by Gear4music (5/6) and all other property, plant and equipment was £20.4m. 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 three-year forecast to 31 March 2024 was used to provide cash flow projections that have been discounted at a pre-tax discount rate of 10% (2020: 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:

- FY22–24 revenue forecasts based on growth by geographical market, based on market size and estimate of opportunity, trends, and management's experience and expectation.
- FY25–26 and into perpetuity revenue growth of 2%.
- Gross margins are forecast to improve on 2020, albeit not reach the levels attained in 2021.
- Wage increases are a function of recruitment and review of current staff, with a range of percentage increases.

No impairment loss was identified in the current year (2020: £nil). The valuation indicates significant headroom and a number of reasonable sensitivities were put through the model, including changes to the discount rate and the results did not result in an impairment of the related goodwill or other intangible assets.

11 INVESTMENTS IN SUBSIDIARIES

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

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

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

All Group companies have 31 March financial year ends.

Cagney Limited and Gear4music Norway AS are dormant companies.

12 DEFERRED TAX ASSETS AND LIABILITIES

MOVEMENT IN DEFERRED TAX DURING THE YEAR

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

Movement in deferred tax during the prior year

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

A deferred tax asset is not recognised with respect to historic losses in Gear4music (Holdings) plc (consistent basis to prior years). Losses of £760,000 are carried forward at 31 March 2021, equating to an unrecognised asset of £144,000.

There are no tax losses carried forward in Gear4music Limited.

13 INVENTORIES

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Finished goods	**28,430**	22,015

The cost of inventories recognised as an expense and included in cost of sales in the period amounted to £101.5m (2020: £81.6m). Management has included a provision of £143,000 (31 March 2020: £80,000), 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.

14 TRADE AND OTHER RECEIVABLES

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Trade receivables	**1,579**	1,651
Prepayments	**2,068**	850
	3,647	2,501

CREDIT RISK AND IMPAIRMENT

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

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

CUSTOMER RECEIVABLES

The Group faces low credit risk as customers typically pay for their orders in full on shipment of the product, with the only exception being a number of education accounts with schools and colleges that have 30-day terms (1.3% of 2021 revenues; 1.9% of 2020 revenues).

FUNDS LODGED WITH PAYMENT PROVIDERS

Funds lodged with Amazon, Digital River, Klarna and V12 Retail Finance totalled £331,000 on 31 March 2021 (31 March 2020: £215,000) and are included in Trade debtors. Credit risk in relation to cash held with financial institutions is considered very low risk, given the credit rating of these organisations.

15 CASH AND CASH EQUIVALENTS

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Cash and cash equivalents per balance sheet and cash flow statements	**6,203**	7,839

16 INTEREST-BEARING LOANS AND BORROWINGS

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

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Non-current liabilities		
Bank loans	**2,901**	3,439
	2,901	3,439
Current liabilities		
Bank loans	**575**	9,949
	575	9,949
Total liabilities		
Bank loans	**3,476**	13,388
	3,476	13,388

NOTES
(FORMING PART OF THE FINANCIAL STATEMENTS) CONTINUED

16 INTEREST-BEARING LOANS AND BORROWINGS CONTINUED

AS AT 31 MARCH 2021

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

The interest rate on 140-day import loans drawn under the Import Loan agreement was 2.45% per annum over HSBC's Sterling base rate, and on an overdraft if and when drawn, was 3.25% over base. Interest on import loans was paid at the maturity of the relevant loan. Interest on an overdraft would be paid monthly in arrears.

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

- the first loan was for £3.73m and is a five-year loan with capital repayments scheduled over 20-years, and interest is 2.04% over LIBOR, and capital outstanding of £3.03m at 31 March 2021; and
- the second loan was for £1.80m and is a five-year loan with interest of 2.85% over LIBOR, and capital outstanding of £0.45m at 31 March 2021.

All borrowings are denominated in Sterling.

FROM 21 APRIL 2021

On 21 April 2021, the Group entered into a Revolving Credit Facility of £35m with HSBC. This replaces the bank loans and import loan facility outlined above. The facility expires in April 2024 and is secured by a debenture over the Group's assets.

CHANGES IN INTEREST-BEARING LOANS AND BORROWINGS

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Opening balance	13,388	12,374
Changes from financing cash flows		
Proceeds from loans and borrowings	29	1,565
Repayment of borrowings	(9,948)	(546)
Total changes from financing cash flows	(9,919)	1,019
Other changes		
Interest expense (Note 6)	196	380
Interest paid	(289)	(355)
Movement in interest accrual (included in accruals and deferred income – Note 17)	93	(25)
Fair value movement on loans	7	(5)
Total other changes	7	(5)
Closing balance	3,476	13,388

OTHER BANK FACILITIES

Gear4music has a number of guarantees in relation to VAT, and issues letter of credits to its suppliers. At 31 March 2021, the Group had letters of credit of £315,000 and guarantees of £415,000 in place.

17 TRADE AND OTHER PAYABLES

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Current		
Trade payables	11,390	10,090
Accruals and deferred income	3,033	1,686
Deferred consideration	24	197
Government grants	7	8
Other taxation and social security	4,484	2,461
	18,938	14,442
Non-current		
Accruals and deferred income	38	99
Deferred consideration	69	–
Government grants	3	8
	110	107

Accruals at 31 March 2021 include £38,000 (2020: £97,000) relating to the estimated cash bonuses accrued relating to the CSOP schemes (see Note 21).

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

The Directors consider the carrying amount of other 'trade and other payables' to approximate their fair value. The interest expense of £10,000 (2020: £19,000) in relation to the unwinding of the discount is disclosed in Note 6.

DEFERRED CONSIDERATION

Deferred consideration as at 31 March 2020 of £197,000 related to the acquisition of a software business in January 2017 for 15 quarterly instalments of £100,000. The consideration was settled in full in 2021.

On 10 March 2021, the Group acquired the Eden brand and associated assets from Marshall Amplification plc for £140,000 of which £100,000 is deferred and payable in four equal instalments of £25,000 on the first, second, third and fourth anniversary of the completion date. These amounts are valued in the accounts at fair value and subsequently amortised.

18 LEASE LIABILITIES

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

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

Right-of-use asset	Number of right-of-use assets leased	Range of remaining term	Average remaining lease term	Number of leases with extension options	Number of leases with options to purchase	Number of leases with termination options
Property	4	1-8yrs	5.5yrs	–	–	1
Plant and equipment	10	0.5-2yrs	1yrs	–	10	–

Future minimum lease payments due at 31 March 2021 were as follows:

	Within 1 year £000	1–5 years £000	More than 5 years £000
Lease payments	1,549	6,065	2,902
Finance charge	(359)	(895)	(143)
Net present value	1,190	5,170	2,759

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

	31 March 2021 £000	31 March 2020 £000
Current	**1,099**	1,148
Non-current	**8,315**	9,519
Total	**9,414**	10,667

CHANGES IN LEASE LIABILITIES

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Opening balance	**10,667**	453
Adoption of IFRS 16	**–**	10,983
Cash flow lease payments	**(1,379)**	(1,205)
Other items	**126**	436
Total changes	**(1,253)**	(769)
Closing balance	**9,414**	10,667

19 FINANCIAL INSTRUMENTS

FINANCIAL RISK MANAGEMENT

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

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

RISK MANAGEMENT FRAMEWORK

Regular reviews of strategic risks are performed by the Board.

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

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

(a) Liquidity risk

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

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

At 31 March 2021, the Group had £6.2m of cash and bank balances (31 March 2020: £7.8m), and net cash of £2.7m (31 March 2020 net debt: £5.5m).

Post year end, on 21 April 2021, the Group entered into a committed three-year, £35m Revolving Credit Facility with HSBC.

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

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

(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 (1.3% of 2021 revenues; 1.9% of 2020 revenues).

Funds lodged with Amazon, Digital River, Klarna and V12 Retail Finance totalled £331,000 on 31 March 2021 (31 March 2020: £215,000) and are included in Trade debtors. Credit risk in relation to cash held with financial institutions is considered low risk, given the credit rating of these organisations.

(c) Interest rate risk

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

At 31 March 2021, the Group had cash reserves of £6.2m and could utilise these funds to part settle debts and mitigate any associated interest risk.

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

Profile

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

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Variable rate instruments		
Cash	**(6,203)**	(7,839)
Bank loans	**3,476**	13,388
	(2,727)	5,549
Fixed rate instruments		
Finance leases	**295**	581
Total net financial (assets)/liabilities	**(2,432)**	6,130

Sensitivity analysis

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

	Year ended 31 March 2021 £000 Impact on closing equity/profit and loss	Year ended 31 March 2020 £000 Impact on closing equity/profit and loss
Increase of 50 basis points	**(17)**	(51)
Decrease of 50 basis points	**17**	51

(d) Foreign exchange risk

All borrowings are denominated in Sterling.

The Group sells into Europe and the Rest of the World in nine currencies including Sterling, Euros and more recently US Dollars. In the year ended 31 March 2021, 49% (2020: 47%) of total revenues were in non-Sterling currencies, of which 43% (2020: 43%) were in Euros. Where costs (including local tax liabilities) are incurred in these respective currencies, currency balances are retained and payments made in these currencies, thereby mitigating any associated currency loss. The scaling up of the Group's operations in Sweden and Germany has increased the proportion of liabilities denominated in Swedish Krona and Euros (see Note 2), further extending the natural hedge. Surplus foreign currency holdings are reviewed on a weekly basis and balances in excess of known liabilities are converted into Sterling, restricting the period between the transaction and the point of conversion, thereby reducing the transactional risk.

The Group purchases own-branded instruments and equipment from the Far East, transacting in US Dollars. The lead time from committed order to receipt of stock is typically 12–16 weeks, during which time the Group bears currency risk. The Group also trades with one supplier (2020: one supplier) on a trade credit basis with terms of 60 days. The Group has the trading platform ability and sufficient price flexibility to be able to pass on some adverse currency variances should it choose, and the Group generates enhanced margins on these products such that a proportion of these losses could be absorbed. The Group do not currently enter into forward contracts but reviews the situation and would consider committing to such a position should it make commercial sense to do so.

19 FINANCIAL INSTRUMENTS CONTINUED

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

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Trade and other receivables		
Sterling	668	557
US Dollar	244	572
Euro	353	366
Other European currencies	314	155
	1,579	1,650
Cash and cash equivalents		
Sterling	5,113	6,452
US Dollar	1	1
Euro	342	523
Other European currencies	747	863
	6,203	7,839
Trade payables		
Sterling	7,180	7,246
US Dollar	1,789	1,430
Euro	1,362	943
Other European currencies	1,059	471
	11,390	10,090
Local sales tax		
Sterling	892	342
Euro	213	743
Other European currencies	1,088	1,205
	2,193	2,290

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

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

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

(e) Debt and capital management

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

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

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

FAIR VALUES AND CARRYING VALUES OF FINANCIAL INSTRUMENTS

A comparison by category of the book values and fair values of the financial assets and liabilities of the Group at 31 March 2021 and 31 March 2020:

	31 March 2021		31 March 2020	
	Book value £000	**Fair value £000**	Book value £000	Fair value £000
Trade and other receivables	**3,647**	**3,647**	2,396	2,396
Cash and cash equivalents	**6,203**	**6,203**	7,839	7,839
Bank loans	**(3,507)**	**(3,476)**	(13,609)	(13,388)
Trade and other payables	**(18,914)**	**(18,914)**	(14,246)	(14,246)
Deferred consideration	**(100)**	**(93)**	(200)	(197)
	(12,671)	**(12,633)**	(17,820)	(17,596)

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

Trade and other payables and receivables

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

Cash and cash equivalents

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

Long-term and short-term borrowings

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

Derivative financial instruments

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

Deferred consideration

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

Fair value hierarchy

The table below analyses financial instruments into a fair value hierarchy based on the valuation techniques used to determine fair value.

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

	Level 1 £000	Level 2 £000	Level 3 £000
31 March 2021			
Bank loans	**–**	**(3,476)**	**–**
Deferred consideration	**–**	**(93)**	**–**
	–	**(3,569)**	**–**
31 March 2020			
Bank loans	–	(13,388)	–
Deferred consideration	–	(197)	–
	–	(13,585)	–

Reconciliation of Level 2 fair value

	At 1 April 2020 £000	Net increase in bank debt £000	**At 31 March 2021 £000**
Bank loans	(13,388)	(9,912)	**(3,476)**

20 SHARE CAPITAL AND RESERVES

SHARE CAPITAL

	Year ended 31 March 2021 Number	Year ended 31 March 2020 Number
Authorised, called up and fully paid:		
Ordinary shares of 10p each	**20,950,176**	20,945,328

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

On 29 July 2020, the Company issued and allotted 4,848 new Ordinary shares of 10p each on exercise of options under the Company's 2017 CSOP Scheme (see Note 21). This took the number of Ordinary shares in issue from 20,945,328 to 20,950,176, representing dilution of 0.02%.

SHARE PREMIUM

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Opening	**13,152**	13,152
Issue of shares	**13**	–
Closing	**13,165**	13,152

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

FOREIGN CURRENCY TRANSLATION RESERVE

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Opening	**(34)**	3
Translation loss	**(17)**	(37)
Closing	**(51)**	(34)

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

REVALUATION RESERVE

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Opening	**1,674**	1,424
Freehold property revaluation	**–**	309
Deferred tax on revaluation	**–**	(59)
Depreciation transfer	**(34)**	–
Closing	**1,640**	1,674

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

RETAINED EARNINGS

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Opening	**4,722**	2,033
Share-based payment charge	**64**	133
Deferred tax	**2**	(34)
Depreciation transfer	**34**	–
Profit for the year	**12,641**	2,590
Closing	**17,463**	4,722

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

21 SHARE-BASED PAYMENTS

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

DEVELOPMENTS IN THE CURRENT YEAR

In the year ending 31 March 2021:

- CSOP 2017 Employee Plan – exercised and settled in full

  On 29 July 2020 awards over 4,848 shares under this plan were satisfied by the issue of new shares and the Company paid a cash bonus to option holders, the net value of which was equivalent to the income tax, employee national insurance and the exercise price arising in relation to the awards. All options have been exercised in full.
- CSOP 2017 Senior Management Plan – lapsed and settled in full

  On or before 29 July 2020 awards over all 7,212 shares under this plan lapsed as the vesting conditions were not met. All options have been settled in full.
- Director Cash Plan – lapsed and settled in full

  On or before 29 July 2020 Andrew Wass's (Chief Executive Officer) entitlement under the plan lapsed.
- CSOP 2020 – options awarded

  On 1 September 2020 options over 2,352 shares were awarded.
- LTIP 2018 – amended

  On 13 October 2020 the share price hurdles were rebased to provide an appropriate incentivisation mechanism.

There were no new awards or vests in the financial year ending 31 March 2020.

At 31 March 2021, there were two incentive schemes in place:

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

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

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

CSOP

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

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

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

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

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

At 31 March 2021, the total number of shares under option under the CSOP scheme was 8,033.

LTIP

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

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

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

NOTES
(FORMING PART OF THE FINANCIAL STATEMENTS) CONTINUED

21 SHARE-BASED PAYMENTS CONTINUED

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

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

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

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

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

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

The terms and conditions of specific awards are as follows:

Grant date/employees entitled	Method of settlement accounting	Number of instruments	Vesting conditions	Contractual life of options
Employee CSOP Award 5 – Equity-settled award to 75 employees, granted by parent on 30 June 2017	Equity	7,248 initially granted 4,960 at 31 March 2020 4,848 vested in the year	Continued employment	Settled
Senior Management CSOP Award 2a – Equity-settled award to Chris Scott and Gareth Bevan and two others, granted by parent on 30 June 2017	Equity	7,212 initially granted 7,212 lapsed in the year	EPS-based performance criteria and continued employment	Settled
Director Award 2b – Cash-settled award to Andrew Wass, granted by parent on 30 June 2017	Cash	Cash equivalent to monetary result for the other Directors Lapsed in the year	EPS-based performance criteria and continued employment	Settled
Employee CSOP Award 6 – Equity-settled award to 73 employees granted by parent on 30 June 2018	Equity	7,403 initially granted 5,947 at 31 March 2020 5,681 at 31 March 2021	Continued employment	30 June 2021
LTIP – Equity-settled award to the six directors of Gear4music Limited	Equity	210,000	80% linked to share price 20% linked to revenue and profitability improvements All subject to continued employment.	From August 2021 to August 2026
Employee CSOP Award 7 – Equity-settled award to four employees granted by parent on 1 September 2020	Equity	2,352 granted 2,352 at 31 March 2021	Continued employment	1 September 2023

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

	Weighted average exercise price 2021	Number of options 2021	Weighted average exercise price 2020	Number of options 2020
Outstanding at the beginning of the year	–	228,119	–	229,102
Forfeited during the year	–	(378)	–	(983)
Exercised during the year	–	(4,848)	–	–
Granted during the year	–	2,352	–	–
Lapsed during the year	–	(7,212)	–	–
Outstanding at the end of the year	–	218,033	–	228,119
Exercisable at the end of the year	–	–	–	–

The options outstanding at the year end have a nil exercise price and a weighted average contractual life of 3.03 years (31 March 2020: 3.83 years).

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

Date of grant	Share price on date of grant (pence)	Exercise price (pence)	Volatility (%)	Vesting period (years)	Dividend yield (%)	Risk free rate of interest (%)	Fair value (pence)
30 June 2017	720.0	0.0	52.6%	3	0%	0.43%	720.0
30 June 2017	720.0	0.0	52.6%	3	0%	0.43%	720.0
30 June 2018	719.5	0.0	30.6%	3	0%	0.73%	719.5
8 November 2018	563.0	0.0	44.5%	2-7	0%	0.92%	555.0
1 September 2020	575.0	0.0	65.9%	3	0%	0.11%	575.0

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

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

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Equity-settled share-based payment expense	64	133
Cash-settled share-based payment expense	(59)	36
	5	169
Opening	317	148
	322	317
Recognised in equity	284	220
Recognised as a liability	38	97
	322	317

NOTES
(FORMING PART OF THE FINANCIAL STATEMENTS) CONTINUED

22 RELATED PARTIES
TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL
The compensation of key management personnel is as follows:

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Key management emoluments including social security costs	597	474
Company contributions to money purchase pension plans	18	15
	615	489

Key management personnel comprise the Chairman, Chief Executive Officer, Chief Financial Officer and Chief Commercial Officer. All transactions with key management personnel have been made on an arm's-length basis.

Four Directors are accruing retirement benefits under a money purchase scheme (2020: four).

SHARE-BASED PAYMENTS
CSOP and Director Cash Plan – lapsed in year ended 31 March 2021
In July 2020, CSOP awards of 2,288 shares to Gareth Bevan, 2,288 shares to Chris Scott, and an equivalent discretionary cash bonus plan for Andrew Wass lapsed as the vesting conditions were not met.

LTIP – amended in financial year ended 31 March 2021
In October 2020, the scheme was amended to rebase the share price hurdles to ensure that the LTIP continued to provide appropriate incentivisation. The subscription cost was covered by way of bonus in FY21 and Andrew Wass, Chris Scott, and Gareth Bevan received bonuses of £2,334, £2,334 and £2,490 respectively.

23 POST BALANCE SHEET EVENTS
NEW BANKING FACILITIES
On 21 April 2021, the Group entered into a Revolving Credit Facility of £35m with HSBC. This replaces the bank loans and import loan facility outlined above. The facility expires in April 2024 and is secured by a debenture over the Group's assets.

BRAND ACQUISITION
On 21 June 2021, the Group completed the acquisition of the 'Premier' drum and percussion brand, business and certain assets from Premier Music International Limited and High House 123 Limited liability partnership, for £1.685m.

Fair values of the assets and liabilities acquired, intangible assets recognised and the associated goodwill arising from the acquisition are still under review as the accounting for the business combination is ongoing at the point of signing these financial statements.

COMPANY BALANCE SHEET

	Notes	2021 £000	2021 £000	2020 £000	2020 £000
Fixed assets					
Investments	4		4,488		4,164
Current assets					
Cash in hand and at bank	6	44		25	
Debtors (including £10.02m (2020: £10.30m) due after more than one year)	5	10,051		10,326	
		10,095		10,351	
Creditors: amounts falling due within one year	7	(52)		(38)	
Net current assets			10,043		10,313
Total assets less current liabilities			14,531		14,477
Net assets			14,531		14,477
Capital and reserves					
Called up share capital	8		2,095		2,095
Share premium account	8		13,165		13,152
Profit and loss account brought forward	8		(770)		(934)
Profit in the year			41		164
Shareholders' funds			14,531		14,477

The Notes 1 to 10 form part of these financial statements.

These financial statements were approved by the Board of Directors on 21 June 2021 and were signed on its behalf by:

ANDREW WASS
DIRECTOR
21 June 2021

CHRIS SCOTT
DIRECTOR
21 June 2021

Company registered number: 07786708

COMPANY STATEMENT OF CHANGES IN EQUITY

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Balance at 31 March 2019	**2,095**	**13,152**	**(934)**	**14,313**
Loss for the year	–	–	31	31
Share-based payments charge	–	–	133	133
Total changes in equity	–	–	164	164
Balance at 31 March 2020	**2,095**	**13,152**	**(770)**	**14,477**
Loss for the year	–	–	(23)	(23)
Issue of shares net of expenses	–	13	–	13
Share-based payments charge	–	–	64	64
Total changes in equity	–	13	41	54
Balance at 31 March 2021	**2,095**	**13,165**	**(729)**	**14,531**

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

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

1 ACCOUNTING POLICIES

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

1.1 BASIS OF PREPARATION

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

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

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

- reconciliation of the number of shares outstanding from the beginning to end of the period;
- cash flow statement and related notes; and
- key management personnel compensation.

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

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

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

Accounting period

The financial statements presented cover the years ended 31 March 2021 and 31 March 2020.

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 62.

1.3 INVESTMENT IN SUBSIDIARIES

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

1.4 CLASSIFICATION OF FINANCIAL INSTRUMENTS ISSUED BY THE COMPANY

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

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

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

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

1.5 BASIC FINANCIAL INSTRUMENTS

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

Trade and other debtors

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

Trade and other creditors

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

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.

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

1 ACCOUNTING POLICIES CONTINUED

Inter-company loans

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

1.6 IMPAIRMENT

Financial assets (including debtors)

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

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

Non-financial assets

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

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

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the 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 payment transactions

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

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

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

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

1.9 FINANCIAL INCOME AND EXPENSES

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

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

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

1.10 TAXATION

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

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

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

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

2 EXPENSES

Included in profit/loss are the following

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Auditor remuneration – audit of financial statements	45	40

3 DIRECTORS' REMUNERATION

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Directors' remuneration	641	507
Company contributions to money purchase pension schemes	19	16
	660	523

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

The aggregate remuneration of the highest paid Director was £228,000 during the year (2020: £174,000), including Company pension contributions of £7,000 that were made to a money purchase scheme on their behalf.

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

4 FIXED ASSET INVESTMENTS

	Subsidiary undertakings £000
Cost	
At 1 April 2020	4,164
Capital contribution	324
At 31 March 2021	4,488

Investments in subsidiaries are carried at cost less impairments.

The Company has the following investments in subsidiaries:

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

Cagney Limited and Gear4music Norway AS are dormant companies.

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

5 DEBTORS

DUE WITHIN ONE YEAR

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Other debtors	**30**	26
	30	26

DUE AFTER MORE THAN ONE YEAR

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Amounts owed by Group undertakings	**10,021**	10,300
	10,021	10,300

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

As at 31 March 2021, receivables from subsidiary undertakings were unimpaired and considered by management to be fully recoverable.

6 CASH AND CASH EQUIVALENTS

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Cash and cash equivalents per balance sheet	**44**	25

7 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Trade creditors	**4**	1
Accruals and deferred income	**48**	37
	52	38

8 SHARE CAPITAL AND RESERVES

Share capital	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Authorised, called up and fully paid:		
Opening Ordinary shares of 10p each	**20,945,328**	20,945,328
Issue of shares	**4,848**	–
Closing Ordinary shares of 10p each	**20,950,176**	20,945,328

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

On 29 July 2020, the Company issued and allotted 4,848 new Ordinary shares of 10p each on exercise of options under the Company's 2017 CSOP Scheme (see Note 21 to the financial statements). This took the number of Ordinary shares in issue from 20,945,328 to 20,950,176, representing dilution of 0.02%.

SHARE PREMIUM

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Opening	13,152	13,152
Issue of shares	13	–
Closing	13,165	13,152

RETAINED EARNINGS

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Opening	(770)	(934)
Share-based payment charge	64	133
Profit/(loss) for the year	(23)	31
Closing	(729)	(770)

10 RELATED PARTIES

In July 2020, CSOP awards of 2,288 shares to Gareth Bevan, 2,288 shares to Chris Scott, and an equivalent discretionary cash bonus plan for Andrew Wass lapsed as the vesting conditions were not met.

In October 2020, an LTIP was amended to rebase the share price hurdles to ensure that it continued to provide appropriate incentivisation. The subscription cost was covered by way of bonus in FY21 and Andrew Wass, Chris Scott, and Gareth Bevan received bonuses of £2,334, £2,334 and £2,490 respectively.

NOTES

Gear4music (Holdings) plc
Holgate Park Drive
York YO26 4GN
UK

Kettlestring Lane
Clifton Moor
York YO30 4XF
UK

0330 365 4444
ir@gear4music.com

www.gear4music.com
www.gear4musicplc.com