

Gear4music Limited

Annual report and financial statements

Registered number 03113256

31 March 2023

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Strategic Report	2
Directors' Report	9
Statement of Directors' Responsibilities in Respect of The Strategic Report, The Directors' Report And The Financial Statements	12
Independent Auditor's Report to the Members of Gear4music Limited	13
Profit and Loss Account and Other Comprehensive Income	17
Balance Sheet	18
Statement of Changes in Equity	19
Notes	20

Strategic Report

Gear4music Limited ('Gear4music' or 'Company') is the major trading subsidiary of Gear4music (Holdings) plc.

Gear4music (Holdings) plc is a public limited company listed on the Alternative Investment Market ('AIM') of the London Stock Exchange. The Group prepares consolidated accounts for Gear4music (Holdings) plc and its subsidiaries (collectively referred to as the 'Group'). These accounts are available on the Group's plc website gear4musicplc.com.

About Us

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

Gear4music is the largest retailer of musical instruments and music equipment in the UK. Launched in 2003 by Chief Executive Officer Andrew Wass, revenue has grown from £24m in FY15 to £150m in FY23.

The Company operates from a Head Office in York, a software development office in Manchester, Distribution Centres and Showrooms in York and Bacup. In addition to these, the group operates Distribution Centres in Sweden, Germany, Ireland and Spain as well as showrooms in Sweden & Germany.

Gear4music sells own-brand musical instruments and music equipment alongside well-known premium brands including Yamaha, Roland and Fender, to customers ranging from beginners, to musical enthusiasts and professionals. The Company has been selling into Europe since 2012 and the Rest of the World since 2017.

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

The Company retails 64,200 SKUs across all major musical instrument and equipment categories, sourced from over 1,130 manufacturers, and range from £1 kazoos to digital pianos, drum kits and guitars costing thousands of pounds.

Section 172: Duty to promote the success of the Company

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.

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 Company strategy. The stakeholder groups are: employees, customers, our suppliers and the environment. How we engage with these groups is covered throughout the report.

Employee engagement

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.

The wellbeing of our colleagues is of paramount importance, and we continue to invest in our facilities to make our office a great place to work and collaborate as we return to predominantly office-based working.

Section 172: Duty to promote the success of the Company (continued)

Our intranet allows us to quickly and easily share information about company news including policy updates, new starter welcomes, and internal promotions and changes. Every department has its own dedicated page for resources, helping support cross-departmental working. An organisational chart and structure help our colleagues better understand 'who is who' as the business grows in size.

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 assets.

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

Supplier engagement

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.

Community engagement

We have contributed to and worked with a number of local charities through the year, including our continuing support of Jessie's Fund.

The 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.

Strategy

Gear4music's strategy is built around three pillars of growth:

E-commerce excellence

- Continually evolve platform
- Build customer trust
- Improve efficiency & productivity
- Refine digital marketing

International expansion

- Territory-specific websites
- Regional procurement operation
- Localised customer experience
- Improved delivery options

Supply chain evolution

- Accelerate own-brand development
- Seek margin enhancing opportunities
- Continuous product range extension
- Evolve logistics capability

E-commerce excellence

Overview

We continue to develop our proprietary e-commerce platform to drive website traffic, optimise 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 markets, and build customer trust by delivering a first-rate customer experience. We have delivered some exciting new developments in FY23 and have more planned for FY24.

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

Having software development in-house helps deliver the cost-effective investment in platform development required to take our business forward. 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 26 million website visitors in the year, conversion rates of 4%, 865,000 active customers, and 172,000 repeat customers, our e-commerce strategy continues to prove highly effective in what is currently a challenging market.

Gear4music.com enjoys a Trust Pilot Rating of 4.7 from 119,000 reviews, and AV.com rates 4.8 from 1,900 reviews reflecting 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.

Paid-marketing activities are data driven and focused on return on investment, and investment continues to target higher-margin product groups. Marketing efficiency measured as marketing cost as a % of sales improved from 7.3% in FY22 to 7.0%, which compares to 7.7% in the more normal FY20 trading period.

We continue to develop our social media presence and have 77,000 followers on Facebook, 27,400 on Instagram, and 22,300 on Twitter. Our YouTube channel has 84,600 subscribers and has had over 66 million views since its launch in 2007.

Our bespoke e-commerce platform is the cornerstone of our success and a major competitor differentiator, and our development team of 84 (FY22: 90) have worked tirelessly to design and deploy updates and upgrades during the year.

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

International expansion

Overview

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

Progress

With international sales of £70.0m in what is a \$16bn market, expanding internationally continues to be a significant opportunity and focus for the Company. Localising our websites and customer experience is at the core of our growth strategy, and during the year we have invested in translation, marketing and our multilingual customer service team, and improved our local delivery and payment options.

Strategic Report (continued)

Strategy (continued)

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

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

Supply chain evolution

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 unique.

Progress

At 31 March 2023 we have 64,200 products listed, a net 3% increase in 12-months, and there are opportunities to increase this.

Whilst only representing 8% of SKU's own-brand product sales accounted for 26% of revenue which is down on the 29% achieved in FY21, when demand for entry and beginner level instruments and equipment was high during Covid lockdowns.

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

Principal risks and uncertainties

The risks and uncertainties are assessed at a Group level, but those which are relevant to Gear4music Ltd have been included below:

Risk	Description	Mitigation
Macroeconomic and Geopolitical developments	Macroeconomic and geopolitical changes such as the war in Ukraine can impact consumer confidence and demand for our products, with factors including higher inflation, interest and energy costs reducing consumer demand for discretionary purchases. Countries we ship into could also experience restrictions or sanctions preventing inbound sales. Similarly global freight forwarding could be disrupted by geopolitical factors, such as conflict or pandemic, that would limit inbound delivery of products for resale. A significant proportion of the Company's own-brand product range is manufactured in China, and the Taiwan situation continues to be monitored.	The Operational Board continues to monitor macroeconomic trends and geopolitical developments, and respond appropriately. G4M monitors performance and evaluate prospects through the year, and make any necessary commercial, operational or financial decisions at that time. The Company's own-brand buy-team routinely explores new supply options across different territories to reduce over-dependence on any single country. The logistics team assess and explore alternative shipping routes (rail and air as well as sea) in case of restrictions on certain routes. In the long-term second-hand products have potential to become a meaningful sourcing opportunity.

Climate Risks & Sustainability	<p>The transition to a lower carbon economy could impact our business in a number of ways including: (1) Customer risk – The risk of market disruption, changes in consumer preference trends and demand projections; (2) Market risk – The risk of market disruption, cost of capital and valuation changes as investors prioritise returns from low carbon companies; (3) Policy risk – The risk of legislation enacted by national and local governments to price and penalise GHG emissions.</p> <p>Physical risks of climate change bring risks of acute perils (such as flood, wind and extreme rainfall) and chronic perils (such as drought, heat stress and water stress) that could impact our facilities, and access to and cost of products.</p>	<p>We are committed to reducing the Company's impact on the environment and can achieve this through technology, continuous improvements in operational efficiency, and doing things in new ways. Environmental impact is a consideration in all relevant significant decisions made - product sourcing, packaging and waste, distribution, and premises and energy-use.</p> <p>We regularly assess our operating facilities to ensure they are fit for purpose and invest in appropriate mitigations, for instance snow and ice clearance contracts and air conditioning.</p>
UK outside the EU	<p>Increased time and cost of moving products across the UK-EU border, makes it difficult for G4M to viably move products across border to customers and/or between distribution centres. Card charges borne by UK-retailers on European sales have significantly increased. Controls on the freedom of movement of people may impact the availability of European workers in the UK. UK-Irish-European tensions could escalate as Northern Ireland protocols are worked through. Movement of personnel between G4M operating locations could be further restricted. Requirements for locally resident Board level management could be introduced which could add cost and complexity to the management structure.</p>	<p>In FY22 the G4M group opened two new DCs in Spain and Ireland to further reduce cross-border activity, with European DCs fulfilling a higher proportion of European demand (FY23: European DCs fulfilled 38% of sales; FY22: 35%; FY21: 31%). 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. Senior managers are being cultivated in European locations who may be able to represent the business if required.</p>

Strategic Report *(continued)*

Key Performance Indicators ('KPI's)

In addition to the usual day-to-day interactions of running a business, Senior Management hold weekly meetings, and the Board receives weekly KPIs and a comprehensive monthly reporting pack. Weekly review focuses on:

- sales and profit across a comprehensive range of bases;
- stock profitability and stock-turn;
- marketing expenditure and return; and
- historic and forecast cash-flow analysis.

Financial KPIs

	FY23	FY22	FY20
Revenue	£150.3m	£145.8m	£119.6m
International Revenue	£70.0m	£63.3m	£57.8m
Gross margin	27.3%	29.6%	27.2%
Operating (loss)/profit	(£0.2m)	£5.2m	£3.6m
(Loss)/profit before tax	(£1.8m)	£4.2m	£2.8m
Cash at year end	£3.6m	£3.1m	£7.4m

Commercial KPIs

	FY23	FY22	FY20
Website visitors	26.5m	28.8m	28.4m
Conversion rate	3.95%	4.06%	3.29%
Average order value	£150	£125	£117
Active customers	865,000	921,000	807,000
Products listed	64,200	62,400	54,200

Note: Change on FY20, three years ago, compares current trading to the pre-pandemic period to give a better understanding of performance when compared to the growth and characteristics of trade which continued to be distorted by pandemic-related factors in FY22.

Business review

During FY23 we made good progress with our long-term objective of making musical instruments and equipment accessible and affordable for as many people as possible, delivering a wide range of customer centric improvements throughout the business.

Progress has included improving our consumer finance proposition, upgrading our digital downloads sales platform, launching AV.com in Europe, alongside what has been our largest and most ambitious development project to date; our second-hand system.

Our second-hand system simplifies the process for consumers of selling used musical instruments and equipment and provides value and peace of mind for our customers when buying second hand products. It ensures the lifespan of products is maximised, whilst enabling enhanced margin opportunities for the business.

These new growth initiatives will strengthen our position as the UK's leading retailer of musical instruments and equipment. However, due to the current environment of squeezed discretionary consumer spending, FY23 proved to be a commercially challenging year for Gear4music and across the industry.

Reducing our net debt and inventory level has been a priority, and achieving these objectives in challenging market conditions is testament to the tenacity of our teams, whilst still generating revenue growth and limiting the impact on margin.

Strategic Report *(continued)*

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 20 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 Company currently operates from 370,000 square feet of operational space - 160,000 square feet across two owned sites in the UK and out of sites owned by the Group's European distribution companies - 77,000 square feet in Sweden, 72,000 square feet in Germany, 46,000 square feet in Spain and 15,000 square feet in Ireland.

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

Systems

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

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

Delivery

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

Strategic Report Pages 2 – 8 Approved
By order of the board

Chris Scott

CD Scott
Director

30 June 2023

Directors' report

The Directors present their report and the audited financial statements for the year ended 31 March 2023.

Research and development

The Company capitalised £5.3m (FY22: £4.4m) of software development costs during the year, relating to the in-house e-commerce software platform; the Company expensed £0.26m of costs (FY22: £0.23m).

Proposed dividend

The directors do not recommend the payment of a dividend (FY22: £nil).

Directors

The directors who held office during the period and since were as follows:

Mr Andrew P Wass

Mr Christopher D Scott

Mr Gareth J Bevan

Mr Jonathan R Meager

Mr Robert J Newport

Ms Eleni Buras

Mr David Fieldhouse

Certain directors benefit from qualifying third-party indemnity provisions in place during the financial period and at the date of this report.

Financial Risk Management

The Company'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 Company's policies on the management of liquidity, credit, interest rate and foreign currency risks are set out below.

The main purpose of the Company'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 Company'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.

Directors' report *(continued)*

Financial Risk Management *(continued)*

(a) Liquidity risk

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

The Company's policy is to ensure that it has sufficient and appropriately structured facilities to cover its future funding requirements. Flexibility is available through a committed Revolving Credit Facility with HSBC that was renewed on 15 June 2023 at £30m, committed to 14 June 2026

(b) Credit risk

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

The Company faces low credit risk as customers typically pay for their orders in full on shipment of the product. There are a small number of education accounts with schools and colleges that have 30-day terms (2.9% of 2023 revenues; 2.4% of 2022 revenues).

Funds lodged with Amazon, Digital River, Klarna and V12 Retail Finance totalled £581,000 on 31 March 2023 (31 March 2022: £378,000) 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 Company's bank borrowings incur interest at variable rates linked to SONIA, with a margin non-utilisation fee, which exposes the Company to interest rate risk. Loans are with UK-based institutions and denominated in Sterling.

At 31 March 2023, the Company had cash reserves of £3.6m and could utilise these funds to part settle debts and mitigate any associated interest risk.

The Company'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.

Employees

It is the Company'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 Company is a committed equal opportunities employer and has engaged employees with broad backgrounds and skills. It is the policy of the Company 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 Company continues.

Political contributions

The Company made no political donations or incurred any political expenditure during the period (FY22: nil).

Streamlined Energy & Carbon Reporting (SECR)

The SECR disclosures are reported in the Company's ultimate parent undertaking, Gear4music (Holdings) plc.

Key Performance Indicators

These are included within the Strategic report.

Other information

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial period have been included in the Strategic Report on pages 2-9.

Auditor

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

By order of the board

Chris Scott

CD Scott
Director and Company Secretary

Holgate Park Drive
York
YO26 4GN

30 June 2023

Statement of Directors' Responsibilities on Respect of The Strategic Report, The Directors' Report and The Financial Statements

The directors are responsible for preparing the Strategic Report and Directors' Report and the 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 elected to prepare the 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 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;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

The directors confirm that:

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

Chris Scott

CD Scott
Director and Company Secretary

Holgate Park Drive
York
YO26 4GN

30 June 2023

Independent auditor's report to the members of Gear4music Limited

Opinion

We have audited the financial statements of Gear4music Limited (the 'company') for the year ended 31 March 2023, which comprise the Profit and Loss Account and Other Comprehensive Income, the Balance Sheet, the 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 their preparation 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 company's affairs as at 31 March 2023 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- 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 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, 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 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 company to cease to continue as a going concern.

In our evaluation of the directors' conclusions, we considered the inherent risks associated with the company's business model including effects arising from macro-economic uncertainties such as Brexit and Covid-19, we assessed and challenged the reasonableness of estimates made by the directors and the related disclosures and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period.

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 company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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.

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.

Opinions on other matters prescribed by the Companies Act 2006

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.

Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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 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 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. 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 most significant are applicable law, United Kingdom Generally Accepted Accounting Practice and relevant tax regulations.
- We identified the relevant legal and regulatory frameworks and understood how the company complies 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 company'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 company's control environment including the adequacy of procedures for authorisation of transactions.**
- **We assessed the susceptibility of the company'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.
- The above audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- **The engagement partner's assessment of the appropriateness of the collective competence and capabilities of the engagement team, including consideration of the engagement team's knowledge and understanding of the industry in which the client operates in, and their practical experience through training and participation with audit engagements of a similar nature.**
- Team communications in respect of potential non-compliance with laws and regulations and fraud included the potential for fraud in revenue recognition and areas of significant management judgement, including those related to the capitalisation of internally generated development costs.

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

Use of our report

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



Mark Overfield BSc FCA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Leeds

30 June 2023

Profit and Loss Account and Other Comprehensive Income
for the year ended 31 March 2023

	<i>Note</i>	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Turnover	2	150,281	145,822
Cost of sales		(109,200)	(102,657)
Gross profit		41,081	43,165
Administrative expenses	4	(42,247)	(38,807)
Other operating income	3	949	862
Operating (loss)/profit		(217)	5,220
Interest payable and similar charges	6	(1,618)	(976)
(Loss)/profit before taxation		(1,835)	4,244
Tax on (loss)/profit	7	6	(1,169)
(Loss)/profit for the financial year		(1,829)	3,075
Other Comprehensive Income			
<i>Items that will not be reclassified to profit or loss:</i>			
Revaluation of property, plant and equipment		(550)	-
Deferred tax movements	18	146	(109)
Total comprehensive (loss)/income for the year		(2,233)	2,966

All of the above relates to continuing operations.

The notes on pages 20 to 39 form an integral part of these financial statements.

Balance Sheet
at 31 March 2023

	<i>Note</i>	2023 £000	2022 £000	2022 £000	£000
Fixed assets					
Intangible assets	8		19,311		17,955
Tangible assets	9		10,188		10,920
Investments	10		4,598		4,598
			<hr/>		<hr/>
			34,097		33,473
Current assets					
Stocks	11	34,381		45,516	
Debtors	12	4,782		3,769	
Cash at bank and in hand	13	3,622		3,137	
		<hr/>		<hr/>	
		42,785		52,422	
Creditors: amounts falling due within one year	14	(22,538)		(19,959)	
		<hr/>		<hr/>	
Net current assets			20,247		32,463
			<hr/>		<hr/>
Total assets less current liabilities			54,344		65,936
Creditors: amounts falling due after more than one year	15	(28,305)		(37,733)	
Deferred tax liability	18	(1,924)		(2,290)	
		<hr/>		<hr/>	
			(30,229)		(40,023)
Net assets			<hr/>		<hr/>
			24,115		25,913
Capital and reserves			<hr/>		<hr/>
Called up share capital	19	100		100	
Share premium account		163		163	
Capital contribution reserve		2,596		2,065	
Revaluation Reserve		1,168		1,606	
Profit and loss account		20,088		21,979	
		<hr/>		<hr/>	
Shareholders' funds			24,115		25,913
			<hr/>		<hr/>

These financial statements were approved by the board of directors on 30 June 2023 and were signed on its behalf by:

Chris Scott

CD Scott
Director

Company registered number: 03113256

Statement of Changes in Equity

	Called up Share capital	Share Premium account	Capital Contribution Reserve	Revaluation Reserve	Profit and loss account	Total Equity
	£000	£000	£000	£000	£000	£000
Balance at 1 March 2021	60	163	1,766	1,640	18,979	22,608
Other Comprehensive Expense	-	-	-	-	(109)	(109)
Profit	-	-	-	-	3,075	3,075
Depreciation Transfer	-	-	-	(34)	34	-
Total Comprehensive Income for the year	-	-	-	(34)	3,000	2,966
Transactions with owners:						
Capital Contribution	-	-	299	-	-	299
Share issue	40	-	-	-	-	40
Total Transactions with owners	40	-	299	-	-	339
Balance at 31 March 2022	100	163	2,065	1,606	21,979	25,913
Loss	-	-	-	-	(1,925)	(1,925)
Deferred Tax Impact of Revaluation	-	-	-	146	-	146
Revaluation Loss	-	-	-	(550)	-	(550)
Depreciation Transfer	-	-	-	(34)	34	-
Total Comprehensive Income for the year	-	-	-	(438)	(1,891)	(2,434)
Transactions with owners:						
Capital Contribution	-	-	531	-	-	531
Total Transactions with owners	-	-	531	-	-	531
Balance at 31 March 2023	100	163	2,596	1,168	20,088	24,115

Notes

(forming part of the financial statements)

1 Accounting policies

1.1 Basis of Preparation

Gear4music Limited (the 'Company') is a private company limited by shares and incorporated and domiciled in the UK.

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*").

The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare Group financial statements. These financial statements present information about the Company as an individual undertaking and not about its Group.

The Company's ultimate parent undertaking, Gear4music (Holdings) plc includes the Company in its consolidated financial statements. The consolidated financial statements of Gear4music (Holdings) plc are prepared in accordance with UK-adopted international accounting standards and are available to the public and may be obtained from Holgate Park Drive, York, YO26 4GN. 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 Gear4music (Holdings) plc 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 accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

1.2 Measurement convention

The financial statements are prepared on the historical cost basis except land and buildings which are stated at fair value.

1.3 Going concern

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

The Company sets an annual budget against which performance is compared, and operates a monthly reporting and rolling forecasting cycle, which the board uses to ensure that the profitability, cash flow and capital requirements of the business are sufficient to ensure its ongoing viability. Management relies on weekly and monthly financial, commercial and operational reporting to monitor, assess and control performance through the financial year. These reports form the basis upon which the board satisfies its requirements to update stakeholders with relevant financial performance and prospects.

In FY22 the Company secured a £35m three-year committed Revolving Credit Facility ('RCF') with its bankers, HSBC, to make acquisitions and invest in stock for precautionary reasons during a period of potential supply chain disruption, and early in a period of inflationary cost price increases.

1 Accounting policies (continued)

1.3 Going concern (continued)

As supply chain pressures eased in FY23, the Company focused on reducing its investment in stock, thereby significantly reducing its net debt by £9.5m to £15.4m at 31 March 2023. On 15 June 2023, and well ahead of the 21 June 2024 renewal date, the Company renewed its RCF with HSBC at £30m for a further three-year period with the option of a fourth and fifth year. This facility provides a good and appropriate level of headroom that has been factored into the Directors going concern assessment. The Company has conducted reverse stress tests on a reasonable base case and concluded that there is no plausible scenario where the Company breaches its covenants, re-affirming the assessment of the Company as a going concern.

The Directors have considered the Company's position and prospects in the period to 31 March 2024 based on its offering in the UK and improved proposition in Europe and concluded that potential growth rates remain strong. There is a diverse supply chain with no key dependencies.

The Company's policy is to ensure that it has sufficient facilities to cover its future funding requirements. At 31 March 2023 the Company had net debt of £15.4m (31 March 2022: £24.9m), with £3.6m cash (31 March 2022: £3.1m cash).

Having duly considered all of these factors and having reviewed the forecasts for the coming year, the Directors have a reasonable expectation that the Company 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 Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. 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. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

1.5 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's 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 these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

1.6 Basic financial instruments

Trade and other debtors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors.

Trade and other payables

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

1 Accounting policies (continued)

1.6 Basic financial instruments (continued)

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Inter-company loans

Amounts owed by and due to Company undertakings are initially recognised at fair value on the balance sheet date at a market rate of interest for a similar debt instrument. On inception the fair value adjustment creates a credit entry to the capital contribution reserve. The subsequent annual renewals of the loan repayment terms cause the unwind of the previous year's FV adjustment producing an Unwind of Discount charge to the Profit and Loss account.

1.7 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Leased assets acquired by way of finance lease are stated on initial recognition at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, including any incremental costs directly attributable to negotiating and arranging the lease. At initial recognition a finance lease liability is recognised equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease. Lease payments are accounted for as described at 1.16 below.

The Company assesses at each reporting date whether tangible fixed assets (including those leased under a finance lease) are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

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

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

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.

1 Accounting policies (continued)

1.8 Intangible assets, goodwill and negative goodwill

Software platform

Computer software development costs that generate economic benefits beyond one year and meet the development asset recognition criteria as laid out in FRS 102.18 'Intangible Assets other than Goodwill', 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 profit and loss account as an expense as incurred.

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:

Software Platform	3-8 years
Brand and Other Intangible Assets	10 year
Purchased Goodwill	10 years
Domains	10 years

The Company reviews the amortisation period and method when events and circumstances indicate that the useful life may have changed since the last reporting date.

Goodwill arising on acquisitions, being the excess of the purchase consideration over the fair value of the net assets acquired, is amortised on a straight-line basis over 10 years, being the useful economic life as determined by management. The directors perform a review of the carrying value where there is evidence of a change in circumstance that may indicate a possible impairment.

1.9 Business combinations

Business combinations are accounted for using the purchase method as at the acquisition date, which is the date on which control is transferred to the company.

At the acquisition date, the company recognises goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- directly attributable transaction cost; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

1.10 Government grants

Government grants are included within accruals and deferred income in the balance sheet and credited to the profit and loss account over the expected useful lives of the assets to which they relate or in periods in which the related costs are incurred. Payments received under CJRS are included in other operating income.

1 Accounting policies (continued)

1.11 Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the stocks and other costs in bringing them to their existing location and condition.

1.12 Impairment excluding stocks and deferred tax assets

Fixed and Financial assets (including trade and other 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 discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Impairment of Tangible Assets

Consideration is given as to whether there are indicators of impairment of the company's tangible assets. Where impairment indicators are identified, factors taken into consideration in determining whether an impairment charge is required include the economic viability and expected future financial performance of the assets and where it is a competent or a larger cash generating unit, the viability and expected future performance of that unit.

1.13 Employee benefits

Defined contribution plans and other long-term employee benefits

A defined contribution plan is a post-employment benefit plan under which the company 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 profit and loss account in the periods during which services are rendered by employees.

Staff Share Options Scheme

Share-based payment arrangements in which the company 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 company.

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.

1 Accounting policies (continued)

1.13 Employee benefits (continued)

Share-based payment transactions in which the Company 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.

Staff are members of the Company share option scheme, shares of which are held in Gear4music (Holdings) plc and the Group recharges an element of the cost to Gear4music Limited as an intercompany recharge.

1.14 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 recognised at the best estimate of the amount required to settle the obligation at the reporting date.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Company, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee.

1.15 Turnover

Product sales and delivery receipts

Revenue from the sale of goods and delivery receipts 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.

Other revenue

The Company offers customers extended paid-for warranties on a two-to-ten-year basis, depending on the product. Warranty income is recognised on a straight-line basis over the period the warranty is offered. Invoiced amounts relating to future periods are deferred and recognised in deferred income in the statement of Financial Position (note 15).

The Company offers retail point of sale credit on orders over £250, through agreements with external credit providers. The Company does not retain any credit risk and commissions are recognised within revenue on recognition of the credit sale. In the year ended 31 March 2022 this income totalled £284,000 (FY21: £309,000). No discount is offered on any sales made through these credit providers.

1.16 Expenses

Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

1 Accounting policies (continued)

Finance lease

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability using the rate implicit in the lease. 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. Contingent rents are charged as expenses in the periods in which they are incurred.

Interest receivable and Interest payable

Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities 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 profit and loss account (see foreign currency accounting policy).

Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the company's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

1.17 Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

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

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset (other than goodwill) or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax. Goodwill is adjusted by the amount of such deferred tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. For non-depreciable assets that are measured using the revaluation model, or investment property that is measured at fair value, deferred tax is provided at the rates and allowances applicable to the sale of the asset/property. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

1.18 Common Control Transactions

Common control transactions are corporate reorganisations in which all of the combining businesses are ultimately controlled by the same party both before and after the combination, and that control is not transitory. These are not specifically covered by FRS 102. The company has adopted a policy of accounting for these transactions at book value.

1.19 R&D Tax Credits

The Company receives R&D expenditure credit (RDEC) and has elected to show this credit as other operating income.

1.20 Accounting estimates and judgements

The preparation of consolidated financial information in conformity with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland, requires Management to make judgements, estimates and assumptions concerning the future, that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. These judgements are based on historical experience and Management's best knowledge at the time and the actual results may ultimately differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis and revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

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

Judgements

- Direct software development costs are capitalised as intangible assets. Judgement is applied in assessing the flow of future economic benefit, and in identifying which costs are capitalised and which are written off as an expense. Alternative judgement could result in certain costs being expensed or capitalised.
- The Directors have determined that cash-in-transit received from electronic transfer balances, which the company have received notification of transfer being made pre-year end, are appropriate to be included in cash and cash equivalents. The value of these balances is included in note 13.

Estimates

Revenue

- Warranty income is recognised as the risks and rewards are transferred to the customer with reference to the costs incurred towards satisfying that revenue as compared to the total expected costs. The proportion of costs compared to total expected costs is an estimate based on historical data.
- 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 (2023:£1,117,000, 2022:£1,230,000).

2 Turnover

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Turnover by product category		
Other-brand products	106,321	101,155
Own-brand products	37,490	37,631
Carriage income	6,187	6,266
Other	283	770
	<hr/>	<hr/>
Total turnover	150,281	145,822
	<hr/>	<hr/>
	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Turnover by geographical market		
UK	80,280	82,536
Europe	67,013	61,138
Rest of the World	2,988	2,148
	<hr/>	<hr/>
Total turnover	150,281	145,822
	<hr/>	<hr/>

3 Other operating income

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Government grants	7	56
Rental Income	363	336
Royalty and Marketing Income	134	106
R&D Tax Claim	445	364
	<hr/>	<hr/>
	949	862
	<hr/>	<hr/>

Government grants comprise Regional Growth Fund assistance in acquiring certain capital items (2023: £3,000, 2022: £7,000) and grants available under the national apprenticeship scheme (2023: £4,500, 2022: £6,000). Grant conditions exist linked to job creation and these criteria have been satisfied.

Rental income is generated from sub-letting part of the purchased York HQ building, and includes income generated from the on-site canteen.

The Company receives R&D expenditure credit (RDEC) and has elected to show this credit as other operating income.

4 Expenses and auditor's remuneration

Included in profit/loss are the following:

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Auditor's remuneration - audit	74	74
	<u>74</u>	<u>74</u>

Included in profit/loss are the following:

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Expenses		
Depreciation of Property, plant and equipment	904	844
Amortisation of Intangible assets	3,972	2,954
Amortisation of government grants	3	7
Loss on disposal of property, plant and equipment	17	9
R&D expenditure recognised as an expense	262	230
Rentals – plant & machinery	30	5
	<u> </u>	<u> </u>

Staff numbers and costs

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

	Year ended 31 March 2023 Nos.	Year ended 31 March 2022 Nos.
Administration	207	210
Selling and Distribution	252	239
	<u>459</u>	<u>449</u>

The aggregate payroll costs of these persons were as follows:

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Wages and salaries	13,992	12,682
Social security costs	1,381	1,184
Contributions to defined contribution plans	1,249	1,022
	<u>16,622</u>	<u>14,888</u>

5 Directors' remuneration

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Directors' remuneration	1,031	976
Company contributions to money purchase pension plans	52	34
	<u>1,083</u>	<u>1,010</u>

The aggregate of remuneration including amounts receivable under long term incentive schemes of the highest paid director was £232,000 (2022: £276,000), and company pension contributions of £9,000 (2022: £8,000) were made to a money purchase scheme on his behalf.

	Number of directors 2023	2022
Retirement benefits are accruing to the following number of directors	<u>7</u>	<u>7</u>

6 Interest payable and similar charges

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Bank interest	1,126	544
Lease interest	3	11
Net foreign exchange loss	190	97
Unwind of Discount on Company Liabilities	299	324
	<u>1,618</u>	<u>976</u>
Total other interest payable and similar charges		

7 Taxation

Recognised in the profit and loss account

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
<i>UK corporation tax</i>		
Current tax on income for the period	-	505
Adjustments in respect of prior periods	214	7
	<hr/> 214	<hr/> 512
<i>Deferred tax (see note 18)</i>		
Origination and reversal of timing differences	(164)	330
Reduction in tax rate	-	342
Adjustments in respect of prior periods	(56)	(15)
	<hr/> 220	<hr/> 657
Tax on profit on ordinary activities	<hr/> (6)	<hr/> 1,169

Reconciliation of effective tax rate

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
(Loss)/profit for the year	(1,829)	3,075
Total tax expense	(6)	1,169
	<hr/> (1,835)	<hr/> 4,244
(Loss)/profit excluding taxation		
Tax using the UK corporation tax rate of 19% (2022: 19%)	(349)	737
Difference between current and deferred tax rates	(39)	101
Non-deductible expenses	167	44
Group relief surrendered for nil payment	-	(108)
Group relief	57	62
Adjustment in respect of prior years	158	(9)
Impact of rate on deferred tax	-	342
	<hr/> (6)	<hr/> 1,169
Total tax expense included in profit or loss	<hr/> (6)	<hr/> 1,169

The corporation tax rate applicable to the company was 19% for the year ended 31 March 2023, and 19% for the period ended 31 March 2022. The corporation tax rate increased to 25% from 1 April 2023 and this rate was substantively enacted as at 31 March 2023. The deferred tax assets and liabilities at 31 March 2023 have been calculated based on that rate.

8 Intangible assets

	Goodwill £000	Software platform £000	Brand £000	Domains £000	Total £000
Cost					
At 1 April 2021	1,456	14,581	93	-	16,130
Additions	-	4,439	-	3,023	7,462
Additions through business combinations	960	-	715	-	1,675
Transfer from investment	2,593	-	-	-	2,593
Balance at 31 March 2022	5,009	19,020	808	3,023	27,860
Additions	-	5,320	-	8	5,328
Balance at 31 March 2023	5,009	24,340	808	3,031	33,188
Amortisation					
At 1 April 2021	773	6,178	-	-	6,951
Amortisation for the year	343	2,322	63	226	2,954
Balance at 31 March 2022	1,116	8,500	63	226	9,905
Amortisation for the year	538	3,050	81	303	3,972
Balance at 31 March 2023	1,654	11,550	144	529	13,877
Net book value as at 31 March 2023	3,355	12,790	664	2,502	19,311
Net book value as at 31 March 2022	3,893	10,521	745	2,796	17,955

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

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

Following the hive up of AV Distribution Limited in January 2022, the investment value was transferred to goodwill.

9 Tangible fixed assets

	Computer Equipment £000	Plant and Equipment £000	Fixtures & fittings £000	Motor Vehicles £000	Land and Buildings £000	Total £000
Cost or Valuation						
Balance at 1 April 2021	1,032	988	4,134	29	7,500	13,683
Additions	197	67	192	32	-	488
Additions through business combinations	10	-	-	-	-	10
Additions following hive up	8	13	68	6	1,251	1,346
Balance at 31 March 2022	1,247	1,068	4,394	67	8,751	15,527
Additions	102	161	507	-	-	770
Disposals	-	-	(123)	(29)	-	(152)
Revaluation	-	-	-	-	(550)	(550)
Balance at 31 March 2023	1,349	1,229	4,778	38	8,201	15,595
Depreciation and impairment						
Balance at 1 April 2021	723	743	2,127	20	150	3,763
Depreciation charge	157	128	398	5	155	844
Balance at 31 March 2022	880	871	2,525	25	305	4,607
Depreciation charge	163	133	430	2	175	904
Disposals	-	-	(101)	(3)	-	(104)
Balance at 31 March 2023	1,044	1,004	2,855	24	480	5,407
Net book value as at 31 March 2023	305	225	1,923	14	7,721	10,188
Net book value as at 31 March 2022	367	197	1,869	42	8,445	10,920

10 Tangible fixed assets (continued)

Freehold property revaluation

At 31 March 2023 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.

Market value at 31 March 2023 was confirmed at £6.5m compared to a book value at 31 March 2023 of £7.05m, and market value at 31 March 2020 of £7.5m.

If the property had not been revalued the net book value would have been £5.0m.

Leased plant and machinery

At 31 March 2023 the net carrying amount of tangible fixed assets leased under a finance lease was NIL (2022: £228,000). The leased equipment secures lease obligations (see note 18).

Security

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

10 Investments in subsidiaries

	Year ended 31 March 2023 £000
As at 1 April 2022 and 31 March 2023	4,598

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
Cagney Limited	Holgate Park Drive, York, YO26 4GN	04493300	Ordinary	100%
Gear4music Sweden AB	Metallvägen 45a, 195 72 Rosersberg, Stockholm County, Sweden	559070-4762	Ordinary	100%
Gear4music GmbH	Lahnstraße 27, 45478 Mülheim an der Ruhr, Germany	HRB 29067	Ordinary	100%
Gear4music Norway AS	PO Box 2734, Solli, 0204 Oslo, Norway	917 313 210	Ordinary	100%
Gear4music Europe Limited (formerly known as Gear4music Ireland Limited)	Block 7 Jamestown Business Park, Finglas, Co. Dublin, D11 X59D, Ireland	693113	Ordinary	100%
Gear4music Spain SL	Carrer Número 21 del Parc Logistic, nº 12-14 08040 Barcelona, Spain	21097476	Ordinary	100%
AV Distribution Ltd	Holgate Park Drive. York, YO26 4GN	05385699	Ordinary	100%

10 Investments in Subsidiaries (continued)

Investments in share capital are £4,550 in Sweden, £21,660 in Germany, £2,806 in Norway, £85 in Ireland and £2,539 in Spain.

On 1 December 2021 the Company acquired AV Distribution Ltd for £7,160,000; the business was hived up in January 2022. £2,593,000 was transferred to goodwill and the remaining £4,567,000 is included in investments.

All Group companies have 31 March financial year-ends.

Cagney Limited, Gear4music Norway AS, and AV Distribution Ltd are dormant companies. Gear4music Norway AS and AV Distribution Ltd are in the process of being dissolved.

11 Stocks

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Finished goods	34,381	45,516

The cost of stock is recognised as cost of sales in the year amounted to £102.6m (2022: £96.9m).

Management has included a provision of £50,000 (31 March 2022: £55,000), 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.

12 Debtors

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Trade debtors	1,238	1,921
Corporation tax asset	961	476
Prepayments and accrued income	1,169	381
VAT debtor	441	95
Amounts owed from Group undertakings	973	896
	4,782	3,769

The Company faces low credit risk as customers typically pay for their orders in full on shipment of the product, with the only exceptions being a small number of education accounts with schools and colleges that have 30-day terms (2.9% of 2023 and 2.4% of 2022 revenues).

Funds lodged with payment providers

Funds lodged with Amazon, Digital River, Klarna and V12 Retail Finance totalled £581,000 on 31 March 2023 (31 March 2022: £378,000) 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.

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

13 Cash and cash equivalents

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Cash at bank and in hand	3,622	3,137

Cash-in-transit to the company at 31 March 2023 was £354,000 (31 March 2022: £336,000) representing uncleared lodgements where money providers have notified transfers pre-year-end.

14 Creditors: amounts falling due within one year

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Obligations under finance leases (see note 17)	-	70
Amounts owed to Group undertakings	4,953	4,567
Trade creditors	8,764	8,827
Taxation and social security	3,063	2,532
Other creditors	-	-
Accruals and deferred income	5,758	3,963
	<u>22,538</u>	<u>19,959</u>

15 Creditors: amounts falling after more than one year

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Bank loans and overdrafts (see note 16)	19,000	28,000
Accruals and deferred income	84	63
Amounts owed to fellow Group undertakings measured at fair value	9,221	9,670
	<u>28,305</u>	<u>37,733</u>

The loans from Group undertakings are repayable on demand. No interest is charged on the balance.

16 Interest-bearing loans and borrowings

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

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Non-current liabilities		
Bank loans	19,000	28,000
	<u>19,000</u>	<u>28,000</u>
Current liabilities		
Bank loans	-	-
	<u>-</u>	<u>-</u>
Total liabilities		
Bank loans	19,000	28,000
	<u>19,000</u>	<u>28,000</u>

Revolving Credit Facility

At 31 March 2023 bank loans were drawn loans under the Company's three-year £35m Revolving Credit Facility ('RCF') with HSBC. This facility was due to expire in April 2024 and was secured by a debenture over the Gear4music Group's assets.

On 15 June 2023 the Company renewed its banking facilities entering into a three year £30m RCF with HSBC with the option two further years. This facility expires in June 2026 and is secured by a debenture over the Gear4music Group's assets.

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

Other bank facilities

Gear4music has a number of guarantees in relation to VAT, and issues letter of credits to its suppliers. At 31 March 2023 the Company had guarantees of £654,000 in place (2022: £1,011,000) and letters of credit of £63,000 (31 March 2022: £317,000).

17 Other Interest-bearing loans and borrowings

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments Year ended 31 March 2023 £000	Minimum lease payments Year ended 31 March 2022 £000
Less than one year	-	70
Between one and five years	-	-
	<u>-</u>	<u>70</u>

18 Deferred tax assets and liabilities

Movement in deferred tax during the year

	At 1 April 2022	Recognised in other comprehensive income £000	Recognised in income £000	At 31 March 2023 £000
Accelerated Capital Allowances	(1,893)	-	(241)	(2,134)
Loss	-	-	546	546
Revaluation	(487)	146	-	(341)
Share based payments	90	-	(85)	5
	<u>(2,290)</u>	<u>146</u>	<u>220</u>	<u>(1,924)</u>

Movement in deferred tax during the prior year

	At 1 April 2021	Recognised in other comprehensive income £000	Recognised in income £000	Recognised on acquisition £000	At 31 March 2022 £000
Accelerated Capital Allowances	(1,163)	-	(682)	(48)	(1,893)
Revaluation	(377)	(110)	-	-	(487)
Share based payments	64	-	26	-	90
	<u>(1,476)</u>	<u>(110)</u>	<u>(656)</u>	<u>(48)</u>	<u>(2,290)</u>

19 Capital and reserves

Share capital

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
<i>Allotted, called up and fully paid classified on shareholders' funds</i>		
A-Ordinary shares of 10p each	60	60
C-Ordinary shares of £1 each	2	2
D-Ordinary shares of 10p each	38	38
	<u>100</u>	<u>100</u>

The holders of A-Ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. C-Ordinary and D-Ordinary shares are non-voting, non-dividend restricted shares.

On 2 August 2021 and subject to meeting performance conditions under a long-term incentive plan, 27,300 C-Ordinary shares were exchanged for shares in Gear4music (Holdings) plc or a cash equivalent, and consolidated and re-designated as A-Ordinary shares. At 31 March 2022 and 31 March 2023 there are 182,700 non-voting, non-dividend restricted C-Ordinary shares.

On 14 October 2021, 377,100 D-Ordinary shares were issued in relation to a new long-term incentive plan.

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

The revaluation reserve represents the nett unrealised gain or loss generated on revaluation of the freehold office property on 28 February 2018, 31 March 2020 and 31 March 2023. It represents the excess of the fair value over historic net book value.

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

20 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Less than one year	595	699
Between one and five years	2,066	2,203
More than five years	-	411
	<hr/> 2,661 <hr/>	<hr/> 3,313 <hr/>

During the year £565,000 was recognised as an expense in the profit and loss account in respect of operating leases (2022: £716,000).

Operating lease commitments relates to property leases of the Distribution Centre in York and the Software Development office in Manchester.

21 Ultimate parent company and parent company of larger Company

The Company is a subsidiary undertaking of Gear4music (Holdings) plc, this is both the largest and smallest Group of which the Company is a member and which prepares consolidated accounts. The consolidated financial statements of Gear4music (Holdings) plc are available to the public and may be obtained from Holgate Park Drive, York, YO26 4GN.

The ultimate controlling party is Gear4music (Holdings) plc.