Gear4Music (Holdings) Limited

Directors' report and financial statements

Registered number 07786708

Year ended 28 February 2014

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Officers and professional advisors

The board of directors

D Murray
AP Wass
M Buttler
GJ Bevan
CD Scott

Company secretary

CD Scott

Registered office

Kettlestring Lane
Clifton Moor
York
North Yorkshire
YO30 4XF

Auditor

KPMG LLP
1 The Embankment
Neville Street
Leeds
LS1 4DW

Bankers (from 1 March 2014)

HSBC Bank Plc
13 Parliament Street
York
YO1 8XS

Strategic report

The directors present their strategic report for the Company and Group for the year ended 28 February 2014.

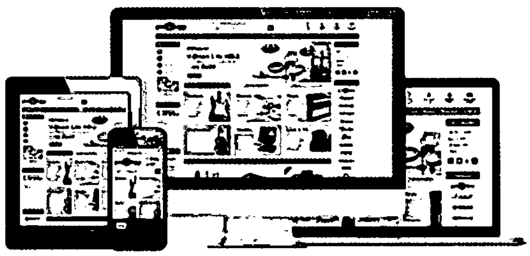
Principal activities

Gear4music Group is a retailer of musical instruments and equipment, through 19 Gear4music branded websites across Europe in 15 languages, and a showroom in York. It retails own and other branded products.

Business review

The Group's principal objective is strong, profitable sales growth. It aims to achieve this by continuously improving its value proposition by investing in its websites and supporting infrastructure, product breadth and depth, and expanding the Gear4music team.

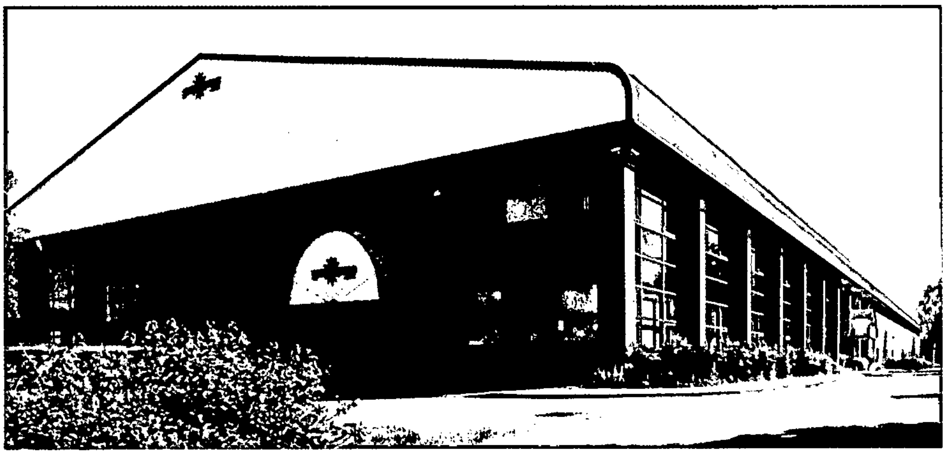
In this context of re-investment, Management considers the results for the year to be strong, with sales increasing 44% to £17.7m driven in part by a website update, incorporating a fully responsive design covering desktop, tablet and mobile devices.



Whilst gross profit increased by £1.35m (40%) to £4.72m, gross margin fell from 27.5% to 26.7%, largely due to sales mix.

Operating profit excluding exceptional costs was up £168,000 (131%) to £296,000, including significant re-investment in the business and people.

In October 2013 the business consolidated its showroom, office and warehouse operations onto a single 135,000 sq. ft. site in York. This move incurred one-off exceptional costs of £212,000.



The well-publicised growth of online retail as a sales channel provides continued optimism, and the directors are confident that the Group is in a good financial position to build on the operational improvements successfully implemented in 2013-14.

Principal risks and uncertainties

As a retail operation, the business faces a number of commercial risks ranging from international economic factors and the impact on consumer confidence and spending, through to local competitive pressure relevant to all markets. The business manages these risks by providing high quality branded products across a comprehensive range, at competitive prices, supported by good customer service.

The Group faces normal financial risk in relation to the availability of sufficient and appropriate funds to meet the business needs. The business reviews its' requirements on a regular basis and manages its position in good time using appropriate funding options, usually provided by its bankers, HSBC.

The finance team monitors and manages exposure to foreign exchange and interest rates.

Key Performance Indicators

In addition to the usual day-to-day interactions of running a business, Senior Management hold formal 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.

Future developments

The directors are confident that the business is in a strong operational position and is expected to continue to deliver good growth.

C D Scott
Secretary

Kettlestring Lane
Clifton Moor
York
North Yorkshire
YO30 4XF

30 OCTOBER 2014

Directors' report

The directors have pleasure in presenting their report and financial statements of the Company for the year ended 28 February 2014.

Proposed dividend

The directors do not recommend the payment of a final dividend.

Directors

The directors who held office during the year were as follows:

D Murray
AP Wass
M Buttler
GJ Bevan
CD Scott

A director benefits from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

Disclosure of information to auditor

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

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board

C D Scott
Secretary

Kettlestring Lane
Clifton Moor
York
North Yorkshire
YO30 4XF

30 OCTOBER 2014

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

The directors are responsible for preparing the Strategic Report, 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 they have elected to prepare the Group and Parent Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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

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

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

KPMG

KPMG LLP
1 The Embankment
Neville Street
Leeds
LS1 4DW
United Kingdom

Independent auditor's report to the members of Gear4Music (Holdings) Limited

We have audited the financial statements of Gear4Music (Holdings) Limited for the year ended 28 February 2014 set out on pages 8 to 24. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 28 February 2014 and of the Group's loss for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Independent auditor's report to the members of Gear4Music (Holdings) Limited *(continued)*

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

Johnathan Pass (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 The Embankment
Neville Street
Leeds
LS1 4DW

30 October 2014

Consolidated profit and loss account
for the year ended 28 February 2014

	Note	Year ended 28 February 2014 Before exceptional items	Year ended 28 February 2014 Exceptional items (see note 2)	Year ended 28 February 2014 Total	75 week period ended 28 February 2013 Total
		£	£	£	£
Turnover	*1*	**17,677,674**	**-**	**17,677,674**	12,265,651
Cost of sales		**(12,952,793)**	**-**	**(12,952,793)**	(8,890,110)
Gross profit		**4,724,881**	**-**	**4,724,881**	3,375,541
Administration expenses		**(4,428,961)**	**(212,145)**	**(4,641,106)**	(3,247,290)
Operating profit	*2*	**295,920**	**(212,145)**	**83,775**	128,251
Operating profit		**295,920**	**(212,145)**	**83,775**	128,251
Interest payable and similar charges	*5*	**(413,319)**	**-**	**(413,319)**	(353,600)
Loss on ordinary activities before taxation	*2-5*	**(117,399)**	**(212,145)**	**(329,544)**	(225,349)
Tax on loss on ordinary activities	*6*	**21,408**	**-**	**21,408**	27,907
Loss for the period		**(95,991)**	**(212,145)**	**(308,136)**	(197,442)

The Group has no recognised gains or losses other than as shown above and therefore no separate statement of total recognised gains and losses has been prepared.

The notes on pages 12-24 form part of these financial statements.

Consolidated balance sheet
as at 28 February 2014

	Notes	**2014** £	**2014** £	2013 £	2013 £
Fixed assets					
Intangible assets - goodwill	*8*		**1,525,403**		1,642,742
Tangible assets	*9*		**1,629,768**		863,579
			3,155,171		2,506,321
Current assets					
Stocks	*10*	**4,222,248**		3,611,089	
Debtors (including £18,497 due after more than one year)	*11*	**174,406**		228,949	
Cash at bank and in hand		**707,911**		656,179	
		5,104,565		4,496,217	
Creditors: amounts falling due within one year	*12*	**(3,238,783)**		(2,057,635)	
Net current assets			**1,865,782**		2,438,582
Total assets less current liabilities			**5,020,953**		4,944,903
Creditors: amounts falling due after more than one year	*13*		**(4,227,408)**		(3,876,442)
Provision for liabilities	*14*		**(33,498)**		(278)
Net assets			**760,047**		1,068,183
Capital and reserves					
Called up share capital	*15*		**1,265,625**		1,265,625
Profit and loss account	*16*		**(505,578)**		(197,442)
Shareholders' funds			**760,047**		1,068,183

These financial statements were approved by the board of directors on 7 October 2014 and were signed on its behalf by:

AP Wass
Director

CD Scott
Director

Company balance sheet
as at 28 February 2014

	Notes	2014 £	2014 £	2013 £	2013 £
Fixed assets					
Investments	*7*		**2,739,877**		2,739,877
Current assets					
Debtors (including £1,624,679 due after more than one year)	*11*	**1,626,368**		1,761,305	
		1,626,368		1,761,305	
Creditors: amounts falling due within one year	*12*	**(39,339)**		(7,908)	
Net current assets			**1,587,029**		1,753,397
Total assets less current liabilities			**4,326,906**		4,493,274
Creditors: amounts falling due after more than one year	*13*		**(3,725,450)**		(3,528,590)
Net assets			**601,456**		964,684
Capital and reserves					
Called up share capital	*15*		**1,265,625**		1,265,625
Profit and loss account	*16*		**(664,169)**		(300,941)
Shareholders' funds			**601,456**		964,684

These financial statements were approved by the board of directors on 7 October 2014 and were signed on its behalf by:

AP Wass
Director

CD Scott
Director

Consolidated cash flow statement
for the year ended 28 February 2014

	Note	2014 £	2014 £	2013 £	2013 £
Net cash inflow/(outflow) from operating activities	*18*		**764,420**		(669,441)
Returns on investments and servicing of finance					
Interest paid		**(216,458)**		(60,682)	
Net cash outflow from returns on investments and servicing of finance			**(216,458)**		(60,682)
Taxation					
UK corporation tax paid		**(18,700)**		(64,775)	
Net cash outflow from taxation			**(18,700)**		(64,775)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		**(858,917)**		(492,976)	
Proceeds from sale of fixed assets		**95,228**		1,258	
Acquisition of subsidiaries		**-**		(2,739,877)	
Cash acquired with subsidiary		**-**		358,328	
Net cash outflow from capital expenditure and financial investment			**(763,689)**		(2,873,267)
Net cash outflow before financing			**(288,275)**		(3,668,165)
Financing					
Repayment of borrowings	*19*	**-**		(128,740)	
New borrowings	*19*	**403,953**		3,235,577	
Capital element of hire purchase contracts	*19*	**(117,794)**		(48,118)	
Proceeds from issue of ordinary shares		**-**		1,265,625	
			286,159		4,324,344
Increase in cash in the period	*19*		**51,732**		656,179

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 28 February 2014. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

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

Going concern

The financial statements have been prepared on the going concern basis which assumes that the Group will be able to continue to trade for the foreseeable future. The directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook. The directors are not aware of any reason why their sources of funding might be withdrawn. As a result they have adopted the going concern basis of accounting.

Turnover

Turnover comprises the invoiced value of sales of goods and services provided in the normal course of business, including delivery charges and excluding VAT and other sales taxes. Revenue is recognised on despatch or retail sale of the goods.

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over fair value of the separable net assets acquired) arising on consolidation in respect of acquisition is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life.

The estimated useful life of the Group's goodwill is 15 years.

Tangible fixed assets and depreciation

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life or, if held under a finance lease, over the lease term, whichever is the shorter.

Plant and machinery	20-25% on reducing balance
Fixtures and fittings	20-25% on reducing balance
Motor vehicles	25% on reducing balance
Website and IT infrastructure	20% on a straight line basis
Computer equipment	20-33% on a straight line basis

Investments

In the Company's financial statements, investments in subsidiary undertakings, associates and joint ventures are stated at cost (less amounts written off).

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items. Goods in transit are included when all significant risks and rewards have been transferred to the company.

Notes *(continued)*

1 Accounting policies *(continued)*

Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred taxation is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. Deferred taxation is calculated at the rates of tax that are expected to apply in the periods when the timing differences will reverse and has not been discounted.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Hire purchase and leasing commitments

Assets obtained under hire purchase contracts or finance leases are capitalised in the balance sheet. Those held under hire purchase contracts are depreciated over their estimated useful lives. Those held under finance leases are depreciated over their estimated useful lives or the lease term, whichever is the shorter.

The interest element of these obligations is charged to the profit and loss account over the relevant period. The capital element of the future payments is treated as a liability.

Rentals paid under operating leases are charged to the profit and loss account on a straight line basis over the period of the lease.

Government Grants

Government Grants relating to the purchase of fixed assets are depreciated over the term of the HP agreements attached to those assets on a straight line basis.

2 Notes to the profit and loss account

Operating profit is stated after charging/(crediting):

	Year ended 28 February 2014	75 week period ended 28 February 2013
	£	£
Depreciation – owned assets	**305,399**	216,491
Depreciation – assets on hire purchase contracts	**40,639**	34,741
Amortisation of goodwill	**117,339**	117,339
Profit on disposal of fixed assets	**(2,500)**	(151)
Government Grant Amortisation	**(3,933)**	-
Hire of plant and machinery - operating leases	**16,199**	10,689
Hire of other assets - operating leases	**233,889**	228,827
Foreign exchange loss	**33,365**	14,570
Audit of these financial statements	**14,580**	12,715
Amounts receivable by auditors and their associates in respect of services relating to taxation	**2,580**	2,500
Pension costs	**3,553**	5,680
Exceptional costs	**212,145**	-

All exceptional costs in the period relate to the costs incurred by the Group in moving the warehouse, offices and showroom.

Notes *(continued)*

3 Remuneration of directors

	Year ended 28 February 2014 £	75 week period ended 28 February 2013 £
Emoluments	**341,980**	221,141
Social Security	**42,677**	26,863
Pension Contributions	**1,680**	5,448
	386,337	253,452

There is one director *(2013:1)* for whom retirement benefits are accruing under a money purchase pension scheme. Emoluments disclosed above include the following amounts paid in respect of the highest paid director.

Highest paid director	2014 £	2013 £
Emoluments	**150,376**	146,749
Social Security	**19,420**	18,979
Pension Contributions	**1,680**	1,680
	171,476	167,408

	Number of directors Year ended 28 February 2014	Number of directors 75 week period ended 28 February 2013
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	**1**	2

4 Staff numbers and costs

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

	Year ended 28 February 2014 Number	75 week period ended 28 February 2013 Number
Administrative staff	**70**	47
Retail staff	**4**	4
	74	51

Notes *(continued)*

4 Staff numbers and costs (continued)

The aggregate payroll costs of these persons were as follows:

	Year ended 28 February 2014	75 week period ended 28 February 2013
	£	£
Wages and salaries	**1,542,338**	879,066
Social security costs	**131,093**	69,312
Other pension costs	**1,873**	232
	1,675,304	948,610

5 Interest payable

	2014	2013
	£	£
Bank overdraft and loan interest	**52,995**	36,667
Hire purchase contracts	**13,292**	11,651
Loan notes	**360,324**	305,884
	413,319	354,202

6 Taxation

The tax charge on the loss on ordinary activities for the year was as follows:

	Year ended 28 February 2014	75 week period ended 28 February 2013
	£	£
Current tax		
UK corporation tax	**-**	21,336
Adjustment in respect of prior year	**(2,633)**	1,023
	(2,633)	22,359
Deferred tax	**(18,775)**	(50,266)
Tax on loss on ordinary activities	**(21,408)**	(27,907)

Notes *(continued)*

6 Taxation (continued)

Factors affecting the tax credit for the current year

The current tax credit for the year is lower than the standard rate of corporation tax in the UK (20%). The differences are explained below:

	Year ended 28 February 2014 £	75 week period ended 28 February 2013 £
Current tax reconciliation		
Loss on ordinary activities before tax	**(329,544)**	(225,349)
Current tax at 20%	**(65,909)**	(45,070)
Effects of:		
Expenses not deductible for tax purposes	**17,255**	76
Amortisation of goodwill on consolidation	**23,467**	23,467
Timing differences – capital allowances	**(39,289)**	4,260
Interest not taxable	**39,505**	38,603
Unrelieved Losses	**24,971**	-
Adjustment relating to prior year	**(2,633)**	1,023
Total current tax	**(2,633)**	22,359

7 Fixed asset investments

	Unlisted investments £	**Shares in group undertakings** £
Company		
Cost		
At the beginning of period on acquisition	1	2,739,877
Net book value		
At 28 February 2014	1	2,739,877

The Company's investments at the balance sheet date in the share capital of companies include the following:

Company name	**Nature of business**	**Class of share**	**Aggregate capital and reserves**	**%**
Gear for Music Limited	Dormant	Holding	-	100.0
Red Submarine Limited	Retail	Ordinary	1,200,634	100.0

Shares in Gear for Music Limited are held via the subsidiary Red Submarine Ltd.

Notes *(continued)*

8 Intangible fixed assets

	Goodwill £
Group	
Cost	
At start and end of the year	1,760,081
Amortisation	
At start of the year	(117,339)
Charge for the year	(117,339)
At end of year	(234,678)
Net book value	
At 28 February 2014	**1,525,403**
At 28 February 2013	1,642,742

Notes *(continued)*

9 Tangible fixed assets

	Plant and machinery £	Fixtures and fittings £	Motor vehicles £	Website and IT infrastructure £	Total £
Group					
Cost					
At start of the year	61,845	635,808	8,450	1,445,097	2,151,200
Additions	148,233	518,363	-	538,359	1,204,955
Disposals	(5,000)	(267,895)	-	-	(272,895)
At 28 February 2014	205,078	886,276	8,450	1,983,456	3,083,260
Depreciation					
At start of the year	51,238	382,028	6,110	848,246	1,287,621
Charge for the year	13,473	79,750	585	252,260	346,038
Eliminated on disposal	-	(180,167)	-	-	(180,167)
At 28 February 2014	64,711	281,579	6,696	1,100,504	1,453,492
Net book value					
At 28 February 2014	**140,367**	**604,697**	**1,754**	**882,950**	**1,629,768**
At 28 February 2013	10,607	253,781	2,339	596,852	863,579

Fixed assets, included in the above, which are held under hire purchase contracts are as follows:

	Plant and machinery £	Fixtures and fittings £	Website and IT infrastructure £	Total £
Group				
Cost				
At the start of the year	50,032	141,705	8,170	199,907
Additions	148,233	198,578	-	346,811
Transfer to ownership	-	(86,819)	-	(86,819)
At 28 February 2014	198,265	253,474	8,170	459,909
Depreciation				
At the start of the year	46,905	78,621	4,085	129,611
Charge for the year	12,857	25,740	2,042	40,639
Transfer to ownership	-	(61,858)	-	(61,858)
At 28 February 2014	59,762	42,503	6,127	108,392
Net book value				
At 28 February 2014	**138,503**	**210,971**	**2,043**	**351,517**
At 28 February 2013	3,127	63,084	4,085	70,296

Notes *(continued)*

10 Stocks

	Group 2014 £	Group 2013 £	Company 2014 £	Company 2013 £
Finished goods and goods for resale	**4,222,248**	3,611,089	-	-

11 Debtors

Due in less than one year

	Group 2014 £	Group 2013 £	Company 2014 £	Company 2013 £
Trade debtors	**26,910**	30,740	-	-
Prepayments and sundry debtors	**128,999**	198,209	**1,689**	-
	155,909	228,949	**1,689**	-

Due in more than one year

	Group 2014 £	Group 2013 £	Company 2014 £	Company 2013 £
Amounts owed by subsidiary undertaking	-	-	**1,546,704**	1,716,913
Deferred taxation asset	**18,497**	-	**77,975**	44,392
	18,497	-	**1,624,679**	1,761,305

The amount owed by subsidiary undertaking is considered long term funding and is scheduled for repayment after more than one year. The balance does not accrue interest.

12 Creditors: amounts falling due within one year

	Group 2014 £	Group 2013 £	Company 2014 £	Group 2013 £
Bank loans and overdraft	**1,090,487**	616,891	-	-
Hire purchase contracts	**89,489**	34,841	-	-
Trade creditors	**1,823,322**	1,206,903	-	27
Corporation tax	-	21,333	-	-
Other taxes and social security	**155,353**	100,625	**35,266**	5,218
Government Grants	**15,277**	-	-	-
Accruals and deferred income	**64,855**	77,042	**4,073**	2,663
	3,238,783	2,057,635	**39,339**	7,908

Notes *(continued)*

13 Creditors: amounts falling due after more than one year

	Group 2014 £	Group 2013 £	Company 2014 £	Company 2013 £
Bank loans	**269,668**	339,310	**-**	-
Loan notes and interest	**3,725,450**	3,528,590	**3,725,450**	3,528,590
Hire purchase contracts	**182,138**	8,542	**-**	-
Government Grants	**50,152**	-	**-**	-
	4,227,408	3,876,442	**3,725,450**	3,528,590

Obligations due on finance leases	2014 £	2013 £
Within one year	**89,489**	34,841
Two to five years	**182,138**	8,542
Total	**271,627**	43,383

Obligations due on loans and overdraft	2014 £	2013 £
Within one year	**1,090,487**	616,891
Two to five years	**269,668**	298,508
Over five Years	**-**	40,802
Total	**1,360,155**	956,201

The Group's and Company's bank indebtedness is secured by fixed and floating charges over the Group's and Company's assets. The bank borrowings are secured against all of the assets of the Group.

The loan notes from Key Capital Partners are secured as a second ranking debenture against all of the assets of the Group.

Terms and loan notes repayment schedule:

	Currency	Nominal interest rate	Year of maturity	Carrying amount including accrued interest 2014 £
AP Wass	£	6%	2018	**225,000**
Key Capital Partners	£	10%	2018	**3,500,450**
				3,725,450

Key Capital Partners loan notes have a capital repayment schedule of £501,763 every 6 months commencing March 2016 with a final payment due in September 2018. Interest is payable from May 2015 or earlier at the discretion of management and as cash flow permits.

AP Wass's loan notes have a set final repayment due by September 2018 or earlier if rolling EBITDA (as defined in the agreement) reaches £1,000,000. Interest is serviced quarterly.

Notes *(continued)*

14 Provision for liabilities

	Group 2014 £	Group 2013 £	Company 2014 £	Company 2013 £
Deferred tax	-	278	-	-
Property provision	**33,498**	-	**33,498**	-

On 16 September 2013 Red Submarine Limited entered into a new lease on new premises in Clifton Moor, York and as a consequence the property containing the former showroom and offices became surplus to requirements, and was vacated in May 2014. At the year-end the Directors and landlord were in discussions with a party interested in taking on this unit, and the Directors remain confident that this party will complete their transaction enabling Red Submarine Limited to surrender its lease. The Directors have provided for an estimate of the property costs to completion.

The elements of deferred taxation are as follows:

	Group 2014 £	Group 2013 £	Company 2014 £	Company 2013 £
Difference between accumulated depreciation and amortisation and capital allowances	**59,478**	44,670	-	-
Unutilised tax losses	**(77,975)**	(44,392)	**(77,975)**	(44,392)
Deferred tax (asset)/liability	**(18,497)**	278	**(77,975)**	(44,392)

The movement in deferred tax provisions in the year are as follows:

	Group 2014 £	Group 2013 £	Company 2014 £	Company 2013 £
On acquisition	-	50,544	-	-
Credit to the profit and loss account	**(18,775)**	(50,266)	**(33,583)**	(44,392)
At end of year	**(18,775)**	278	**(33,583)**	(44,392)

15 Called up share capital

	2014 Number	2014 £	2013 Number	2013 £
Allotted, called up and fully paid				
389,423 Ordinary 'A' shares of £1 each	**389,423**	**389,423**	389,423	389,423
843,750 Ordinary 'B' shares of £1 each	**843,750**	**843,750**	843,750	843,750
32,452 Ordinary 'C' shares of £1 each	**32,452**	**32,452**	32,452	32,452
	1,265,625	**1,265,625**	1,265,625	1,265,625

Notes *(continued)*

16 Profit and loss account

	£
Group	
At 28 February 2013	(197,442)
Loss for the period	(308,136)
At 28 February 2014	**(505,578)**

	£
Company	
At 28 February 2013	(300,941)
Loss for the period	(363,228)
At 28 February 2014	**(664,169)**

17 Commitments

	2014
Group	£

Capital commitments at the end of the financial year, for which no provision has been made, are as follows:

Contracted	**458,100**

Annual commitments under non-cancellable operating leases are as follows:

	2014 Land and buildings £	**2014 Other £**	2013 Land and buildings £	2013 Other £
Operating leases which expire:				
Within one year	**27,504**	**2,765**	-	4,290
In the second to fifth years inclusive	**67,000**	**648**	157,793	5,665
Five years and over	**54,667**	**-**	-	-
	149,171	**3,413**	157,793	9,955

The Company has no capital/operating lease commitments

Notes *(continued)*

18 Reconciliation of operating profit to operating cash flows

	Year ended 28 February 2014	75 week period ended 28 February 2013
	£	£
Operating profit	**83,775**	128,251
Depreciation and amortisation	**463,377**	368,571
Decrease in debtors	**73,040**	65,175
Increase in creditors	**724,389**	435,981
Increase in stock	**(611,159)**	(1,667,268)
Profit on sale of fixed assets	**(2,500)**	(151)
Increase in provisions	**33,498**	-
Net cash inflow/(outflow) from operating activities	**764,420**	(669,441)

19 Analysis of net debt

	28 February 2013	Cash	Other Movement	28 February 2014
	£	£	£	£
Cash at bank and in hand	656,179	51,732	-	**707,911**
	656,179	51,732	-	**707,911**
Debt due after one year	(3,867,900)	(1,020,844)	893,626	**(3,995,118)**
Debt due within one year	(616,891)	616,891	(1,090,487)	**(1,090,487)**
Hire purchase	(43,383)	117,794	(346,038)	**(271,627)**
	(4,528,174)	(286,159)	(542,899)	**(5,357,232)**
Total	(3,871,995)	(234,427)	(542,899)	**(4,649,321)**

20 Related party transactions

Transactions with key management personnel

At 28 February 2014, an amount of £225,000 (being the principal loan excluding interest) was owed by Gear4Music (Holdings) Limited to Mr A Wass, a director and principal shareholder of Gear4Music (Holdings) Limited. Interest is charged on the loan at a rate of 6%. Interest charged on the loan during the year amounted to £12,871 and £nil remained unpaid at the year end. The Company is scheduled to continue to make interest payments as they fall due and repay the capital in full by the maturity date.

At 28 February 2014, an amount of £3,010,577 (being the principal loan excluding interest) was owed by Gear4Music (Holdings) Limited to Key Capital Partners, a shareholder and who control one director on the board of Gear4Music (Holdings) Limited. Interest is charged on the loan at a rate of 10%. Interest charged on the loan during the year amounted to £346,861 of which £150,000 was repaid prior to the year end on 26 February 2014 and £196,861 remained unpaid at the year end and is included within loan notes and interest. Key Capital Partners loan notes have a capital repayment schedule of £501,763 every 6 months commencing March 2016 with final payment due September 2018. Interest is payable from May 2015 or earlier at the discretion of management as cash-flow permits.

During the year, Key Capital Partners charged Gear4Music (Holdings) Limited £34,000 in respect of on-going investment monitoring and management charges. At the balance sheet date Gear4Music (Holdings) Limited owed Key Capital Partners £nil in respect of these charges.