

## **Naim Audio Limited**

Report and Financial Statements

Year Ended

31 December 2016

Company Number 01116428

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# Naim Audio Limited

## Company Information

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<b>Directors</b>	R V George Vervent Audio Group JL J Pettier T Wilson
<b>Registered number</b>	01116428
<b>Registered office</b>	Southampton Road Salisbury Wiltshire SP1 2LN
<b>Independent auditor</b>	BDO LLP Arcadia House Maritime Walk Ocean Village Southampton SO14 3TL
<b>Bankers</b>	Santander 1 Dorset Street Southampton Hampshire SO15 2DP
<b>Solicitors</b>	Wilsons St John's Street Salisbury Wiltshire SP2 2SB

# Naim Audio Limited

## Contents

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	Page
Strategic Report	1
Directors' Report	2 - 3
Independent Auditor's Report	4 - 5
Statement of Income and Retained Earnings	6
Statement of Financial Position	7
Notes to the Financial Statements	8 - 26

# Naim Audio Limited

## Strategic Report For the Year Ended 31 December 2016

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### Introduction

The principal activity of the company continued to be that of the design and manufacture of audio equipment.

### Business review

The directors are pleased to report a strong performance for the period 1st January - 31st December 2016 during which time we have achieved the highest sales in our company history.

The financial performance for this period shows a £2,210,633 pre-tax profit on a sales turnover of £26,200,103.

Our new product development and long term investment strategy continues to pay dividends as we succeed in gaining market share world-wide and cement our position going forward with ground breaking new products. During 2016 the launch of a new wireless all-in-one speaker provided excellent brand exposure and sales. Furthering our product portfolio to maintain competitive advantage remains a key focus.

### Principal risks and uncertainties

The risks going forward hinge on the political stability in various parts of the world which could impact on confidence and possibly slow growth. The effects of currency swings of sterling to the US dollar & Euro will also need to be carefully managed to achieve our margin targets.

### Other key performance indicators

Our key objectives for the current and this coming year are:

- To meet our Business Plan targets for sales and margin
- To manage/limit our exposure to currency variations
- To manage key supply chain relationships

This report was approved by the board on 28<sup>th</sup> Feb 2017 and signed on its behalf.

T Wilson  
Director



# Naim Audio Limited

## Directors' Report For the Year Ended 31 December 2016

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The directors present their report and the financial statements for the year ended 31 December 2016.

### Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report, the 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 applicable law and United Kingdom Accounting Standards (United Kingdom 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 company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies for the company's financial statements and then apply them consistently;
- make judgments 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.

### Results and dividends

The profit for the year, after taxation, amounted to £1,846,346 (2015 - £1,760,304).

A dividend payment of £Nil (2015 - £800,000) was recommended and paid during the year.

### Matters covered by the strategic report

A review of the business and its principal risks and uncertainties is presented in the Strategic Report on page 1 of these financial statements.

### Directors

The directors who served during the year were:

R V George  
Vervent Audio Group  
JL J Pettier  
T Wilson

### Future developments

The company maintains a policy of continuing development of its existing products together with research into other areas of audio reproduction from which new products are being developed that are complementary to the company's existing range.

# Naim Audio Limited

## Directors' Report (continued) For the Year Ended 31 December 2016

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### Research and development activities

Research and Development expenditure is written off to the statement of comprehensive income in the year in which it is incurred unless the directors are satisfied as to the technical, commercial and financial viability of individual projects. In this situation, the expenditure is deferred and amortised over the period during which the company is expected to benefit.

### Disclosure of information to auditor

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

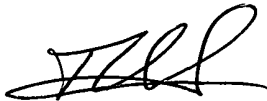
- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

### Auditor

BDO LLP were appointed as auditors in December 2016. The auditors, BDO LLP, offer themselves for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 28<sup>th</sup> Feb 2017 and signed on its behalf.

T Wilson  
Director



# **Naim Audio Limited**

## **Independent Auditor's Report to the Members of Naim Audio Limited**

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We have audited the financial statements of Naim Audio Limited for the year ended 31 December 2016 which comprise the Statement of Income and Retained Earnings, the Statement of Financial Position, the Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom 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 auditors**

As explained more fully in the statement of directors' responsibilities, 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 Financial Reporting Council's (FRC'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 FRC's website at [www.frc.org.uk/auditscopeukprivate](http://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 company's affairs as at 31 December 2016 and of its profit 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.

### **Opinion on other matters 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 and the Strategic Report Directors' Report has been prepared in accordance with applicable legal requirements.

# Naim Audio Limited

## Independent Auditor's Report to the Members of Naim Audio Limited

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### Matters on which we are required to report by exception

In light of our knowledge and understanding of the company and its environment obtained in the course of the audit we have identified no material misstatements in the Strategic Report or the Directors' Report.

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, 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.



James Newman (Senior statutory auditor)  
for and on behalf of BDO LLP, Statutory auditor  
Southampton  
United Kingdom

28/2/2017

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).



# Naim Audio Limited

## Statement of Income and Retained Earnings For the Year Ended 31 December 2016

	Note	2016 £	As restated 2015 £
Turnover	4	26,200,103	25,320,293
Cost of sales		(14,327,457)	(14,124,607)
<b>Gross profit</b>		<b>11,872,646</b>	<b>11,195,686</b>
Distribution costs		(388,757)	(442,034)
Administrative expenses		(9,330,270)	(8,829,683)
Other operating income		147,202	137,244
<b>Operating profit</b>	7	<b>2,300,821</b>	<b>2,061,213</b>
Interest receivable and similar income	10	1,528	733
Interest payable and expenses	11	(91,716)	(16,497)
<b>Profit before tax</b>		<b>2,210,633</b>	<b>2,045,449</b>
Tax on profit	12	(364,287)	(285,145)
<b>Profit after tax</b>		<b>1,846,346</b>	<b>1,760,304</b>
Retained earnings at the beginning of the year		9,380,543	8,420,239
Profit for the year		1,846,346	1,760,304
Dividends declared and paid		-	(800,000)
<b>Retained earnings at the end of the year</b>		<b>11,226,889</b>	<b>9,380,543</b>

The notes on pages 8 to 26 form part of these financial statements.

**Naim Audio Limited**  
Registered number:01116428

**Statement of Financial Position**  
**As at 31 December 2016**

	Note	2016 £	2016 £	2015 £	2015 £
<b>Fixed assets</b>					
Intangible assets	14		6,488,275		4,880,889
Tangible assets	15		1,642,732		1,463,186
			<u>8,131,007</u>		<u>6,344,075</u>
<b>Current assets</b>					
Stocks	16	4,614,336		4,073,091	
Debtors: amounts falling due within one year	17	4,530,630		4,081,865	
Cash at bank and in hand	18	1,470,729		880,877	
		<u>10,615,695</u>		<u>9,035,833</u>	
Creditors: amounts falling due within one year	19	(6,326,280)		(5,169,895)	
<b>Net current assets</b>			<u>4,289,415</u>		<u>3,865,938</u>
<b>Total assets less current liabilities</b>			<u>12,420,422</u>		<u>10,210,013</u>
<b>Provisions for liabilities</b>					
Deferred tax	20	(1,188,533)		(824,470)	
<b>Net assets</b>			<u>11,231,889</u>		<u>9,385,543</u>
<b>Capital and reserves</b>					
Called up share capital	21		4,375		4,375
Capital redemption reserve	22		625		625
Profit and loss account	22		11,226,889		9,380,543
<b>Total equity</b>			<u>11,231,889</u>		<u>9,385,543</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on

T Wilson  
Director



28/2/17

The notes on pages 8 to 26 form part of these financial statements.

# Naim Audio Limited

## Notes to the Financial Statements For the Year Ended 31 December 2016

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### 1. General information

Naim Audio Limited is a company incorporated in England and Wales under the Companies Act 2006. The address of the registered office is given in the Company Information page. The nature of the company's operations and its principal activity is given in the Strategic Report.

### 2. Accounting policies

#### 2.1 Basis of preparation of financial statements

- The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the company's accounting policies (see note 3).

The following principal accounting policies have been applied:

#### 2.2 Financial reporting standard 102 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Financial Instruments paragraphs 11.41(b), 11.41(c), 11.41(e), 11.41(f), 11.42, 11.44 to 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c);
- the requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.27, 12.29(a), 12.29(b) and 12.29A;
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

The company's ultimate parent undertaking, Vervent Audio Group includes the Company in its "consolidated financial statements. The consolidated financial statements of Vervent Audio Group are prepared in accordance with the standards issued by the French Accounting Regulation Committee (CRC 99-02; "Consolidated French GAAP") available to the public and may be obtained from BP 374, 108, rue de l'Avenir, 42353 La Talauière cedex, France.

# **Naim Audio Limited**

## **Notes to the Financial Statements For the Year Ended 31 December 2016**

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### **2. Accounting policies (continued)**

#### **2.3 Going concern**

The financial statements have been prepared on a going concern basis, which assumes that the company will continue to trade. Based on the available facilities the directors have reviewed the financial projections and cash flows for the next year, along with the covenant compliance under these facilities, and are satisfied that the company has adequate resources to continue in operation for the foreseeable future and consequently the financial statements continue to be prepared on a going concern basis.

At the 31 December 2016 the company has in place an overdraft facility of £2.0m (2015 - £3.5m), which is reviewed annually and a loan of \$2.1m USD (2015 - \$Nil). At the year end the company had drawn down £3.3m (2015 - £2.9m) of these facilities which is all classified as due within one year. Due to the growth of the company and the related working capital requirements for the next 12 months and beyond the facility structure needs to change. The directors have prepared profit and cash flow forecasts which show that the group will continue to be profitable going forward and satisfy the future expected covenants, however the directors also recognize the inherent uncertainty about future events.

The financial statements do not include the disclosures that would result from the going concern basis of preparation being inappropriate, as it is assumed that the funding will be secured shortly.

#### **2.4 Revenue**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

##### **Sale of goods**

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the company has transferred the significant risks and rewards of ownership to the buyer;
- the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the company will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

# Naim Audio Limited

## Notes to the Financial Statements For the Year Ended 31 December 2016

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### 2. Accounting policies (continued)

#### 2.5 Intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed ten years.

##### Amortisation

Amortisation is charged to the Statement of Income and Retained Earnings on a straight-line basis over the estimated useful lives of the intangible assets. Intangible assets are amortised from the date they are available for use. The estimated useful lives are as follow:

- Capitalised development costs 3 to 10 years

The estimated useful lives are based on similar products that we have sold in the past and also taking into account the fast changing technologies we are faced with.

#### 2.6 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives.

Depreciation is provided on the following bases:

Freehold property	- 2% straight line
Land	- Not amortised
Test equipment	- 25% straight line
Plant and machinery	- 25% straight line
Motor vehicles	- 25% straight line
Fixtures and fittings	- 25% straight line
Computer equipment	- 25% straight line

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of Income and Retained Earnings.

# **Naim Audio Limited**

## **Notes to the Financial Statements For the Year Ended 31 December 2016**

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### **2. Accounting policies (continued)**

#### **2.7 Research and Development costs**

Expenditure on research activities is recognised in the Statement of Income and Retained Earnings as an expense as incurred.

Expenditure on development activities may be capitalised if the product or process is technically and commercially feasible and the company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve design for, construction or testing of the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Other development expenditure is recognised in the statement of comprehensive income as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

Development costs are capitalised within intangible assets where they can be identified with a specific product or project anticipated to produce future benefits, and are amortised on the straight line basis over the anticipated life of the benefits arising from the completed product or project.

#### **2.8 Stocks**

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis. Work in progress and finished goods include labour and attributable overheads.

At each reporting date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

#### **2.9 Debtors**

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

#### **2.10 Cash and cash equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

# Naim Audio Limited

## Notes to the Financial Statements For the Year Ended 31 December 2016

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### 2. Accounting policies (continued)

#### 2.11 Financial instruments

The company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Investments in non-convertible preference shares and in non-puttable ordinary and preference shares are measured:

- at fair value with changes recognised in the Statement of Income and Retained Earnings if the shares are publicly traded or their fair value can otherwise be measured reliably;
- at cost less impairment for all other investments.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of Income and Retained Earnings.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate, which is an approximation of the amount that the company would receive for the asset if it were to be sold at the reporting date.

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or income as appropriate. The company does not currently apply hedge accounting for interest rate and foreign exchange derivatives.

# **Naim Audio Limited**

## **Notes to the Financial Statements For the Year Ended 31 December 2016**

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### **2. Accounting policies (continued)**

#### **2.12 Creditors**

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

#### **2.13 Foreign currency translation**

##### **Functional and presentation currency**

The company's functional and presentational currency is GBP.

##### **Transactions and balances**

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Income and Retained Earnings except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Statement of Income and Retained Earnings within 'finance income or costs'. All other foreign exchange gains and losses are presented in the Statement of Income and Retained Earnings within 'other operating income'.

#### **2.14 Finance costs**

Finance costs are charged to the Statement of Income and Retained Earnings over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

#### **2.15 Dividends**

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.



# **Naim Audio Limited**

## **Notes to the Financial Statements For the Year Ended 31 December 2016**

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### **2. Accounting policies (continued)**

#### **2.16 Operating leases: the company as lessee**

Rentals paid under operating leases are charged to the Statement of Income and Retained Earnings on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

The company has taken advantage of the optional exemption available on transition to FRS 102 which allows lease incentives on leases entered into before the date of transition to the standard 1 January 2015 to continue to be charged over the period to the first market rent review rather than the term of the lease.

#### **2.17 Pensions**

##### **Defined contribution pension plan**

The company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. Once the contributions have been paid the company has no further payment obligations.

The contributions are recognised as an expense in the Statement of Income and Retained Earnings when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of Financial Position. The assets of the plan are held separately from the company in independently administered funds.

#### **2.18 Interest income**

Interest income is recognised in the Statement of Income and Retained Earnings using the effective interest method.

#### **2.19 Borrowing costs**

All borrowing costs are recognised in the Statement of Income and Retained Earnings in the year in which they are incurred.

#### **2.20 Provisions for liabilities**

Provisions are made where an event has taken place that gives the company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Statement of Income and Retained Earnings in the year that the company becomes aware of the obligation, and are measured at the best estimate at the Statement of Financial Position date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Statement of Financial Position.

# **Naim Audio Limited**

## **Notes to the Financial Statements For the Year Ended 31 December 2016**

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### **2. Accounting policies (continued)**

#### **2.21 Current and deferred taxation**

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Statement of Income and Retained Earnings, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Statement of Financial Position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

# Naim Audio Limited

## Notes to the Financial Statements For the Year Ended 31 December 2016

### 3. Judgments in applying accounting policies and key sources of estimation uncertainty

- **Currency Fluctuation**

The effect of currency swings of Sterling' to the US Dollar and the Euro is being carefully managed to achieve our target margins. Natural hedging of the US Dollar is being achieved.

- **Intangible Fixed assets**

Intangible Fixed Costs are written off over the estimated life of the product, we have calculated the life of the products based on past experience and the expected period over which the products will be sold. The intangible additions includes capitalised labour costs.

- **Stock Provision**

We have a provision for obsolete or slow moving stock.

- **Bad Debt Provision**

We have a Bad Debt provision for debts that are not deemed recoverable.

- **Corporation Tax**

The tax figures included in this report are the provisional calculation and are not the final tax calculation.

### 4. Turnover

An analysis of turnover by class of business is as follows:

	2016 £	2015 £
Sales of goods	25,873,893	25,166,380
Royalty income	326,210	153,913
	<u>26,200,103</u>	<u>25,320,293</u>

Analysis of turnover by country of destination:

	2016 £	2015 £
United Kingdom	10,887,407	- 9,874,994
Rest of Europe	7,846,407	7,175,492
Rest of the world	7,466,289	8,269,807
	<u>26,200,103</u>	<u>25,320,293</u>

# Naim Audio Limited

## Notes to the Financial Statements For the Year Ended 31 December 2016

### 5. Other operating income

	2016 £	2015 £
Other operating income	<u>147,202</u>	<u>137,244</u>

### 6. Prior year reclassifications

The prior year Statement of Income and Retained Earnings includes the following restatement in order to present information under more appropriate functional categories:

Administrative expenses have increased by £137,244 and other operating income have increased by £137,244. The other income is in respect of research and development.

The restatement is a reclassification only and has no effect on the prior year results.

### 7. Operating profit

The operating profit is stated after charging:

	2016 £	2015 £
Research & development charged as an expense	766,826	668,612
Depreciation of tangible fixed assets	254,459	257,180
Amortisation of intangible assets	688,303	615,948
Exchange differences	41,494	185,082
Other operating lease rentals	80,633	60,706
Defined contribution pension cost	44,447	40,061
Fees payable to the company's auditors and its associates for other services to the group:		
- The audit of the company's subsidiaries pursuant to legislation	18,700	18,675
- Related assurance services	<u>8,500</u>	<u>3,400</u>

# Naim Audio Limited

## Notes to the Financial Statements For the Year Ended 31 December 2016

### 8. Employees

Staff costs, including directors' remuneration, were as follows:

	2016 £	2015 £
Wages and salaries	5,560,049	4,816,790
Social security costs	565,807	522,624
Cost of defined contribution scheme	44,447	40,061
	<u>6,170,303</u>	<u>5,379,475</u>

The average monthly number of employees, including the directors, during the year was as follows:

	2016 No.	2015 No.
Management & Administration	58	39
Production	74	89
Research and development	30	27
	<u>162</u>	<u>155</u>

### 9. Directors' remuneration

	2016 £	2015 £
Directors' emoluments	301,213	290,958
Company contributions to defined contribution pension schemes	2,456	1,958
	<u>303,669</u>	<u>292,916</u>

During the year retirement benefits were accruing to 2 directors (2015 - 2) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £140,950 (2015 - £121,270).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £1,248 (2015 - £1,147).

### 10. Interest receivable

	2016 £	2015 £
Other interest receivable	1,528	733

# Naim Audio Limited

## Notes to the Financial Statements For the Year Ended 31 December 2016

### 11. Interest payable and similar charges

	2016 £	2015 £
Bank interest payable	89,033	16,497
Other loan interest payable	2,683	-
	<u>91,716</u>	<u>16,497</u>

### 12. Taxation

	2016 £	2015 £
<b>Corporation tax</b>		
Current tax on profits for the year	224	147
Adjustments in respect of previous periods	-	154,143
<b>Total current tax</b>	<u>224</u>	<u>154,290</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences	409,898	380,667
Adjustment in respect of prior period	(33)	(200,501)
Effect of tax rate change on opening balance	(45,802)	(49,311)
<b>Total deferred tax</b>	<u>364,063</u>	<u>130,855</u>
<b>Taxation on profit on ordinary activities</b>	<u>364,287</u>	<u>285,145</u>

# Naim Audio Limited

## Notes to the Financial Statements For the Year Ended 31 December 2016

### 12. Taxation (continued)

#### Factors affecting tax charge for the year

The tax assessed for the year is lower than (2015 - lower than) the standard rate of corporation tax in the UK of 20% (2015 - 20.25%). The differences are explained below:

	2016 £	2015 £
Profit on ordinary activities before tax	<u>2,210,633</u>	<u>2,045,449</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015 - 20.25%)	<u>442,127</u>	<u>414,203</u>
Effects of:		
Expenses not deductible for tax purposes	7,808	4,009
Fixed asset differences	25,145	2,722
Adjustment to tax charge in respect of prior periods	-	154,143
Adjustment to tax charge in respect of previous periods - deferred tax	(33)	(200,501)
Adjustment in research and development tax credit leading to an increase in the tax charge	7,360	7,289
Adjust closing deferred tax to closing rate	(118,120)	(96,720)
<b>Total tax charge for the year</b>	<u><b>364,287</b></u>	<u><b>285,145</b></u>

#### Factors that may affect future tax charges

The Budget on 8 July 2015 announced changes in the main UK corporation tax rate. The rate (currently 20%) will reduce to 19% from 1 April 2017 and to 18% from 1 April 2020. The reduction in tax rates was included in the 2015-2016 Finance Act which was substantively enacted for the purposes of IFRS and UK GAAP (i.e., having completed its Commons stages) on 26 October 2015. This will reduce the group's future tax charge accordingly. The deferred tax asset as at 31 December 2015 was calculated based on these rates.

### 13. Dividends

	2016 £	2015 £
Dividends paid on equity share capital £Nil per share (2015 - £182.857 per share)	<u>-</u>	<u>800,000</u>

# Naim Audio Limited

## Notes to the Financial Statements For the Year Ended 31 December 2016

### 14. Intangible assets

	Development £
<b>Cost</b>	
At 1 January 2016	5,799,059
Additions	2,295,689
Disposals	(38,434)
At 31 December 2016	8,056,314
<b>Amortisation</b>	
At 1 January 2016	918,170
Charge for the year	688,303
On disposals	(38,434)
At 31 December 2016	1,568,039
<b>Net book value</b>	
At 31 December 2016	6,488,275
At 31 December 2015	4,880,889

The amortisation charge is recognised in administration expenses in the Statement of Income and Retained Earnings.



# Naim Audio Limited

## Notes to the Financial Statements For the Year Ended 31 December 2016

### 15. Tangible fixed assets

	Freehold property £	Plant and machinery £	Motor vehicles £	Fixtures and fittings £	Total £
<b>Cost or valuation</b>					
At 1 January 2016	1,996,004	1,000,746	65,270	1,707,371	4,769,391
Additions	78,647	65,679	26,895	289,421	460,642
Disposals	-	-	(54,345)	-	(54,345)
At 31 December 2016	<u>2,074,651</u>	<u>1,066,425</u>	<u>37,820</u>	<u>1,996,792</u>	<u>5,175,688</u>
<b>Depreciation</b>					
At 1 January 2016	1,207,289	918,315	36,789	1,143,812	3,306,205
Charge for the period on owned assets	38,152	25,672	19,237	171,398	254,459
Disposals	-	-	(27,708)	-	(27,708)
At 31 December 2016	<u>1,245,441</u>	<u>943,987</u>	<u>28,318</u>	<u>1,315,210</u>	<u>3,532,956</u>
<b>Net book value</b>					
At 31 December 2016	<u>829,210</u>	<u>122,438</u>	<u>9,502</u>	<u>681,582</u>	<u>1,642,732</u>
At 31 December 2015	<u>788,715</u>	<u>82,431</u>	<u>28,481</u>	<u>563,559</u>	<u>1,463,186</u>

The net book value of land and buildings may be further analysed as follows:

	2016 £	2015 £
Freehold land	<u>200,000</u>	<u>200,000</u>

# Naim Audio Limited

## Notes to the Financial Statements For the Year Ended 31 December 2016

### 16. Stocks

	2016 £	2015 £
Raw materials and consumables	2,618,650	2,229,130
Work in progress (goods to be sold)	124,357	94,370
Finished goods and goods for resale	1,871,329	1,749,591
	<u>4,614,336</u>	<u>4,073,091</u>

Raw materials, consumables and changes in finished goods and work in progress as cost of sales in the year amounted to £13,231,387 (2015 - £13,226,921).

The write down of stocks to net realisable value amounted to £567,868 (2015 - £419,952)

### 17. Debtors

	2016 £	2015 £
Trade debtors	3,671,388	3,701,879
Amounts owed by group undertakings	278,054	-
Other debtors	170,019	62,165
Prepayments and accrued income	126,723	40,088
VAT	-	134,030
Tax recoverable	284,446	143,703
	<u>4,530,630</u>	<u>4,081,865</u>

The impairment loss recognised in profit and loss for the year in respect of bad and doubtful trade debtors was £15,143 (2015 - £Nil).

### 18. Cash and cash equivalents

	2016 £	2015 £
Cash at bank and in hand	1,470,729	880,877
Less: bank overdrafts	(3,278,773)	(2,891,175)
	<u>(1,808,044)</u>	<u>(2,010,298)</u>

Interest on the bank overdraft is charged at 2% above the prime rate of the Bank of England.

# Naim Audio Limited

## Notes to the Financial Statements For the Year Ended 31 December 2016

### 19. Creditors: Amounts falling due within one year

	2016 £	2015 £
Bank overdrafts	3,278,773	2,891,175
Trade creditors	1,521,769	1,713,763
Amounts owed to group undertakings	766,108	-
Corporation tax	-	6,459
Other taxation and social security	184,462	146,783
Other creditors	30,514	8,287
Accruals and deferred income	544,654	403,428
	<u>6,326,280</u>	<u>5,169,895</u>

#### Secured creditors

The bank overdraft facility is secured by Santander over the land and buildings of the company.

### 20. Deferred taxation

	2016 £	2015 £
At beginning of year	(824,470)	(693,615)
Charged to profit or loss	(364,063)	(130,855)
<b>At end of year</b>	<u><b>(1,188,533)</b></u>	<u><b>(824,470)</b></u>

The provision for deferred taxation is made up as follows:

	2016 £	2015 £
Accelerated capital allowances	1,240,199	981,468
Tax losses carried forward	(35,591)	(143,044)
Short term timing difference	(16,075)	(13,954)
	<u>1,188,533</u>	<u>824,470</u>

# Naim Audio Limited

## Notes to the Financial Statements For the Year Ended 31 December 2016

### 21. Share capital

	2016 £	2015 £
<b>Shares classified as equity</b>		
<b>Allotted, called up and fully paid</b>		
4,375 Ordinary shares of £1 each	<u>4,375</u>	<u>4,375</u>

### 22. Reserves

The company's capital and reserves are as follows:

#### Capital redemption reserve

The capital redemption reserve represents cumulative value of shares that have been repurchased by the company.

#### Profit and loss account

The profit and loss account represents cumulative profits and losses, after dividends paid.

### 23. Employee benefits

During the year contributions into a defined contribution scheme of £44,447 (2015 - £40,792) were made of which £Nil (2015 - £4,049) were outstanding at the year end.

### 24. Commitments under operating leases

At 31 December 2016 the company had future minimum lease payments under non-cancellable operating leases as follows:

	2016 £	2015 £
Not later than 1 year	41,283	55,249
Later than 1 year and not later than 5 years	42,126	72,137
	<u>83,409</u>	<u>127,386</u>

### 25. Related party transactions

The company has taken the exemption available in Section 33.1A of FRS 102 not to disclose transactions with other wholly owned companies within the group as consolidated accounts, including the results of Naim Audio Limited are publicly available.

# **Naim Audio Limited**

## **Notes to the Financial Statements For the Year Ended 31 December 2016**

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### **26. Ultimate parent company and controlling party**

The company's parent company is the French company Vervent Audio Group, which holds 100% of the company's issued share capital.

The largest and smallest group in which the results of the company are consolidated is that headed by Vervent Audio Group, a company incorporated in France.

The ultimate controlling party of Focal.JMLab UK Limited is Naxicap Partners.