

## **Naim Audio Limited**

Annual Report and Financial Statements

Year Ended

31 December 2018

Company Number 01116428

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# Naim Audio Limited

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# Naim Audio Limited

## Company Information

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<b>Directors</b>	R V George Vervent Audio Group (appointed 24 August 2018) JL J Pettier C Henderson (appointed 25 February 2019)
<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

## Group Strategic Report For the Year Ended 31 December 2018

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### Introduction

The principal activity of the company continued to be that of the design, manufacture and sale of world leading high definition audio equipment which for over 45 years has been enjoyed across the globe.

### Business review

The directors are able to report that net sales turnover has grown 6% to £29.4m and that the group has generated post-tax profits of £974k. The domestic home market of the UK saw turnover of just under £11m with Export sales equating to just under £19m.

Underpinning this success, the business continues with major investment in existing product platforms and significant investment in research and development in new products and platforms. The current product range continues winning awards and consumer demand remains ever strong, with the launch of the streaming platforms, Uniti, we saw incredible growth in these platforms alone.

Our entry level family of products, Mu-So and Qb, which are now 5 years and 4 years old respectively, saw a managed decline in 2018 sales. They both continue winning awards despite the age of the product and significant number of new entrants who have followed Naim into this competitive all-in-one system market sector.

As the popularity of streaming continues to grow and become mainstream, we saw significant volume increases in the whole of our multi award winning all-in-one players, our Unity family of products.

Along with the success of the Uniti range, the rest of the portfolio of product has seen growth in all areas.

### Service and repair

Naim continues to support products from our Salisbury home, that our faithful customers utilise to care after their equipment with the same heritage and attention to detail and care that was used when the product was built, sometimes by the very same loyal Naim staff hands who had built it initially. Our service and repair business is the back-room team in the front-line of trying to keep the customer satisfied.

### Stock Management

The decision last year to move away from a "Build to order" model to a "build to stock" model saw a significant increase in Naim being able to meet our customer orders in days rather than in previous years, having to wait weeks for product to be built and then shipped. This has truly benefitted the consumers experience, now being able to enjoy their music in a much shorter timeframe than previously experienced before.

As a result of this change, Stocks of raw materials and finished goods have increased in 2018. With careful working capital management in place there has been significant focus on sourcing scarce raw material and components. The increasing demand and production of electric vehicles has put considerable strain on global component supply, with shortages well documented. Naim never has nor will use inferior graded componentry and faced with this challenge has seen an increase in raw material cost of goods purchased.

### Outlook

The businesses expansion into new territories saw the Naim team working now even more as a global unified leader in high-end audio and electronics, with the parent company Vervent Audio Group's other hugely successful French brand, Focal. The export market continues to reap significant opportunities for Naim, working with select partners, in reaching an audience who expect the very best. Next year, growth is forecast to continue, with new markets and territories joining the Naim family.

Naim continues to invest heavily in research and development and next year a number of new products will launch.

# Naim Audio Limited

## Group Strategic Report (continued) For the Year Ended 31 December 2018

### Trading

	2018 £	2017 £
Turnover	29,395	27,815
Gross profit	13,635	12,254
Margin	46%	44%
EBITDA*	2,613	2,683
Profit before tax	1,095	1,233

\*EBITDA is calculated as earnings before interest, tax, depreciation and amortisation.

### Other key performance objectives

Our key objectives for the current and this coming year are brand awareness, releasing new products, and supply of demand remain our focus to satisfy our customer expectations.

### Principal risks and uncertainties

#### Foreign currency risk

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.

#### Interest rate risk

The group has a mix of external debt, consisting of bank loans and overdrafts, and is therefore exposed to the movements in underlying bank base rates. Management reviews the interest rate exposure to ensure the group is sufficiently protected

#### Credit risk

In order to protect itself from credit risk, the group has implemented policies that require appropriate credit checks on potential customers before new accounts are accepted. The group has no significant concentration of credit risk, with exposure spread over a large number of customers.

#### Liquidity risk

Naim Audio is cash generative and has cash flow support from its parent entity, Vervent Audio group, if required. At the end of the year, the group had cash in hand of £1.5m. The group has a policy of maintaining debt at an appropriate level to ensure that the group is able to adequately manage debt servicing cash flows. Forecast cashflows for the year are regularly reviewed by management.

### BREXIT

Over 35% of turnover is generated from sales to the EU. Management will monitor progress in negotiations and take appropriate steps to mitigate any adverse implications. Naim Audio group is fortunate with regard to BREXIT as it has a presence in the UK (Naim Audio and Focal.JMLab UK) which manufactures and sells audio products in the UK and overseas, and is a wholly owned subsidiary of Vervent Audio group, which is based in France.

# Naim Audio Limited

## Group Strategic Report (continued) For the Year Ended 31 December 2018

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### Post balance sheet events

There have been no significant events affecting the group since year end.

### Future developments

The group has embarked upon a program of significant investment in its product range and expects to launch these new products hthroughout 2019 and going forward.

This report was approved by the board and signed on its behalf.



**C Henderson**  
Director

Date: 7th June 2019.

# Naim Audio Limited

## Directors' Report For the Year Ended 31 December 2018

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The directors present their report and the financial statements for the year ended 31 December 2018.

### Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report, the Directors' Report and the consolidated 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 the Group and of the profit or loss of the Group for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies for the Group's financial statements 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 Group 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 the Group and to 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 the Group 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 £975,025 (2017 - £1,007,723).

The directors do not recommend the payment of a dividend for the current year (2017 - £Nil).

### Directors

The directors who served during the year were:

R V George  
Vervent Audio Group (appointed 24 August 2018)  
JL J Pettier  
T Wilson (resigned 3 August 2018)

On 25 February 2019, after the year end, C Henderson was appointed as director.

### 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 2018

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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 capitalised and amortised over the period during which the company is expected to benefit.

### Matters covered in the strategic report

The following directors' report requirements have been upgraded to the strategic report: financial risk management, objectives and policies, information on exposure to credit risk, liquidity risk and cash flow risk.

### 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 and the Group'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 and the Group's auditor is aware of that information.

### Auditor

The auditor, BDO LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board and signed on its behalf.



**C Henderson**  
Director

Date: 7th June 2019.



# **Naim Audio Limited**

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

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### **Opinion**

We have audited the financial statements of Naim Audio Limited and its subsidiaries ("the group") for the year ended 31 December 2018 which comprise the consolidated statement of comprehensive income, the company and consolidated statement of financial position, the company and consolidated statements of changes in equity, the consolidated statement of cash flows 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 group's and of the parent company's affairs as at 31 December 2018 and of the group's 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.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, 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 have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### **Other information**

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

# **Naim Audio Limited**

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

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

We have nothing to report in this regard.

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

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

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and Director's Report.

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

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

### **Responsibilities of directors**

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 determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

# Naim Audio Limited

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

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### Auditor's responsibilities for the audit of the financial statements

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.

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

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at:

<https://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 parent 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 parent 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 parent company and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.



**James Newman** (Senior Statutory Auditor)  
For and on behalf of BDO LLP, Statutory Auditor  
Southampton  
United Kingdom

**7 June 2019**

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

# Naim Audio Limited

## Consolidated Statement of Comprehensive Income For the Year Ended 31 December 2018

	Note	2018 £	2017 £
Turnover	4	29,395,129	27,815,323
Cost of sales		(15,760,309)	(15,561,443)
<b>Gross profit</b>		<b>13,634,820</b>	<b>12,253,880</b>
Distribution costs		(414,463)	(359,811)
Administrative expenses		(12,313,670)	(10,739,124)
Other operating income	5	255,791	218,485
<b>Operating profit</b>	6	<b>1,162,478</b>	<b>1,373,430</b>
Interest receivable and similar income	9	184	639
Interest payable and expenses	10	(67,779)	(141,507)
<b>Profit before tax</b>		<b>1,094,883</b>	<b>1,232,562</b>
Tax on profit	11	(119,858)	(224,839)
<b>Profit for the financial year</b>		<b>975,025</b>	<b>1,007,723</b>
<b>Profit for the year attributable to:</b>			
Owners of the parent company		(975,025)	(1,007,723)
		<b>(975,025)</b>	<b>(1,007,723)</b>

There were no recognised gains and losses for 2018 or 2017 other than those included in the consolidated statement of comprehensive income.

The notes on pages 19 to 43 form part of these financial statements.

**Naim Audio Limited**  
Registered number: 01116428

**Consolidated Statement of Financial Position**  
**As at 31 December 2018**


	<b>Note</b>	<b>2018 £</b>	<b>2018 £</b>	<b>2017 £</b>	<b>2017 £</b>
<b>Fixed assets</b>					
Intangible assets	12		<b>7,916,850</b>		7,329,917
Tangible assets	13		<b>1,471,693</b>		1,564,316
			<b>9,388,543</b>		<b>8,894,233</b>
<b>Current assets</b>					
Stocks	15	<b>9,525,481</b>		5,688,601	
Debtors: amounts falling due within one year	16	<b>5,841,406</b>		6,211,423	
Cash at bank and in hand	17	<b>1,541,584</b>		1,386,510	
		<b>16,908,471</b>		<b>13,286,534</b>	
Creditors: amounts falling due within one year	18	<b>(10,243,283)</b>		<b>(7,190,763)</b>	
<b>Net current assets</b>			<b>6,665,188</b>		<b>6,095,771</b>
<b>Total assets less current liabilities</b>			<b>16,053,731</b>		<b>14,990,004</b>
Creditors: amounts falling due after more than one year	19		<b>(1,216,546)</b>		<b>(1,403,702)</b>
<b>Provisions for liabilities</b>					
Deferred taxation	22	<b>(1,461,032)</b>		<b>(1,341,174)</b>	
Other provisions	23	<b>(156,000)</b>		-	
			<b>(1,617,032)</b>		<b>(1,341,174)</b>
<b>Net assets</b>			<b>13,220,153</b>		<b>12,245,128</b>

**Naim Audio Limited**  
Registered number: 01116428

**Consolidated Statement of Financial Position (continued)**  
**As at 31 December 2018**

	Note	2018 £	2017 £
<b>Capital and reserves</b>			
Called up share capital	24	4,375	4,375
Capital redemption reserve	25	625	625
Merger reserve	25	259,999	259,999
Profit and loss account	25	12,955,154	11,980,129
<b>Equity attributable to owners of the parent Company</b>		<u>13,220,153</u>	<u>12,245,128</u>
		<u>13,220,153</u>	<u>12,245,128</u>

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

  
**C Henderson**  
Director

Date: 7th June 2019.

The notes on pages 19 to 43 form part of these financial statements.

**Naim Audio Limited**  
Registered number: 01116428

**Company Statement of Financial Position**  
**As at 31 December 2018**

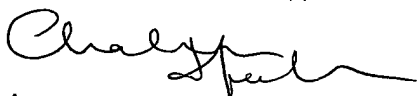
	Note	2018 £	2018 £	2017 £	2017 £
<b>Fixed assets</b>					
Intangible assets	12		7,916,850		7,329,917
Tangible assets	13		1,471,693		1,564,316
Investments	14		1		1
			<u>9,388,544</u>		<u>8,894,234</u>
<b>Current assets</b>					
Stocks	15	9,123,023		5,472,548	
Debtors: amounts falling due within one year	16	6,101,081		6,082,032	
Cash at bank and in hand	17	1,427,675		1,373,305	
		<u>16,651,779</u>		<u>12,927,885</u>	
Creditors: amounts falling due within one year	18	(9,975,739)		(6,888,608)	
<b>Net current assets</b>			<u>6,676,040</u>		<u>6,039,277</u>
<b>Total assets less current liabilities</b>			<u>16,064,584</u>		<u>14,933,511</u>
Creditors: amounts falling due after more than one year	19		(1,216,546)		(1,403,702)
<b>Provisions for liabilities</b>					
Deferred taxation	22	(1,461,032)		(1,341,174)	
Other provisions	23	(156,000)		-	
		<u>(1,617,032)</u>		<u>(1,341,174)</u>	
<b>Net assets</b>			<u><u>13,231,006</u></u>		<u><u>12,188,635</u></u>

**Naim Audio Limited**  
Registered number: 01116428

**Company Statement of Financial Position (continued)**  
**As at 31 December 2018**

	Note	2018 £	2017 £
<b>Capital and reserves</b>			
Called up share capital	24	4,375	4,375
Capital redemption reserve	25	625	625
Profit and loss account	25	13,226,006	12,183,635
		<u>13,231,006</u>	<u>12,188,635</u>

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

  
**C Henderson**  
Director 7th June 2019.

The notes on pages 19 to 43 form part of these financial statements.



## Naim Audio Limited

### Consolidated Statement of Changes in Equity For the Year Ended 31 December 2018

	Called up share capital £	Capital redemption reserve £	Merger reserve £	Profit and loss account £	Total equity £
<b>At 1 January 2017</b>	4,375	625	259,999	10,688,521	10,953,520
<b>Comprehensive income for the year</b>					
Profit for the year	-	-	-	1,007,723	1,007,723
<b>Other comprehensive income for the year</b>	-	-	-	-	-
<b>Total comprehensive income for the year</b>	-	-	-	1,007,723	1,007,723
Waiver of amount owed to parent undertaking	-	-	-	283,885	283,885
<b>At 1 January 2018</b>	4,375	625	259,999	11,980,129	12,245,128
<b>Comprehensive income for the year</b>					
Profit for the year	-	-	-	975,025	975,025
<b>Other comprehensive income for the year</b>	-	-	-	-	-
<b>Total comprehensive income for the year</b>	-	-	-	975,025	975,025
<b>At 31 December 2018</b>	4,375	625	259,999	12,955,154	13,220,153

The notes on pages 19 to 43 form part of these financial statements.

# Naim Audio Limited

## Company Statement of Changes in Equity For the Year Ended 31 December 2018

	Called up share capital £	Capital redemption reserve £	Profit and loss account £	Total equity £
<b>At 1 January 2017</b>	<b>4,375</b>	<b>625</b>	<b>11,226,889</b>	<b>11,231,889</b>
<b>Comprehensive income for the year</b>				
Profit for the year	-	-	956,746	956,746
<b>Other comprehensive income for the year</b>	-	-	-	-
<b>Total comprehensive income for the year</b>	-	-	956,746	956,746
<b>At 1 January 2018</b>	<b>4,375</b>	<b>625</b>	<b>12,183,635</b>	<b>12,188,635</b>
<b>Comprehensive income for the year</b>				
Profit for the year	-	-	1,042,371	1,042,371
<b>Other comprehensive income for the year</b>	-	-	-	-
<b>Total comprehensive income for the year</b>	-	-	1,042,371	1,042,371
<b>At 31 December 2018</b>	<b>4,375</b>	<b>625</b>	<b>13,226,006</b>	<b>13,231,006</b>

The notes on pages 19 to 43 form part of these financial statements.

# Naim Audio Limited

## Consolidated Statement of Cash Flows For the Year Ended 31 December 2018

	2018 £	2017 £
<b>Cash flows from operating activities</b>		
Profit for the financial year	975,025	1,007,722
<b>Adjustments for:</b>		
Amortisation of intangible assets	1,013,124	989,339
Depreciation of tangible assets	438,481	321,103
Loss on disposal of tangible assets	-	9,190
Interest payable	67,779	141,507
Interest receivable	(184)	(639)
Taxation charge	232,061	224,839
(Increase) in stocks	(3,836,880)	(916,209)
Decrease/(increase) in debtors	450,354	(1,501,963)
Increase in creditors	2,426,932	3,092,481
Increase in provisions	156,000	-
R&D tax credit received	175,454	137,244
Other income in respect of R&D	(255,791)	(218,485)
Corporation tax (paid)/received	(119,858)	-
<b>Net cash generated from operating activities</b>	<b>1,722,497</b>	<b>3,286,129</b>
<b>Cash flows from investing activities</b>		
Purchase of intangible fixed assets	(1,600,057)	(1,830,980)
Purchase of tangible fixed assets	(345,858)	(251,857)
Interest received	184	639
<b>Net cash from investing activities</b>	<b>(1,945,731)</b>	<b>(2,082,198)</b>

# Naim Audio Limited

## Consolidated Statement of Cash Flows (continued) For the Year Ended 31 December 2018

	2018 £	2017 £
<b>Cash flows from financing activities</b>		
New secured loans	-	1,516,495
Repayment of loans	(138,805)	-
Interest paid	(67,779)	(141,507)
<b>Net cash used in financing activities</b>	<b>(206,584)</b>	<b>1,374,988</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(429,818)</b>	<b>2,578,919</b>
Cash and cash equivalents at beginning of year	854,039	(1,724,880)
<b>Cash and cash equivalents at the end of year</b>	<b>424,221</b>	<b>854,039</b>
<b>Cash and cash equivalents at the end of year comprise:</b>		
Cash at bank and in hand	1,541,584	1,386,510
Bank overdrafts	(1,117,363)	(532,471)
	<b>424,221</b>	<b>854,039</b>

The notes on pages 19 to 43 form part of these financial statements.

# Naim Audio Limited

## Notes to the Financial Statements For the Year Ended 31 December 2018

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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 unless otherwise specified within these accounting policies 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 Group management to exercise judgment in applying the Group's accounting policies (see note 3).

#### 2.2 Parent company disclosure exemptions

In the preparing the separate financial statements of the parent company, advantage has been taken of the following disclosure exemptions available in FRS 102:

- No cash flow statement has been presented for the parent company;
- No statement of comprehensive income has been presented for the parent company;
- No disclosure has been given for the aggregate remuneration of the key management personnel of the company as their remuneration is included in the consolidated accounts;
- Disclosures in respect of the parent company's financial instruments have not been presented as equivalent disclosures have been provided in respect of the group as a whole.

#### 2.3 Basis of consolidation

The consolidated financial statements present the results of the Company and its own subsidiaries ("the Group") as if they form a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

The Group has recognised a merger reserve which arose on a business combination in the year that was accounted for as a merger in accordance with FRS102 (see note 24).

# Naim Audio Limited

## Notes to the Financial Statements For the Year Ended 31 December 2018

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### 2. Accounting policies (continued)

#### 2.4 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 a period of at least 12 months from the approval of the financial statements, 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 2018 the company has in place an overdraft facility of £2.0m (2017 - £2.0m), which is reviewed annually and a loan facility available of \$1.755m USD (2017 - \$2.0m). At the year end the company had drawn down £2.0m (2017 - £3.3m) of these facilities. 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.

#### 2.5 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group 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 Group has transferred the significant risks and rewards of ownership to the buyer;
- the Group 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 Group 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.

##### Royalty income

Royalty revenue is recognised in the period of which the royalty is due when the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable the group will receive the consideration due under the agreement.

# Naim Audio Limited

## Notes to the Financial Statements For the Year Ended 31 December 2018

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### 2. Accounting policies (continued)

#### 2.6 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.

The accounting policy for development costs is included within the Research and Development accounting policy.

#### 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 to 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. .

#### 2.7 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 2018

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### 2. Accounting policies (continued)

#### 2.8 Research and Development costs

In the research phase of an internal project it is not possible to demonstrate that the project will generate future economic benefits and hence all expenditure on research shall be recognised as an expense when it is incurred. Intangible assets are recognised from the development phase of a project if and only if certain specific criteria are met in order to demonstrate the asset will generate probable future economic benefits and that its cost can be reliably measured. The capitalised development costs are subsequently amortised to 'administrative expenses' on a straight line basis over their expected useful economic lives, which is 3-10 years.

The expected useful economic life of development costs are estimated based on business plans which set out the development plan and time to market for the associated project.

If it is not possible to distinguish between the research phase and the development phase of an internal project the expenditure is treated as if it were all incurred in the research phase only.

R&D expenditure tax credits are recognised as other operating income within the consolidated statement of comprehensive income.

#### 2.9 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

#### 2.10 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.

#### 2.11 Debtors

Short term debtors are measured at transaction price, less any impairment.

#### 2.12 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.

In the Consolidated Statement of Cash Flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.



# Naim Audio Limited

## Notes to the Financial Statements For the Year Ended 31 December 2018

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### 2. Accounting policies (continued)

#### 2.13 Financial instruments

The Group only enters into basic financial instrument 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 the 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.

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 Consolidated Statement of Comprehensive Income.

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 of the recoverable amount, which is an approximation of the amount that the Group 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.

#### 2.14 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.

# **Naim Audio Limited**

## **Notes to the Financial Statements For the Year Ended 31 December 2018**

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

#### **2.15 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 Consolidated Statement of Comprehensive Income 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 Consolidated Statement of Comprehensive Income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the Consolidated Statement of Comprehensive Income within 'other operating income'.

#### **2.16 Finance costs**

Finance costs are charged to the Consolidated Statement of Comprehensive Income 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.

#### **2.17 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.

#### **2.18 Operating leases: the Group as lessee**

Rentals paid under operating leases are charged to the Consolidated Statement of Comprehensive Income 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.

# **Naim Audio Limited**

## **Notes to the Financial Statements For the Year Ended 31 December 2018**

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

#### **2.19 Pensions**

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

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

The contributions are recognised as an expense in the Consolidated Statement of Comprehensive Income 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 Group in independently administered funds.

#### **2.20 Holiday pay accrual**

A liability is recognised to the extent of any unused holiday pay entitlement which is accrued at the Statement of Financial Position date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the Statement of Financial Position date.

#### **2.21 Interest income**

Interest income is recognised in the Consolidated Statement of Comprehensive Income using the effective interest method.

#### **2.22 Borrowing costs**

All borrowing costs are recognised in the Consolidated Statement of Comprehensive Income in the year in which they are incurred.

#### **2.23 Sales return provision**

A provision is made for returns issued in respect of pre-year end sales where there is an expectation that they will be returned following the year end, and the entity can estimate the level of returns reliably. Accumulated experience is used to estimate and provide for such returns at the time of sale. Revenue is adjusted for the expected value of returns and cost of sales is adjusted for the value of corresponding goods expected to be returned. As a result of this approach the provision for returns is measured as the margin on these sales returns.

# Naim Audio Limited

## Notes to the Financial Statements For the Year Ended 31 December 2018

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### 2. Accounting policies (continued)

#### 2.24 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Consolidated Statement of Comprehensive Income, 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 and the Group operate and generate 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;
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and
- Where they relate to timing differences in respect of interests in subsidiaries, associates, branches and joint ventures and the Group can control the reversal of the timing differences and such reversal is not considered probable in the foreseeable future.

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.

R&D expenditure tax credits are recognised as other operating income within the consolidated statement of comprehensive income.

# Naim Audio Limited

## Notes to the Financial Statements For the Year Ended 31 December 2018

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

The company makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experiences may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to carrying amounts of assets and liabilities within the next financial year are discussed below.

In preparing these financial statements, the directors have had to make the following judgements:

Determining whether there are indicators of impairment of the company's tangible and intangible assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit.

Other key sources of estimation uncertainty:

#### **Useful lives of fixed assets (see note 13)**

Depreciation is provided to write down the assets to their residual values over their estimated useful lives as set out in the company's accounting policy. The selection of these estimated lives requires the exercise of management's judgement. Useful lives are regularly reviewed and should management's assessment of useful lives change then depreciation charges and carrying value of fixed assets in the financial statements would change accordingly.

#### **Capitalised development costs (see note 12)**

Development costs that meet the qualifying criteria are capitalised and systematically amortised over the useful economic life of the intangible asset. Determining whether development costs qualify for capitalisation requires judgement, including estimates of the technical and commercial viability of the asset created and its applicable useful economic life. These estimates are continually reviewed and updated based on past experience and reviews of competitor products available in the market.

#### **Research and development costs**

Research costs are expensed as incurred. Development expenditure is also charged to the statement of comprehensive income in the year of expenditure unless the company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available to use. It is amortised over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

#### **Warranty provision**

Determining the amount to provide in respect of warranty terms of up to 3 years offered on products requires the exercise of management's judgement in determining the expected level of warranty costs to be incurred on products sold.

# Naim Audio Limited

## Notes to the Financial Statements For the Year Ended 31 December 2018

### 3. Judgements in applying accounting policies and key sources of estimation uncertainty (continued)

#### Stock provision

A stock provision is made when the recoverable value is lower than the carrying value of stock, which requires management's judgement as to whether stock is valued at the lower of cost or net realisable value.

#### Currency fluctuations

The effect of currency fluctuations 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.

#### Bad debt provision

There is a bad debt provision in place for debts that are deemed not to be recoverable.

#### Corporation tax

The balances relating to tax in these financial statements are based on provisional calculations and are not the final tax balances for the year.

#### Sales return provision

Determining the amount to provide in respect of sales returns of products requires the exercise of management's judgement in determining the expected level of returns and the related costs of the goods sold, in order to provide for the margin on these sales returns.

### 4. Turnover

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

	2018 £	2017 £
Sales of goods	29,175,368	27,576,684
Royalty Income	219,761	238,639
	<u>29,395,129</u>	<u>27,815,323</u>

Analysis of turnover by country of destination:

	2018 £	2017 £
United Kingdom	10,384,335	11,019,904
Rest of Europe	11,474,423	8,291,247
Rest of the world	7,536,371	8,504,172
	<u>29,395,129</u>	<u>27,815,323</u>

# Naim Audio Limited

## Notes to the Financial Statements For the Year Ended 31 December 2018

### 5. Other operating income

	2018 £	2017 £
R&D expenditure tax credit	<b>255,791</b>	218,485

### 6. Operating profit

The operating profit is stated after charging:

	2018 £	2017 £
Research & development charged as an expense	<b>1,272,030</b>	903,648
Depreciation of tangible fixed assets	<b>438,481</b>	321,103
Amortisation of intangible assets	<b>1,013,124</b>	989,339
Exchange differences	<b>59,077</b>	74,512
Operating lease rentals	<b>58,470</b>	112,671
Defined contribution pension cost	<b>93,672</b>	72,768
<b>Fees payable to the Group's auditors and associates for other services to the group:</b>		
- The audit of the Company and Group's subsidiaries pursuant to legislation	<b>28,350</b>	27,500
- Tax compliance and other services	<b>34,350</b>	15,500

# Naim Audio Limited

## Notes to the Financial Statements For the Year Ended 31 December 2018

### 7. Employees

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

	<b>Group 2018 £</b>	<b>Group 2017 £</b>	<b>Company 2018 £</b>	<b>Company 2017 £</b>
Wages and salaries	<b>5,447,974</b>	5,430,285	<b>5,447,974</b>	5,414,736
Social security costs	<b>579,967</b>	599,777	<b>579,967</b>	599,777
Cost of defined contribution scheme	<b>93,672</b>	72,769	<b>93,672</b>	72,662
	<b>6,121,613</b>	6,102,831	<b>6,121,613</b>	6,087,175

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

	<b>Group 2018 No.</b>	<b>Group 2017 No.</b>	<b>Company 2018 No.</b>	<b>Company 2017 No.</b>
Management & Administration	<b>48</b>	62	<b>48</b>	61
Production	<b>82</b>	65	<b>82</b>	65
Research and development	<b>29</b>	29	<b>29</b>	29
	<b>159</b>	156	<b>159</b>	155

Subcontractor costs totalled £628,474 (2017: £282,945). In the prior year, these amounts were included within wages & salaries, and have been removed from the prior year comparatives.

### 8. Directors' remuneration

	<b>2018 £</b>	<b>2017 £</b>
Directors' emoluments	<b>233,604</b>	296,434
Company contributions to defined contribution pension schemes	<b>3,405</b>	2,493
Compensation for loss of office	<b>130,049</b>	-
	<b>367,058</b>	298,927

During the year retirement benefits were accruing to 2 directors (2017 - 2) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £234,839 (2017 - £135,426).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £1,709 (2017 - £1,272).



# Naim Audio Limited

## Notes to the Financial Statements For the Year Ended 31 December 2018

### 9. Interest receivable

	2018 £	2017 £
Other interest receivable	184	639
	<u>184</u>	<u>639</u>

### 10. Interest payable and similar expenses

	2018 £	2017 £
Bank interest payable	38,999	107,023
Other loan interest payable (including loans from group undertakings)	28,780	34,484
	<u>67,779</u>	<u>141,507</u>

### 11. Taxation

	2018 £	2017 £
<b>Corporation tax</b>		
Current tax on profits for the year	-	72,198
<b>Total current tax</b>	<u>-</u>	<u>72,198</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences	119,858	147,079
Adjustment in respect of prior period	-	5,562
<b>Total deferred tax</b>	<u>119,858</u>	<u>152,641</u>
<b>Taxation on profit on ordinary activities</b>	<u>119,858</u>	<u>224,839</u>

# Naim Audio Limited

## Notes to the Financial Statements For the Year Ended 31 December 2018

### 11. Taxation (continued)

#### Factors affecting tax charge for the year

The tax assessed for the year is lower than (2017 - the same as) the standard rate of corporation tax in the UK of 19% (2017 - 19.25%). The differences are explained below:

	2018 £	2017 £
Profit on ordinary activities before tax	<u>1,094,883</u>	<u>1,232,561</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2017 - 19.25%)	207,879	237,268
<b>Effects of:</b>		
Expenses not deductible for tax purposes	10,955	3,524
Fixed asset differences	30,416	22,352
Adjustment in respect of previous periods	(70,461)	5,562
Adjustment in research and development tax credit	(5,118)	(13,887)
Adjust closing deferred tax to closing rate	(11,823)	(23,631)
Unrelieved tax losses carried forward	-	(9,887)
Patent box deduction	(57,993)	-
Other differences	16,003	3,538
<b>Total tax charge for the year</b>	<u><u>119,858</u></u>	<u><u>224,839</u></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 19%) will reduce 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 2018 was calculated based on these rates.

# Naim Audio Limited

## Notes to the Financial Statements For the Year Ended 31 December 2018

### 12. Intangible assets

#### Group

	Development £
<b>Cost</b>	
At 1 January 2018	9,887,295
Additions	1,600,057
At 31 December 2018	<u>11,487,352</u>
<b>Amortisation</b>	
At 1 January 2018	2,557,378
Charge for the year	1,013,124
At 31 December 2018	<u>3,570,502</u>
<b>Net book value</b>	
At 31 December 2018	<u><u>7,916,850</u></u>
At 31 December 2017	<u><u>7,329,917</u></u>

£1,549,762 of the development costs included above have not been amortised as they have not yet been brought into use.

The development costs relate to various projects that have been undertaken over a number of years, the directors consider that it is probable that these projects will generate future economic benefit going forward. Significant projects relate to the development of new products that are expected to generate economic benefit during 2019. These development costs will be amortised from this date.

# Naim Audio Limited

## Notes to the Financial Statements For the Year Ended 31 December 2018

### 12. Intangible assets (continued)

#### Company

	Development £
<b>Cost</b>	
At 1 January 2018	9,887,295
Additions - internal	1,600,057
At 31 December 2018	<u>11,487,352</u>
<b>Amortisation</b>	
At 1 January 2018	2,557,378
Charge for the year	1,013,124
At 31 December 2018	<u>3,570,502</u>
<b>Net book value</b>	
At 31 December 2018	<u><u>7,916,850</u></u>
At 31 December 2017	<u><u>7,329,917</u></u>

£1,549,762 of the development costs included above have not been amortised as they have not yet been brought into use.

The development costs relate to various projects that have been undertaken over a number of years, the directors consider that it is probable that these projects will generate future economic benefit going forward. Significant projects relate to the development of new products that are expected to generate economic benefit during 2019. These development costs will be amortised from this date.

## Naim Audio Limited

### Notes to the Financial Statements For the Year Ended 31 December 2018

#### 13. Tangible fixed assets

##### Group

	Freehold property £	Plant and machinery £	Motor vehicles £	Fixtures and fittings £	Office equipment £	Total £
<b>Cost or valuation</b>						
At 1 January 2018	2,076,633	1,001,503	49,595	2,204,814	2,906	5,335,451
Additions	103,235	19,083	5,559	217,981	-	345,858
Transfers between classes	79,405	(79,405)	-	-	-	-
At 31 December 2018	2,259,273	941,181	55,154	2,422,795	2,906	5,681,309
<b>Depreciation</b>						
At 1 January 2018	1,288,069	892,285	37,115	1,550,760	2,906	3,771,135
Charge for the year on owned assets	71,020	98,579	10,822	258,060	-	438,481
Transfers between classes	58,974	(58,974)	-	-	-	-
At 31 December 2018	1,418,063	931,890	47,937	1,808,820	2,906	4,209,616
<b>Net book value</b>						
At 31 December 2018	841,210	9,291	7,217	613,975	-	1,471,693
At 31 December 2017	788,564	109,218	12,480	654,054	-	1,564,316

# Naim Audio Limited

## Notes to the Financial Statements For the Year Ended 31 December 2018

### 13. Tangible fixed assets (continued)

#### Company

	Freehold property £	Plant and machinery £	Motor vehicles £	Fixtures and fittings £	Total £
<b>Cost or valuation</b>					
At 1 January 2018	2,076,633	1,001,503	49,595	2,204,814	5,332,545
Additions	103,235	19,083	5,559	217,981	345,858
Transfers between classes	79,405	(79,405)	-	-	-
At 31 December 2018	2,259,273	941,181	55,154	2,422,795	5,678,403
<b>Depreciation</b>					
At 1 January 2018	1,288,069	892,285	37,115	1,550,760	3,768,229
Charge for the year on owned assets	71,020	98,579	10,822	258,060	438,481
Transfers between classes	58,974	(58,974)	-	-	-
At 31 December 2018	1,418,063	931,890	47,937	1,808,820	4,206,710
<b>Net book value</b>					
At 31 December 2018	841,210	9,291	7,217	613,975	1,471,693
At 31 December 2017	788,564	109,218	12,480	654,054	1,564,316

# Naim Audio Limited

## Notes to the Financial Statements For the Year Ended 31 December 2018

### 14. Fixed asset investments

#### Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Class of shares	Holding	Principal activity
Focal.JMLab UK Limited	Ordinary	100 %	Distribution of speakers into the UK.

The registered address of Focal.JMLab UK Limited is the same as the registered address stated on the contents page.

#### Company

	Investments in subsidiary companies £
<b>Cost or valuation</b>	
At 1 January 2018	1
At 31 December 2018	1
<b>Net book value</b>	
At 31 December 2018	1
At 31 December 2017	1

### 15. Stocks

	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
Raw materials and consumables	5,889,868	3,763,070	5,889,868	3,763,070
Work in progress (goods to be sold)	74,280	401,338	74,280	401,338
Finished goods and goods for resale	3,561,333	1,524,193	3,158,875	1,308,140
	<u>9,525,481</u>	<u>5,688,601</u>	<u>9,123,023</u>	<u>5,472,548</u>

Stock recognised in cost of sales during the year as an expense was £17,655,917 (2017 - £17,454,865).

# Naim Audio Limited

## Notes to the Financial Statements For the Year Ended 31 December 2018

### 16. Debtors

	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
Trade debtors	4,215,362	4,644,281	4,028,301	4,514,890
Amounts owed by group undertakings	851,421	1,020,105	1,300,025	1,020,105
Other debtors	230,918	158,788	229,050	158,788
Prepayments and accrued income	169,917	94,798	169,917	94,798
R&D credit receivable	373,788	293,451	373,788	293,451
	<b>5,841,406</b>	<b>6,211,423</b>	<b>6,101,081</b>	<b>6,082,032</b>

All amounts shown under debtors fall due for repayment within one year.

The impairment loss recognised in the consolidated statement of comprehensive income for the year in respect of bad and doubtful debts was £22,968 (2017 - £4,163).

In addition, the provision for bad debts reduced by £62,000 (2017 - increased by £159,548).

### 17. Cash and cash equivalents

	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
Cash at bank and in hand	1,541,584	1,386,510	1,427,675	1,373,305
Less: bank overdrafts	(1,117,363)	(532,471)	(1,117,363)	(532,471)
	<b>424,221</b>	<b>854,039</b>	<b>310,312</b>	<b>840,834</b>

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

	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
Bank overdrafts	1,117,363	532,471	1,117,363	532,471
Bank loans	161,144	112,793	161,144	112,793
Trade creditors	4,340,904	3,186,045	4,327,977	3,180,112
Amounts owed to group undertakings	2,387,222	1,559,825	2,195,081	1,318,117
Other taxation and social security	179,770	245,540	125,118	221,353
Other creditors	416,111	241,184	416,046	240,384
Accruals and deferred income	1,640,769	1,312,905	1,633,010	1,283,378
	<b>10,243,283</b>	<b>7,190,763</b>	<b>9,975,739</b>	<b>6,888,608</b>



# Naim Audio Limited

## Notes to the Financial Statements For the Year Ended 31 December 2018

### 19. Creditors: Amounts falling due after more than one year

	<b>Group 2018 £</b>	<b>Group 2017 £</b>	<b>Company 2018 £</b>	<b>Company 2017 £</b>
Bank loans	1,216,546	1,403,702	1,216,546	1,403,702
	<u>1,216,546</u>	<u>1,403,702</u>	<u>1,216,546</u>	<u>1,403,702</u>

### 20. Loans

The maturity of the loans are as follows:

	<b>Group 2018 £</b>	<b>Group 2017 £</b>	<b>Company 2018 £</b>	<b>Company 2017 £</b>
<b>Amounts falling due within one year</b>				
Bank loans	161,144	112,793	161,144	112,793
<b>Amounts falling due 1-2 years</b>				
Bank loans	322,287	159,942	322,287	159,942
<b>Amounts falling due 2-5 years</b>				
Bank loans	894,259	1,243,760	894,259	1,243,760
	<u>1,377,690</u>	<u>1,516,495</u>	<u>1,377,690</u>	<u>1,516,495</u>

The bank overdraft and bank loans are secured over certain assets within the group.

# Naim Audio Limited

## Notes to the Financial Statements For the Year Ended 31 December 2018

### 21. Financial instruments

	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
<b>Financial assets</b>				
Financial assets that are debt instruments measured at amortised cost	<u>6,461,113</u>	<u>7,174,378</u>	<u>6,646,835</u>	<u>7,031,782</u>
<b>Financial liabilities</b>				
Financial liabilities measured at amortised cost	<u>(10,820,443)</u>	<u>(8,427,809)</u>	<u>(10,632,587)</u>	<u>(8,149,841)</u>

Financial assets that are debt instruments measured at amortised cost comprise trade and other debtors, amounts owed by group undertakings, accrued income and cash in bank and in hand. Prepayments and R&D credit receivable (which is statutory) are not financial assets.

Financial liabilities measured at amortised cost comprise trade and other creditors, bank loans, bank overdrafts and accruals. Other tax and social security are statutory and are not financial liabilities.

### 22. Deferred taxation

#### Group

	2018 £	2017 £
At beginning of year	(1,341,174)	(1,188,533)
Charged to profit or loss	(119,858)	(152,641)
<b>At end of year</b>	<u>(1,461,032)</u>	<u>(1,341,174)</u>

# Naim Audio Limited

## Notes to the Financial Statements For the Year Ended 31 December 2018

### 22. Deferred taxation (continued)

#### Company

	2018 £	2017 £
At beginning of year	(1,341,174)	(1,188,533)
Charged to profit or loss	(119,858)	(152,641)
<b>At end of year</b>	<b>(1,461,032)</b>	<b>(1,341,174)</b>

	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
Accelerated capital allowances	(1,479,610)	(1,359,155)	(1,479,610)	(1,359,155)
Short term timing differences	18,578	17,981	18,578	17,981
	<b>(1,461,032)</b>	<b>(1,341,174)</b>	<b>(1,461,032)</b>	<b>(1,341,174)</b>

### 23. Provisions

#### Group

	Warranty provision £	Sales returns £	Total £
Transferred from accruals	28,000	-	28,000
Charged/(utilised) during the year	70,000	58,000	128,000
<b>At 31 December 2018</b>	<b>98,000</b>	<b>58,000</b>	<b>156,000</b>

A provision is made for expected future warranty costs on warranty periods offered to customers on the sale of goods up to three years depending on product and specific terms. This represents the cost of potential repair of the goods under warranty.

A provision is made for returns issued in respect of pre-year end sales where there is an expectation that they will be returned following the year end, and the entity can estimate the level of returns reliably. Accumulated experience is used to estimate and provide for such returns at the time of sale. Revenue is adjusted for the expected value of returns and cost of sales is adjusted for the value of corresponding goods expected to be returned. As a result of this approach the provision for returns is measured as the margin on these sales returns.

# Naim Audio Limited

## Notes to the Financial Statements For the Year Ended 31 December 2018

### 24. Share capital

	2018 £	2017 £
<b>Allotted, called up and fully paid</b>		
4,375 (2017 - 4,375) Ordinary shares of £1.00 each	<u>4,375</u>	<u>4,375</u>

### 25. Reserves

The company's capital and reserves are as follows:

#### Share capital

Called up share capital reserve represents the nominal value of shares issued.

#### Capital redemption reserve

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

#### Merger Reserve

The merger reserve arose on a business combination that was accounted for as a merger in accordance with FRS 102.

#### Profit and loss account

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

During the year, amounts owed to group undertakings totalling £Nil (2017 - £283,885) were waived, which gave rise to a capital contribution.

### 26. Pension commitments

The group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the group in an independently administered fund. The pension charge amounted to £93,672 (2017 - £72,768). Pension contributions totalling £33,894 (2017 - £35,811) were outstanding at the year end.

# Naim Audio Limited

## Notes to the Financial Statements For the Year Ended 31 December 2018

### 27. Commitments under operating leases

At 31 December 2018 the Group and the Company had future minimum lease payments under non-cancellable operating leases as follows:

	<b>Group 2018 £</b>	<b>Group 2017 £</b>	<b>Company 2018 £</b>	<b>Company 2017 £</b>
Not later than 1 year	<b>65,697</b>	58,470	<b>65,697</b>	58,470
Later than 1 year and not later than 5 years	<b>65,983</b>	54,201	<b>65,983</b>	54,201
	<b>131,680</b>	112,671	<b>131,680</b>	112,671

### 28. 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.

Key management personnel include all directors across the group who together have authority and responsibility for planning, directing and controlling the activities of the group.

The total compensation paid to key management personnel for services provided to the group was £367,658 (2017 - £298,927).

### 29. 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 Vervent Audio Group is Naxicap Partners.