

Amending

Naim Audio Limited

Annual Report and Financial Statements

Year Ended

31 December 2019

Company Number 01116428

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Naim Audio Limited

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Naim Audio Limited

Company Information

Directors Vervent Audio Group
JL J Pettier
C Henderson

Registered number 01116428

Registered office Southampton Road
Salisbury
Wiltshire
SP1 2LN

Independent auditors BDO LLP
Arcadia House
Maritime Walk
Ocean Village
Southampton
SO14 3TL

Bankers Santander
1 Dorset Street
Southampton
Hampshire
SO15 2DP

Solicitors Wilsons
St John's Street
Salisbury
Wiltshire
SP1 2SB

Naim Audio Limited

Group Strategic Report For the Year Ended 31 December 2019

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.

On the 11th of December 2019, Vervent Audio Group, Naim's parent Company, changed ownership. Alpha Group, an independent Pan-European Private Equity Firm specialized in mid-market buyouts took a majority stake of the Group alongside management.

Business review

The directors are able to report that net sales turnover has grown 6% to £31.1m and that the group has generated post-tax profits of £2,447k (2018: £975k). The domestic home market of the UK saw turnover of just under £13m (2018: £11m) with Export sales equating to just under £19m (2018: £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 Mu-So 2nd Generation family, as well as two new amplifier products, the NAIT XS3 and Supernait 3, and a number of software and application developments in 2019.

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.

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.

Trading

	2019 £000	2018 £000
Turnover	31,086	29,395
Gross profit	12,456	10,108
Margin (%)	40%	34%
EBITDA *	5,010	2,673
Profit before tax	2,940	1,095

* EBITDA is calculated as earnings before interest, tax, depreciation, amortisation and exchange differences totalling £115,000 (2018 - £59,000).

Naim Audio Limited

Group Strategic Report (*continued*) For the Year Ended 31 December 2019

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. Nevertheless Naim exposure to foreign currency risk is significantly limited by natural hedging. Naim operate both sales and supplies in the different currencies.

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. In addition the group has implemented a credit risk insurance policy.

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 (2018: £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.

Going concern

The financial statements have been prepared on the going concern basis as the directors have prepared detailed budgets for a period of at least 12 months from the date of signing the accounts which show that the group is able to meet all its liabilities as they fall due. In addition the group has support from its ultimate parent, Vervent Audio group, who is well financed and has the ability to support the business if required. However, it is acknowledged that the global and UK outbreak of COVID-19 has had a profound impact on the global and UK economy and businesses, and therefore the directors have produced a detailed going concern stress test for Vervent Audio group (including Naim Audio Limited group) for which further detail is given within note 2 to the financial statements. Having completed this the directors are confident of being able to trade for a period of at least 12 months from the approval of the financial statements.

Naim Audio Limited

Group Strategic Report (*continued*)
For the Year Ended 31 December 2019

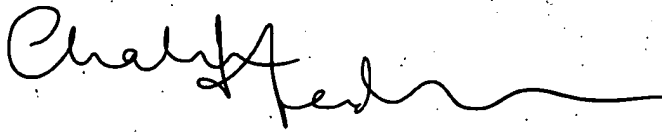
Post balance sheet events

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 throughout 2020 and going forward.

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

A handwritten signature in black ink, appearing to read 'C Henderson', with a long, wavy horizontal line extending to the right.

C Henderson
Director

Date: 6 April 2020

Naim Audio Limited

Directors' Report For the Year Ended 31 December 2019

The directors present their report and the financial statements for the year ended 31 December 2019.

Results and dividends

The profit for the year, after taxation, amounted to £2,446,936 (2018 - £975,025).

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.

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.

Directors

The directors who served during the year were:

R V George (resigned 10 June 2019)

Vervent Audio Group

JL J Pettier

C Henderson (appointed 25 February 2019)

Naim Audio Limited

Directors' Report (*continued*) For the Year Ended 31 December 2019

Directors' responsibilities statement

The directors are responsible for preparing the Group 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), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs 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; and
- 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.

Disclosure of information to auditors

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 auditors are 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 auditors are aware of that information.

Auditors

The auditors, 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: 6 April 2020

Naim Audio Limited

Independent Auditor's Report to the members of Naim Audio Limited

Opinion

We have audited the financial statements of Naim Audio Limited ("the Parent Company") and its subsidiaries ("the Group") for the year ended 31 December 2019 which comprise Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Company Statement of Financial Position, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity, Consolidated Statement of Cash Flows, and the 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 2019 and of the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, 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.

Material uncertainty relating to going concern

We draw attention to note 2 which explains that the company and the group may require further funds to finance the group's activities going forward should the COVID-19 pandemic and consequential lockdown affect operations or impact market demand for a prolonged period in excess of 3 months. Such support, in turn, depends on the ability of the wider group to provide funding should it be necessary.

These conditions indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Naim Audio Limited

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

Other information

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

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

We have nothing to report in this regard.

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 Directors' 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.

Naim Audio Limited

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

Responsibilities of directors

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, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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


Auditor's responsibilities for the audit of the financial statements

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

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

Date: 6 April 2020

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 2019

	Note	2019 £	As restated 2018 £
Turnover	4	31,085,763	29,395,129
Cost of sales		(18,629,505)	(19,286,866)
Gross profit		12,456,258	10,108,263
Distribution costs		(274,852)	(414,463)
Administrative expenses		(9,373,131)	(8,787,113)
Other operating income	5	256,132	255,791
Operating profit	6	3,064,407	1,162,478
Interest receivable and similar income	9	-	184
Interest payable and expenses	10	(124,198)	(67,779)
Profit before taxation		2,940,209	1,094,883
Tax on profit	11	(493,273)	(119,858)
Profit for the financial year		2,446,936	975,025
Profit for the year attributable to:			
Owners of the parent company		2,446,936	975,025
		2,446,936	975,025

There was no other comprehensive income for 2019 (2018 - £Nil).

The notes on pages 17 to 36 form part of these financial statements.

Naim Audio Limited

Registered number: 01116428

Consolidated Statement of Financial Position As at 31 December 2019

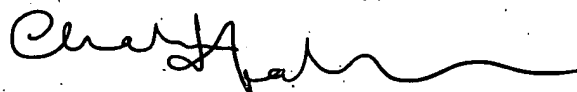
	Note	2019 £	2019 £	2018 £	2018 £
Fixed assets					
Intangible assets	12		8,115,310		7,916,850
Tangible assets	13		1,271,774		1,471,693
			<u>9,387,084</u>		<u>9,388,543</u>
Current assets					
Stocks	15	7,213,781		9,525,481	
Debtors: amounts falling due within one year	16	7,636,786		5,841,406	
Cash at bank and in hand	17	1,476,045		1,541,584	
		<u>16,326,612</u>		<u>16,908,471</u>	
Creditors: amounts falling due within one year	18	(8,452,197)		(10,243,283)	
Net current assets			<u>7,874,415</u>		<u>6,665,188</u>
Total assets less current liabilities			<u>17,261,499</u>		<u>16,053,731</u>
Creditors: amounts falling due after more than one year	19		-		(1,216,546)
Provisions for liabilities					
Deferred taxation	21	(1,461,032)		(1,461,032)	
Other provisions	22	(133,378)		(156,000)	
		<u>(1,594,410)</u>		<u>(1,617,032)</u>	
Net assets			<u>15,667,089</u>		<u>13,220,153</u>

Naim Audio Limited
Registered number:01116428

Consolidated Statement of Financial Position (*continued*)
As at 31 December 2019

	Note	2019 £	2019 £	2018 £	2018 £
Capital and reserves					
Called up share capital	23		4,375		4,375
Capital redemption reserve	24		625		625
Merger reserve	24		259,999		259,999
Profit and loss account	24		15,402,090		12,955,154
Equity attributable to owners of the parent company			15,667,089		13,220,153

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



C Henderson
Director

Date: 6 April 2020

The notes on pages 17 to 36 form part of these financial statements.

Naim Audio Limited
Registered number: 01116428

Company Statement of Financial Position
As at 31 December 2019

	Note	2019 £	2019 £	2018 £	2018 £
Fixed assets					
Intangible assets	12		8,115,310		7,916,850
Tangible assets	13		1,271,774		1,471,693
Investments	14		1		1
			<u>9,387,085</u>		<u>9,388,544</u>
Current assets					
Stocks	15	6,644,804		9,123,023	
Debtors: amounts falling due within one year	16	7,872,681		6,101,081	
Cash at bank and in hand	17	1,399,225		1,427,675	
		<u>15,916,710</u>		<u>16,651,779</u>	
Creditors: amounts falling due within one year	18	(7,977,728)		(9,975,739)	
Net current assets			<u>7,938,982</u>		<u>6,676,040</u>
Total assets less current liabilities			<u>17,326,067</u>		<u>16,064,584</u>
Creditors: amounts falling due after more than one year	19		-		(1,216,546)
Provisions for liabilities					
Deferred taxation	21	(1,461,032)		(1,461,032)	
Other provisions	22	(133,378)		(156,000)	
		<u>(1,594,410)</u>		<u>(1,617,032)</u>	
Net assets			<u><u>15,731,657</u></u>		<u><u>13,231,006</u></u>

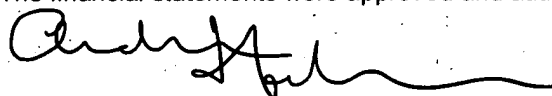
Naim Audio Limited
Registered number:01116428

Company Statement of Financial Position (continued)
As at 31 December 2019

	Note	2019 £	2019 £	2018 £	2018 £
Capital and reserves					
Called up share capital	23		4,375		4,375
Capital redemption reserve	24		625		625
Profit and loss account	24		15,726,657		13,226,006
			<u>15,731,657</u>		<u>13,231,006</u>

The company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own Statement of Comprehensive Income in these financial statements. The profit after tax of the parent company for the year was £2,500,651 (2018 - £1,042,371).

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



C Henderson
Director

Date: 6 April 2020

The notes on pages 17 to 36 form part of these financial statements.

Naim Audio Limited

Consolidated Statement of Changes in Equity For the Year Ended 31 December 2019

	Called up share capital £	Capital redemption reserve £	Merger reserve £	Profit and loss account £	Total equity £
At 1 January 2018	4,375	625	259,999	11,980,129	12,245,128
Comprehensive income for the year	-	-	-	975,025	975,025
Profit for the year	-	-	-	975,025	975,025
At 1 January 2019	4,375	625	259,999	12,955,154	13,220,153
Comprehensive income for the year	-	-	-	2,446,936	2,446,936
Profit for the year	-	-	-	2,446,936	2,446,936
At 31 December 2019	4,375	625	259,999	15,402,090	15,667,089

Company Statement of Changes in Equity For the Year Ended 31 December 2019

	Called up share capital £	Capital redemption reserve £	Profit and loss account £	Total equity £
At 1 January 2018	4,375	625	12,183,635	12,188,635
Comprehensive income for the year	-	-	1,042,371	1,042,371
Profit for the year	-	-	1,042,371	1,042,371
At 1 January 2019	4,375	625	13,226,006	13,231,006
Comprehensive income for the year	-	-	2,500,651	2,500,651
Profit for the year	-	-	2,500,651	2,500,651
At 31 December 2019	4,375	625	15,726,657	15,731,657

The notes on pages 17 to 36 form part of these financial statements.

Naim Audio Limited

Consolidated Statement of Cash Flows For the Year Ended 31 December 2019

	2019 £	2018 £
Cash flows from operating activities		
Profit for the financial year	2,446,936	975,025
Adjustments for:		
Amortisation of intangible assets	1,433,591	1,013,124
Depreciation of tangible assets	396,727	438,481
Interest payable	124,198	67,779
Interest receivable	-	(184)
Taxation charge	493,273	119,858
Decrease/(increase) in stocks	2,311,700	(3,836,880)
(Increase)/decrease in debtors	(524,153)	281,670
(Increase)/decrease in amounts owed by group undertakings	(1,469,665)	168,684
(Decrease)/increase in creditors	(739,511)	2,419,277
(Decrease)/increase in provisions	(22,622)	156,000
R&D tax credit received	188,229	175,454
Other income in respect of R&D	(256,132)	(255,791)
Net cash generated from operating activities	4,382,571	1,722,497
Cash flows from investing activities		
Purchase of intangible fixed assets	(1,632,051)	(1,600,057)
Purchase of tangible fixed assets	(196,808)	(345,858)
Interest received	-	184
Net cash used in investing activities	(1,828,859)	(1,945,731)
Cash flows from financing activities		
Repayment of loans	(1,377,690)	(138,805)
Interest paid	(124,198)	(67,779)
Net cash used in financing activities	(1,501,888)	(206,584)
Net increase/(decrease) in cash and cash equivalents	1,051,824	(429,818)
Cash and cash equivalents at beginning of year	424,221	854,039
Cash and cash equivalents at the end of year	1,476,045	424,221
Cash and cash equivalents at the end of year comprise:		
Cash at bank and in hand	1,476,045	1,541,584
Bank overdrafts	-	(1,117,363)
	1,476,045	424,221

The notes on pages 17 to 36 form part of these financial statements.

Naim Audio Limited

Notes to the Financial Statements For the Year Ended 31 December 2019

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 Going concern

The financial statements have been prepared on the going concern basis as the directors have prepared detailed budgets for a period of at least 12 months from the date of signing the accounts which show that the group is expected to be able to meet all its liabilities as they fall due. In addition the group has support from its ultimate parent, Vervent audio group, which is currently well financed and has the ability to support the business if required. However, it is acknowledged that the global and UK outbreak of COVID-19 has had a profound impact on the global and UK economy and businesses.

The directors have produced a detailed going concern stress test for Vervent Audio group (which includes the Naim Audio Limited group). The conclusion of our stress test for Naim Audio Limited group is that the business could comfortably sustain the loss of turnover for a period of 3-4 months during the course of the 12 months following the date of the financial statements, without exceeding current banking facilities. The company and the group may, however, require further funds to finance the group's activities going forward should the COVID-19 pandemic and consequential lockdown affect operations or impact market demand for a prolonged period in excess of 3 months.

The Directors currently consider that it is entirely feasible, given current levels of uncertainty, that there could be a significant impact of trade beyond June 2020 which would mean that such financial support becomes necessary. Whether or not such funding will be accessible depends on the impact of the COVID-19 outbreak on the wider group itself and on its ability to provide the necessary funding.

These conditions indicate the existence of a material uncertainty that may cast significant doubt over the company's and the group's ability to continue as a going concern.

However, the wider group is expected to remain in a strong financial position during the forecast period and a gradual return to the group's previous financial position is expected from at least July 2020 onwards. The directors have also excluded the possible benefits derived from the business rates holiday announced by Government, and excludes any use of Government lending or any measures that may be introduced to help with wages, if required. The directors are confident of being able to trade for a period of at least 12 months from the approval of the financial statements and the Directors have therefore concluded that it is appropriate for the financial statements to be prepared on the going concern basis.

2.2 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 judgement in applying the group's accounting policies (see note 3).

Naim Audio Limited

Notes to the Financial Statements (*continued*) For the Year Ended 31 December 2019

2 Accounting policies (*continued*)

2.2 Basis of preparation of financial statements (*continued*)

The Group and Company have applied FRS 102 (March 2018) in these financial statements, which includes the amendments as a result of the Triennial Review 2017. There was no financial of the adoption of these amendments.

Parent company disclosure exemptions

- Only one reconciliation of the number of shares outstanding at the beginning and end of the period has been presented as the reconciliations for the group and the parent company would be identical;
- No cash flow statement or net debt reconciliation has been presented for the parent company;
- Disclosures in respect of the parent company's income, expense, net gains and net losses on financial instruments measured at amortised cost have not been presented as equivalent disclosures have been provided in respect of the group as a whole;
- Disclosures in respect of the details of the parent company's share-based payment arrangements have not been presented as equivalent disclosures have been provided in respect of the group as a whole; and
- No disclosures has been given for the aggregate remuneration of the key management personnel of the parent company as their remuneration is included in the totals for the group as a whole.

The following principal accounting policies have been applied:

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.

2.4 Turnover

Turnover is recognised to the extent that it is probable that the economic benefits will flow to the group and the turnover can be reliably measured. Turnover 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 turnover is recognised:

Sale of goods

Turnover 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 turnover 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 turnover 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; and
- it is probable the group will receive the consideration due under the agreement.

Naim Audio Limited

Notes to the Financial Statements *(continued)* For the Year Ended 31 December 2019

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 Consolidated Statement of Comprehensive Income 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.

2.6 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, using the straight-line method.

Depreciation is provided on the following basis:

Freehold property	-	50 years
Land	-	Not depreciated
Plant and machinery	-	3 - 4 years
Motor vehicles	-	4 years
Fixtures and fittings	-	4 - 10 years

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 Consolidated Statement of Comprehensive Income.

Naim Audio Limited

Notes to the Financial Statements (*continued*) For the Year Ended 31 December 2019

2 Accounting policies (*continued*)

2.7 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.

2.8 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

2.9 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.

2.10 Debtors

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

2.11 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 *(continued)* For the Year Ended 31 December 2019

2 Accounting policies *(continued)*

2.12 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 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 in case of an out-right short-term loan that is not at market rate, the financial asset or liability is measured, initially at the present value of future cash flows discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost, unless it qualifies as a loan from a director in the case of a small company, or a public benefit entity concessionary loan.

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.

2.13 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.

2.14 Sales return provision

A provision is made for returns expected to be 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 (*continued*) For the Year Ended 31 December 2019

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 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.

2.17 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.

2.18 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.

Naim Audio Limited

Notes to the Financial Statements (*continued*) For the Year Ended 31 December 2019

2 Accounting policies (*continued*)

2.19 Interest income

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

2.20 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.

2.21 Borrowing costs

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

2.22 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.

2.23 Comparative reclassification

There has been a prior year adjustment as a result of accounting classifications.

This has reclassified cost of sales totalling £3,459,486 which were previously included within administrative expenses and included these within cost of sales to be consistent with the current year policy.

Naim Audio Limited

Notes to the Financial Statements (*continued*) For the Year Ended 31 December 2019

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 (continued) For the Year Ended 31 December 2019

4 Turnover

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

	2019 £	2018 £
Sale of goods	30,882,096	29,175,368
Royalty income	203,667	219,761
	<u>31,085,763</u>	<u>29,395,129</u>

Analysis of turnover by country of destination:

	2019 £	2018 £
United Kingdom	12,307,769	10,384,335
Rest of Europe	10,832,249	11,474,423
Rest of the world	7,945,745	7,536,371
	<u>31,085,763</u>	<u>29,395,129</u>

5 Other operating income

	2019 £	2018 £
R&D expenditure tax credit	256,132	255,791
	<u>256,132</u>	<u>255,791</u>

6 Operating profit

	2019 £	2018 £
The operating profit is stated after charging:		
Research & development charged as an expense	1,269,702	1,272,030
Depreciation of tangible fixed assets	396,728	438,481
Amortisation of intangible assets	1,433,591	1,013,124
Exchange differences	115,193	59,077
Operating lease expense	61,167	58,470
Defined contribution pension cost	127,183	93,672
Fees payable to the group's auditors for services to the group		
- The audit of the company and group's subsidiaries pursuant to legislation	32,400	28,350
- Tax compliance and other services	25,150	34,350
	<u>57,550</u>	<u>62,700</u>

Naim Audio Limited

Notes to the Financial Statements (continued) For the Year Ended 31 December 2019

7 Employees

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

	Group 2019 £	Group 2018 £	Company 2019 £	Company 2018 £
Wages and salaries	5,494,211	5,447,974	5,494,211	5,447,974
Social security costs	571,583	579,967	571,583	579,967
Cost of defined contribution scheme	127,183	93,672	127,183	93,672
	<u>6,192,977</u>	<u>6,121,613</u>	<u>6,192,977</u>	<u>6,121,613</u>

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

	Group 2019 No.	Group 2018 No.	Company 2019 No.	Company 2018 No.
Management & Administration	41	48	41	48
Production	76	82	76	82
Research and development	28	29	28	29
	<u>145</u>	<u>159</u>	<u>145</u>	<u>159</u>

8 Directors' remuneration

	2019 £	2018 £
Directors' emoluments	243,230	233,604
Company contributions to defined contribution pension schemes	5,757	3,405
Compensation for loss of office	-	130,045
	<u>248,987</u>	<u>367,054</u>

During the year retirement benefits were accruing to 2 directors (2018 - 2) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £166,500 (2018 - £234,839).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £4,400 (2018 - £1,709).

Naim Audio Limited

Notes to the Financial Statements (continued) For the Year Ended 31 December 2019

9 Interest receivable	2019	2018
	£	£
Other interest receivable	-	184
	<u> </u>	<u> </u>
10 Interest payable and similar charges	2019	2018
	£	£
Bank interest payable	36,954	38,999
Loans from group undertakings	87,244	28,780
	<u> </u>	<u> </u>
	124,198	67,779
	<u> </u>	<u> </u>
11 Taxation	2019	2018
	£	£
Corporation tax		
Current tax on profits for the year	493,273	-
	<u> </u>	<u> </u>
Total current tax	493,273	-
	<u> </u>	<u> </u>
Deferred tax		
Origination and reversal of timing differences	-	119,858
	<u> </u>	<u> </u>
Total deferred tax	-	119,858
	<u> </u>	<u> </u>
Taxation on profit on ordinary activities	493,273	119,858
	<u> </u>	<u> </u>

Naim Audio Limited

Notes to the Financial Statements (continued) For the Year Ended 31 December 2019

11 Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2018 - lower than) the standard rate of corporation tax in the UK of 19% (2018 - 19%). The differences are explained below:

	2019 £	2018 £
Profit on ordinary activities before tax	2,940,209	1,094,883
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2018 - 19%)	558,640	207,879
Effects of:		
Expenses not deductible for tax purposes	5,728	10,955
Fixed asset differences	19,964	30,416
Adjustments to tax charge in respect of prior periods	-	(70,461)
Adjustment in research and development tax credit	(37,018)	(5,118)
Adjust closing deferred tax to closing rate	(2,706)	(11,823)
Patent box deduction	(45,479)	(57,993)
Other differences	(5,856)	16,003
Total tax charge for the year	493,273	119,858

Factors that may affect future tax charges

The UK corporation tax rate was 19% for the year ended 31 December 2019 and this rate has been used for the purposes of preparing the tax disclosures. The 2016 Budget announced that the UK corporation tax rate would decrease to 17% from 1 April 2020. In the March 2020 Budget, it was announced that the corporation tax rate would remain 19% and that the reduction on 1 April 2020 would no longer be coming into force. As the substantively enacted rate at the year end was 17%, deferred tax has been recognised in the accounts at this rate until the Finance Act 2020 has received Royal Assent.

Naim Audio Limited

Notes to the Financial Statements *(continued)* For the Year Ended 31 December 2019

12 Intangible assets

Group and Company	Development £
Cost	
At 1 January 2019	11,487,352
Additions	1,632,051
	<hr/>
At 31 December 2019	13,119,403
	<hr/>
Amortisation	
At 1 January 2019	3,570,502
Charge for the year	1,433,591
	<hr/>
At 31 December 2019	5,004,093
	<hr/>
Net book value	
At 31 December 2019	8,115,310
	<hr/>
At 31 December 2018	7,916,850
	<hr/>

£2,445,587 (2018 - £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 2020. These development costs will be amortised from this date.

Naim Audio Limited

Notes to the Financial Statements (continued) For the Year Ended 31 December 2019

13 Tangible fixed assets

Group	Freehold property £	Plant and machinery £	Motor vehicles £	Fixtures and fittings £	Office equipment £	Total £
Cost or valuation						
At 1 January 2019	2,259,273	941,181	55,154	2,422,795	2,906	5,681,309
Additions	47,899	55,849	-	93,060	-	196,808
At 31 December 2019	2,307,172	997,030	55,154	2,515,855	2,906	5,878,117
Depreciation						
At 1 January 2019	1,418,063	931,890	47,937	1,808,820	2,906	4,209,616
Charge for the year	105,074	16,245	6,300	269,108	-	396,727
At 31 December 2019	1,523,137	948,135	54,237	2,077,928	2,906	4,606,343
Net book value						
At 31 December 2019	784,035	48,895	917	437,927	-	1,271,774
At 31 December 2018	841,210	9,291	7,217	613,975	-	1,471,693

Naim Audio Limited

Notes to the Financial Statements (continued) For the Year Ended 31 December 2019

13 Tangible fixed assets (continued)

Company	Freehold property £	Plant and machinery £	Motor vehicles £	Fixtures and fittings £	Total £
Cost or valuation					
At 1 January 2019	2,259,273	941,181	55,154	2,422,795	5,678,403
Additions	47,899	55,849	-	93,060	196,808
At 31 December 2019	2,307,172	997,030	55,154	2,515,855	5,875,211
Depreciation					
At 1 January 2019	1,418,063	931,890	47,937	1,808,820	4,206,710
Charge for the year on owned assets	105,074	16,245	6,300	269,108	396,727
At 31 December 2019	1,523,137	948,135	54,237	2,077,928	4,603,437
Net book value					
At 31 December 2019	784,035	48,895	917	437,927	1,271,774
At 31 December 2018	841,210	9,291	7,217	613,975	1,471,693

14 Fixed asset investments

Company	Investments in subsidiary companies £
Cost or valuation	
At 1 January 2019 and 31 December 2019	1

Subsidiary undertaking

The following was a subsidiary undertaking of the company:

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

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

Naim Audio Limited

Notes to the Financial Statements (continued) For the Year Ended 31 December 2019

15 Stocks

	Group 2019 £	Group 2018 £	Company 2019 £	Company 2018 £
Raw materials and consumables	3,925,194	5,889,868	3,925,194	5,889,868
Work in progress (goods to be sold)	227,855	74,280	227,855	74,280
Finished goods and goods for resale	3,060,732	3,561,333	2,491,755	3,158,875
	<u>7,213,781</u>	<u>9,525,481</u>	<u>6,644,804</u>	<u>9,123,023</u>

16 Debtors

	Group 2019 £	Group 2018 £	Company 2019 £	Company 2018 £
Trade debtors	4,911,672	4,215,362	4,717,499	4,028,301
Amounts owed by group undertakings	2,321,086	851,421	2,751,250	1,300,025
Other debtors	81,758	230,918	81,662	229,050
Prepayments and accrued income	146,920	169,917	146,920	169,917
R&D credit receivable	175,350	373,788	175,350	373,788
	<u>7,636,786</u>	<u>5,841,406</u>	<u>7,872,681</u>	<u>6,101,081</u>

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

The impairment gain recognised in the consolidated statement of comprehensive income for the year in respect of bad and doubtful debts was £40,446 (2018 – loss of £22,968).

In addition, the provision for bad debts increased by £96,000 (2018 – reduced by £62,000).

17 Cash and cash equivalents

	Group 2019 £	Group 2018 £	Company 2019 £	Company 2018 £
Cash at bank and in hand	1,476,045	1,541,584	1,399,225	1,427,675
Less: bank overdrafts	-	(1,117,363)	-	(1,117,363)
	<u>1,476,045</u>	<u>424,221</u>	<u>1,399,225</u>	<u>310,312</u>

Naim Audio Limited

Notes to the Financial Statements (continued) For the Year Ended 31 December 2019

18 Creditors: amounts falling due within one year

	Group 2019 £	Group 2018 £	Company 2019 £	Company 2018 £
Bank overdrafts	-	1,117,363	-	1,117,363
Bank loans	-	161,144	-	161,144
Trade creditors	3,272,197	4,340,904	3,259,672	4,327,977
Amounts owed to group undertakings	3,826,618	2,387,222	3,459,613	2,195,081
Corporation tax	226,932	-	226,932	-
Other taxation and social security	257,896	179,770	213,512	125,118
Other creditors	171,187	416,111	159,339	416,046
Accruals and deferred income	697,367	1,640,769	658,660	1,633,010
	<u>8,452,197</u>	<u>10,243,283</u>	<u>7,977,728</u>	<u>9,975,739</u>

In the current year the R&D credit receivable of £256,132 has been offset against the corporation tax liability to give a net liability of £226,932. This is on the basis that these will be settled net in the current year. The R&D credit receivable within debtors relates to amounts receivable from the prior year which will not be settled net and so have not been offset.

19 Creditors: Amounts falling due after more than one year

	Group 2019 £	Group 2018 £	Company 2019 £	Company 2018 £
Bank loans	-	1,216,546	-	1,216,546

20 Loans

The maturity of the loans are as follows:

	Group 2019 £	Group 2018 £	Company 2019 £	Company 2018 £
Amounts falling due within one year:				
Bank loans	-	161,144	-	161,144
Amounts falling due 1-2 years				
Bank loans	-	322,287	-	322,287
Amounts falling due 2-5 years				
Bank loans	-	894,259	-	894,259
	<u>-</u>	<u>1,377,690</u>	<u>-</u>	<u>1,377,690</u>

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

Naim Audio Limited

Notes to the Financial Statements (continued) For the Year Ended 31 December 2019

21 Deferred taxation

	2019 £	2018 £
Group		
At beginning of year	(1,461,032)	(1,341,174)
Charged to profit or loss	-	(119,858)
	<u>(1,461,032)</u>	<u>(1,461,032)</u>
At end of year	(1,461,032)	(1,461,032)
	<u>(1,461,032)</u>	<u>(1,461,032)</u>
Company		
At beginning of year	(1,461,032)	(1,341,174)
Charged to profit or loss	-	(119,858)
	<u>(1,461,032)</u>	<u>(1,461,032)</u>
At end of year	(1,461,032)	(1,461,032)
	<u>(1,461,032)</u>	<u>(1,461,032)</u>

The provision for deferred taxation is made up as follows:

	Group 2019 £	Group 2018 £	Company 2019 £	Company 2018 £
Accelerated capital allowances	(1,479,610)	(1,479,610)	(1,479,610)	(1,479,610)
Short term timing differences	18,578	18,578	18,578	18,578
	<u>(1,461,032)</u>	<u>(1,461,032)</u>	<u>(1,461,032)</u>	<u>(1,461,032)</u>

22 Provisions

	Warranty provision £	Sales returns £	Total £
Group and company			
At 1 January 2019	98,000	58,000	156,000
Charged/(utilised) during the year	-	(22,622)	(22,622)
	<u>98,000</u>	<u>35,378</u>	<u>133,378</u>
At 31 December 2019	98,000	35,378	133,378

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 (continued) For the Year Ended 31 December 2019

23 Share capital

	2019 £	2018 £
Allotted, called up and fully paid		
4,375 (2018 - 4,375) Ordinary shares of £1 each	<u>4,375</u>	<u>4,375</u>

24 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.

25 Analysis of net debt

	At 1 January 2019 £	cash flows £	At 31 December 2019 £
Cash at bank and in hand	1,541,584	(65,539)	1,476,045
Bank overdrafts	(1,117,363)	1,117,363	-
Bank loans	(1,377,690)	1,377,690	-
	<u>(953,469)</u>	<u>2,429,514</u>	<u>1,476,045</u>

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 £127,183 (2018 - £93,672). Pension contributions totalling £28,013 (2018 - £33,894) were outstanding at the year end.

Naim Audio Limited

Notes to the Financial Statements (*continued*) For the Year Ended 31 December 2019

27 Commitments under operating leases

At 31 December 2019 the group and the company had future minimum lease payments under non-cancellable operating leases as follows:

	Group 2019 £	Group 2018 £	Company 2019 £	Company 2018 £
Not later than 1 year	52,606	65,697	52,606	65,697
Later than 1 year and not later than 5 years	27,154	65,983	27,154	65,983
	<u>79,760</u>	<u>131,680</u>	<u>79,760</u>	<u>131,680</u>

28 Related party transactions

The company has taken the exemption available in Section 33.1 A 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 and a number of senior managers 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 £248,987 (2018 - £367,054).

29 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.

Prior to October 2019, the ultimate controlling party of Vervent Audio Group was Naxicap Partners.

From October 2019, the ultimate parent company was still Vervent Audio Group. From this date, Vervent Audio Group was owned by Alpha Private Equity Fund 7 (SCA) SICAR.