

Focusrite Audio Engineering Limited
Company number: 02357989
Annual report and financial statements 2015

Focusrite Audio Engineering Limited

Annual report and financial statements

31 August 2015



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Strategic report

The directors present their annual report and the audited financial statements for the year ended 31 August 2015.

Business Overview

The Company offers its products under two brands; Focusrite, which is the global leader in Audio Interfaces for recording with computers (the modern paradigm), and Novation, a brand acquired 11 years ago that specialises in synthesisers, keyboards and grid controllers for the Electronic Music market.

Both brands have a strong reputation for innovation, quality of build and performance, resulting in ever greater levels of customer satisfaction and resultant growth.

As a 26-year-old business we have a depth of management experience that belies the fact that the average age of our workforce is around 30. We employ new graduates in music technology and audio engineering in the business every year. Most employees are musicians as well as development engineers, sales, support and marketing staff (even Dave Froker, the CEO, is an accomplished rock guitarist!). This means that we have a strong empathy with the aspirations of our customers and indeed all our musician employees use our products in their personal creative endeavours. In turn we are proud that our employees have voted Focusrite as one of the '100 Best Small Companies to Work For' (Sunday Times), for the past four years.

The Company was fortunate to go into the recession following the 2008 financial crisis with no debt and we have built the Company to five times the 2009 revenue since then. Despite having invested heavily in product development and marketing to build the business aggressively to meet the ever-expanding demand, we remain debt free and highly cash generative.

Our largest market by revenue is the United States, where our brands are well represented in all the leading resellers of music equipment, notably Guitar Center – a chain of 280 stores – and Sweetwater Sound, a unique, proactive and online business that sells nationally from a single location in Indiana, as well as Amazon and many independent retailers. This strong brand representation in our product categories is reflected in the UK, Europe and almost everywhere people are recording and performing music.

There has never been a better time to be in the musical instrument and music recording market and we are making the best of the opportunity, taking a leading role in the changes that are sweeping our marketplace.

Strategic and Operational Review

We intend to continue innovating, which has been the engine of our growth, and we are continuing to disrupt traditional methods of music making. This is liberating musicians with transparent technology that allows them to stay in the flow of creating, producing, recording and distributing their music. And we intend to continue extending the boundaries of our market with steps into adjacent segments.

Innovating for growth

On the strength of our 19 new product launches, revenue continued its pattern of annual growth, rising to £48.0 million (2014: £41.0 million) representing a rise of 17.2% (2014: 13.5%). All business segments grew, including Focusrite products rising by 16.3% from £26.8 million to £31.2 million, and Novation products rising by 22.7% from £11.5 million to £14.2 million.

In addition, revenue increased in all regions: USA grew by 29.3%, Europe, Middle East and Africa ('EMEA') by 9.4% and Rest of World by 14.5%. We grew Adjusted EBITDA by 13.1%, with Adjusted EBITDA representing 19.4% of revenue. The growth was relatively consistent across our two brands. Two key new products, the Focusrite Clarett range of audio interfaces and Novation's Launchpad Pro, arrived near the end of the financial year which, along with upcoming new product launches in the new financial year, should provide a good basis for future growth.

The market

Globally the overall music gear market is growing, with macroeconomic forces affecting regions differently. The USA, not surprisingly with its relatively healthy economy, is in better shape than the Eurozone and Latin America. Asia continues to grow faster than the rest of the world even with China's slowdown, although that is currently a small part of our business.

Driving disruption

More important to our business is the changing nature of music making, production and distribution. Focusrite is well-placed to take advantage of the shift to electronic dance music ('EDM'), mobile ways of making and recording music, and the use of Spotify and YouTube as media for awareness and delivering music to fans. As a measure of both the changing use of musical instruments and the reliance on mobile platforms, downloads of Novation's Launchpad App for Apple's iOS platform grew by 87% and the revenue derived from that app, albeit still a relatively small percentage of overall revenue, grew by 185%.

Making it easy

Musicians today face an unending stream of hurdles while creating, producing and performing music. Our drive to make music easy to make – at all levels of expertise – is paying off: the percentage of new owners of our products calling for help from Tech Support continues to decline to 3.5% from 6.5% last year. Critical praise from the press and end-users tells us our focus is paying off.

Expanding into new segments

The launch of the Clarett Thunderbolt line of interfaces takes Focusrite into a new, lucrative segment of the market, where products sell for between \$500 and \$1,500. Initial reviews by users and press experts suggest we'll do well with Clarett. Focusrite, with its lower-priced Scarlett range of interfaces, already claims the number one worldwide position under \$500. Launchpad Pro thrusts Novation into a new, higher price segment of grid controllers for the widely used software Ableton Live. Our entry into interfaces for the nascent iOS recording market, the iTrack line, is exploring new markets as musicians are just starting to experiment with mobile recording platforms. Finally our introduction of RedNet audio networking products is causing excitement in the demanding 'the-show-must-go-on' Live and Broadcast segments. We intend to expand further by continuing to explore new market segments, both through acquisition and home-grown investment.

Managing margins

As explained more fully in the Financial Review, gross margin remained similar to the prior year. Our Euro exchange rate hedging kept our performance insulated from the volatility experienced during the year. As ever we kept a close control on product manufacturing costs, which have defied Chinese inflation trends. Operating costs continue to be managed carefully.

A great place to work

With our rapid growth we face the enviable but difficult task of hiring the talented people we need to work with us. We place great emphasis on our recruiting, interviewing and hiring decision-making skills. Each employee has a bespoke training programme to raise their skills and further their careers. Our strategy is clear to employees and their goals and objectives are tied to the Company's overall goals. We are delighted that for the fourth year in a row Focusrite was named one of Britain's 100 Best Small Companies to Work For. At the same time our continued focus on cost control and efficiency meant our revenue per employee increased. We grew headcount costs by 7.1%, less than revenue and profit growth. We thrive on hard work, fun and results.

Executing operationally

In the spring we relaunched the Novation brand, which followed a careful analysis of the brand's strategy, heritage, values and an understanding of customer perception. We also reorganised our R&D department to make it more focused, fleetier of foot, and metric-driven, while we launched 19 new products. Finally we have worked closely with our channel partners and upgraded where necessary.

Current trading and outlook

Products launched at the end of the financial year have been well received by the market, with excellent reviews across the industry. Revenue in the first quarter of the current year was ahead of that for FY15, itself a record quarter, in spite of slower than expected initial sales of new products.

Pleasingly, existing products continue to perform as expected which, together with continued significant investment in R&D and an exciting new launch schedule for the current year, gives us confidence that FY16 will be a further year of revenue growth.

Financial Review

Financial performance

The Company had a positive year in which revenue increased by 17.2% to £48.0 million (2014: £41.0 million), gross margin was consistent at 38.6% and adjusted earnings before interest, tax, depreciation and amortisation ('Adjusted EBITDA') was £9.5 million (2014: £8.2 million), up 15.5%. The balance of cash and cash equivalents at 31 August 2015 was £5.3 million, up from £3.7 million at 31 August 2014.

Key financials

Revenue

Revenue continued its pattern of annual growth, rising to £48.0 million (2014: £41.0 million) representing a rise of 17.2% (2014: 13.5%). All business segments grew, including Focusrite products rising by 16.3% from £26.8 million to £31.2 million, and Novation products rising by 22.7% from £11.5 million to £14.2 million.

In addition, revenue increased in all regions: the USA grew by 29.3%, EMEA by 9.4% and Rest of World by 14.5%.

Gross profit

Gross profit comprises the revenue earned from the sale of stock, less the cost of sales of those products including the material cost, freight, storage, royalties and revenue based sales commissions. Gross profit increased to £18.5 million (2014: £15.8 million). Gross margin was consistent with the prior year at 38.6%. At constant exchange rates, the gross margin was 40.1%.

Administrative and other expenses

Administrative and other expenses comprise uncapitalised research and development costs, engineering and operations costs, sales and marketing costs, administrative expenses and depreciation and amortisation. Overall, the administrative expenses were £12.0 million.

Corporation tax

The Company benefits from tax allowances (R&D tax credits) on the significant research and development costs explained above, thereby reducing the effective tax rate. In contrast, company restructuring costs are, typically, not allowable for corporation tax. The total tax charge is calculated as £1.0 million (2014: £0.7 million) representing 14.8% of profit before tax, up from 12.6% in the prior year.

Balance sheet

Non-current assets

The major non-current assets are capitalised development costs, shown within other intangible assets, and tooling, shown within property, plant and equipment.

The total value of development costs capitalised during the year was £2.7 million, up from £1.9 million in the prior year. The increased capitalisation was a function of bringing 19 products to market compared with eight in the prior year. These costs are amortised over their useful life which we have deemed to be three years.

Within property, plant and equipment, the total additions during the year were £0.8 million (2014: £0.8 million) of which £0.4 million was tooling for new products.

Working capital

Working capital comprises inventories plus trade and other receivables, less trade and other payables. Overall, working capital was 12.4% of revenue as at 31 August 2015 compared with 14.4% in the prior year. Generally, receivables have increased largely in line with revenue. The main reason for the higher working capital was increased inventories due to new product lines and increased trade and other payables which includes amounts owed to Group undertakings.

Inventories

Inventories increased to £8.6 million, up from £6.6 million at 31 August 2014. When compared to the annual cost of sales, this represents a stock turn of 3.4 times compared with 3.8 times in the prior year. The stock has been increased partly to support the additional revenue and partly because 14 out of the 19 products were introduced in the second half of the year and the Company invested in stock to support the anticipated demand of new products.

Trade and other receivables

Trade and other receivables were £7.7 million, up from £6.2 million at 31 August 2014. The primary increase was as a result of increased revenue and the trade receivables represented 49 days of sales, compared with 53 days last year.

Trade and other payables

Trade and other payables totalled £10.3 million, up from £6.8 million at 31 August 2014. The major element is outstanding invoices for the purchase of stock. This increased as a result of the greater purchases of stock close to the end of the financial year. At the year end, the credit period taken for trade purchases averaged 66 days (31 August 2014: 59 days), helped by one significant supplier changing their accepted terms from 45 days to 60 days.

Cash

The year-end cash balance was £5.3 million, up from £3.7 million at 31 August 2014. The Company does not have any borrowings.

However, on 3 December 2015, after the end of the reported period, the arrangement of a committed five-year £10 million revolving credit facility ('RCF') with HSBC was completed.

This provides additional financial resources to take advantage of growth opportunities as well as further strengthening the balance sheet.

Summary

In summary, the Company has had a strong year: revenue has grown by 17.2%, Adjusted EBITDA has increased from £8.2 million to £9.5 million and cash generation has been good despite the greater investment in new stock. As a result, the cash balance has increased from £3.7 million to £5.3 million and the Directors believe that this, combined with the new RCF, arranged since the year end, adds further robustness to the Company's balance sheet and will help the Company to execute its strategy.

Key performance indicators

In addition to reviewing individual Company business performance against annual budgets and quarterly reforecasts and monitoring cash flow management, the Board pays particular attention to identifying and monitoring Key Performance Indicators (KPIs). The principal KPIs monitored by the Board include:

- Revenue
- Adjusted EBITDA
- Underlying free cash flow
- NPI revenue as % of full year revenue
- Net promotor score
- Make easy

Principal Risks and Uncertainties

The Company is required to give a description of the principal risks and uncertainties that it faces. The principal risks and uncertainties are detailed below. These risks should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. Other risks may arise of which the Board is not currently aware or which it deems immaterial.

Risk area	Description	Mitigation
Economic environment	The Company operates in the global economy and ultimately within a retail environment to consumer end-user musicians and such operations are influenced by global and national economic factors.	The Company sells products in around 160 territories worldwide via two distinct product categories and so aims to avoid being unduly reliant on any single product or territory.
Technological changes, product innovation and competition	The market for the Company's products is characterised by continued evolution in technology, evolving industry standards, changes in customer needs and frequent new competitive product introductions. If the Company is unable to anticipate or respond to these challenges, or fails to develop and introduce successful products on a timely basis, it could have an adverse impact on the Company's business and prospects.	The Company invests significantly in its research and development and operates a rigorous, disciplined product introduction process to ensure that as far as possible the fast-changing needs of its target markets are met. In addition, the Board aims to operate an efficient, low-cost business.

Risk area	Description	Mitigation
Dependence on a small number of suppliers	The Company is dependent on a small number of suppliers, in particular its largest supplier, which supplies Focusrite interfaces. Failure or material delay by its suppliers to perform or failure by the Company to renew such arrangements could have a material adverse effect on the Company's business, operating results and financial position.	The Company diversifies its risk by using four major Chinese manufacturers for the production of its products. Relationships are long lasting and strong. Typically, members of the Operations department within Focusrite meet each supplier every quarter to review performance and costs.
Key resellers and distributors	In certain countries, the Company operates via a single distributor or has large individual reseller customers. In certain cases, a failure of or breakdown in the relationship with a key reseller could significantly and adversely affect the Company's business.	In cases where there is a large distributor in a significant market (e.g. the USA), the Company also maintains contact with the major retailers. In addition, the Company carefully monitors customer credit limits and has credit insurance which typically covers 90% of the customer debts outstanding at any point in time.
Development of the channels to market	Significant change in the methods by which end-users wish to buy Focusrite products could significantly affect the Company's business.	In each market, the Company or its distributors sell to both 'bricks and mortar' and eCommerce retailers so that the Company can satisfy customer demand via both methods.
Currency risks	The Company is exposed to currency and exchange rate fluctuations which may affect the Company's revenue and costs when reported in Sterling.	There is a largely effective natural hedge for USD transactions in as much as the Company uses its generation of USD to buy product in USD. In addition, the Company mitigates its Euro exposure by entering into forward extra foreign exchange hedging contracts for the conversion of EUR to USD and GBP.
Scarcity of experienced technical personnel	The nature of the Company's business requires its employees in the technical and development teams to be highly skilled and experienced in their respective fields. The Company is dependent on being able to hire and retain such individuals in order to grow.	The Company is a leading music industry company in the UK and so attracts high quality technical personnel. The Company also attracts graduates from music technology courses at local universities. The Company has wide-ranging share ownership incentives and other employment benefits to aid retention.
Intellectual property and data protection	The intellectual property and data developed by the Company is valuable and the Company could be harmed by infringement or loss.	The Company has strong data and information technology controls which are reviewed by the Company Board. Additionally, the Company includes data protection provisions in the contracts of all Company employees. The Company also aims to protect its intellectual property and pursues infringements.

By order of the board



Dave Froker

Chief Executive Officer

10 February 2016



Jeremy Wilson

Chief Financial Officer

Directors' report

The Directors present their report together with the audited financial statements for the year ended 31 August 2015.

Financial results and dividends

The audited accounts for the Company for the year ended 31 August 2015 are set out on pages 12 to 38. The Company profit for the year after taxation from continuing operations was £5.7 million (2014: £5.0 million).

Directors and directors' interests

The directors who held office during the year and to the date of this report were as follows:

T J Dingley
P S Dudderidge
D R Foker
D R Hawley
R D Jenkins
G R Orford
P R Wagner
M F G Warriner
J M C Wilson (appointed 10 September 2014)

J A Dudderidge served as a director up to the date of her resignation on 16 December 2014.

Dividends

During the year the directors assessed the appropriateness of the company declaring a dividend and recommended that a dividend of £3,194,125 should be paid. Consequently dividends of £3,194,125 (2014: £4,244,319) were paid in respect of Ordinary Shares during the financial year in which this report relates.

Directors' and officers' liability insurance

At no time during the year did any director hold a material interest in any contract of significance with the Company or any of its subsidiary undertakings other than an indemnity provision between each director and the Company and employment contracts between each executive director and the Company. The Company has purchased and maintained throughout the year, directors' and officers' liability insurance in respect of itself and its directors.

Future business developments

The Company continues to invest in its research and development activities. The Company's strong track record of growth is in part, due to new products introduced to the market. Approximately a quarter of the company's overheads are dedicated to research and development activities. In addition, software is a focus for the Product Development Director who is also responsible for the Company's research and development activities and 2016 will see further development in the area of software with the Company building on the successes of its previous software releases.

Directors' report (continued)

Health and safety

The Company is committed to providing a safe and healthy working environment for all staff, and contractors. The Company's health and safety standard sets out the range of policies, procedures and systems required to manage risks and promote wellbeing. The Commercial Director has overall accountability for health and safety across the organisation.

Disclosure of information to the auditor

As required by Section 418 of the Companies Act 2006, each Director serving at the date of approval of the financial statements confirms that:

- to the best of his knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware; and
- each Director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information. Words and phrases used in this confirmation should be interpreted in accordance with Section 418 of the Companies Act 2006.

Auditor

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

By order of the Board



Dave Froker

Director

Windsor house
Turnpike Road,
High Wycombe
Buckinghamshire
HP12 3FX
10 February 2016

Statement of Directors' Responsibilities in respect of the Strategic report, Directors' report and the financial statements

The Directors are responsible for preparing the Annual Report and financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework*.

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

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether Financial Reporting Standard 101 Reduced Disclosure Framework has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Independent auditor's report to the members of Focusrite Audio Engineering Limited

We have audited the financial statements of Focusrite Audio Engineering Limited for the year ended 31 August 2015, set out on pages 12 to 38. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards, including Financial Reporting Standard 101 *Reduced Disclosure Framework*.

This report is made solely to the company's members, as a body, in accordance with Sections 495 and 496 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 August 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion 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.

Matters on which we are required to report by exception

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

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



Peter Meehan (Senior Statutory Auditor)

for and on behalf of KPMG LLP

Chartered Accountants

One Snowhill

Snow Hill Queensway

Birmingham

B4 6GH

10 February 2016

Statement of comprehensive income
For the year ended 31 August 2015

		2015 £000	2014 £000
	Note		
Revenue	4	48,029	40,965
Cost of sales		(29,488)	(25,158)
Gross profit		18,541	15,807
Administrative expenses		(11,316)	(9,480)
Exceptional legal and professional costs		(704)	(722)
Other gains and losses	9	-	15
Operating profit		6,521	5,620
Finance income	8	159	186
Finance costs	10	-	(86)
Profit before tax		6,680	5,720
Income tax expense	12	(987)	(721)
Profit for the year	6	5,693	4,999
Other comprehensive income, net of income tax			
Exchange differences on translation of foreign operations that may be reclassified to the income statement		-	-
Total comprehensive income for the period		5,693	4,999
Profit attributable to:			
Owners of the Company		5,693	4,999
		5,693	4,999

The result has been derived from continuing operations.

Notes 1 to 31 form part of the financial statements.

Statement of financial position

As at 31 August 2015

	Note	2015 £000	2014 £000
Assets			
Non-current assets			
Goodwill	14	419	419
Other intangible assets	15	3,522	2,616
Property, plant and equipment	16	1,289	925
Investments	17	13	13
Deferred tax asset	21	-	34
Total non-current assets		5,243	4,007
Current assets			
Inventories	18	8,599	6,578
Trade and other receivables	19	7,706	6,182
Other investments including derivatives	20	223	118
Cash and cash equivalents		5,280	3,736
Total current assets		21,808	16,614
Total assets		27,051	20,621
Equity and liabilities			
Capital and reserves			
Share capital	24	58	52
Share premium	25	332	332
Capital redemption reserve fund	26	1,116	1,116
Retained earnings	27	14,003	11,504
Equity attributable to owners of the Company		15,509	13,004
Total equity		15,509	13,004
Current liabilities			
Trade and other payables	23	10,355	6,860
Current tax liabilities		444	193
Total current liabilities		10,799	7,053
Non-current liabilities			
Deferred tax	21	743	564
Total liabilities		11,542	7,617
Total equity and liabilities		27,051	20,621

The financial statements were approved by the Board of Directors and authorised for issue on 10 February 2016. They were signed on its behalf by:



Dave Froker
Director



Jeremy Wilson
Director

Company registered number: 02357989

Statement of changes in equity
For the year ended 31 August 2015

	Share capital £000	Capital redemption reserve £000	Share premium £000	Retained earnings £000	Total £000
Balance at 1 September 2013	49	1,116	102	10,737	12,004
Profit for the period	-	-	-	4,999	4,999
Total comprehensive income for the period				4,999	4,999
Transactions with owners of the Company:					
Issue of ordinary shares	3	-	230	-	233
Share option credit	-	-	-	12	12
Dividends	-	-	-	(4,244)	(4,244)
Balance at 31 August 2014	52	1,116	332	11,504	13,004
Profit for the period	-	-	-	5,693	5,693
Total comprehensive income for the period				5,693	5,693
Transactions with owners of the Company:					
Issue of ordinary shares	6	-	-	-	6
Dividends	-	-	-	(3,194)	(3,194)
Balance at 31 August 2015	58	1,116	332	14,003	15,509

Notes to the financial statements
for the year ended 31 August 2015

1 General information

Focusrite Audio Engineering Limited (the "Company"), is a company incorporated and domiciled in the United Kingdom.

Basis of preparation

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

In the transition to FRS 101, the Company has applied IFRS 1 whilst ensuring that its assets and liabilities are measured in accordance with FRS 101. An explanation of how the transition to FRS 101 has affected the reported financial position, financial performance and cash flows of the Company is provided in note 31.

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period. The following exemptions have been taken in these financial statements:

- Business combinations – Business combinations that took place prior to 1 September 2013 have not been restated.
- Share based payments – IFRS 2 is being applied to equity instruments that were granted after 7 November 2002 and that had not vested by 1 September 2013.

The Company's parent undertaking, Focusrite Plc includes the Company in its consolidated financial statements. The consolidated financial statements of Focusrite Plc are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from the Company's registered office.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets and intangible assets;
- Disclosures in respect of transactions with wholly owned subsidiaries ;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel.

As the consolidated financial statements of Focusrite Plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share Based Payments in respect of group settled share based payments;
- Certain disclosures required by IAS 36 Impairment of assets in respect of the impairment of goodwill and indefinite life intangible assets;
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures; and
- The disclosures required by IFRS 7 and IFRS 13 regarding financial instrument disclosures have not been provided apart from those which are relevant for the financial instruments which are held at fair value and are not either held as part of trading portfolio or derivatives.

2 Accounting policies

Going concern

The Company's business activities and position in the market are described in the Strategic Report. The Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertainties within the global economy. The Company and its immediate parent have considerable financial resources, recurring revenue streams and a broad spread of customers. As a consequence of these factors and having reviewed the forecasts for the coming year, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the annual Financial Statements. Further detail is contained in the Strategic Report on pages 3 to 7.

Investments

Investments in subsidiaries are stated at cost less any provision for impairment.

Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Company's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Company's cash-generating units expected to benefit from synergies arising from the combination. Cash-generating units to which goodwill has been attributed under IFRS 3 Business Combinations are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in determining profit or loss on disposal.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of sales taxes and discounts.

The Company recognises revenue when all the following conditions are satisfied:

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

Revenue recognised in the income statement but not yet invoiced is held on the balance sheet within 'Trade and other receivables'. Revenue invoiced but not yet recognised in the income statement is held on the balance sheet within 'Deferred revenue'.

Revenue is classified as follows:

Sales of goods

Revenue from the supply of goods is recognised as soon as all substantial risks and rewards relating to the title of the goods have been transferred to the customer.

2 Accounting policies (continued)

Interest income

Interest income is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leasing

The Company's leases are currently all operating leases (leases in which a significant portion of the risks and rewards of ownership are retained by the lessor). Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease (net of any incentive received from the lessor).

Foreign currencies

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

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on transactions entered into to hedge certain foreign currency risks (see below under financial instruments / hedge accounting); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Company's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

2 Accounting policies (continued)

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are only recognised for taxable temporary differences arising on investments in subsidiaries, where the Company is unable to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Tangible and intangible assets

Property, plant and equipment

The Company has held no land and buildings for the period covered by the financial statements.

Other items of property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is recognised so as to write off the cost or valuation of assets less residual value over their useful lives, using the straight-line method, on the following bases:

Plant, equipment and tooling	3-5 years
Computer equipment	2 years
Fixtures and fittings	5 years
Leasehold improvements	5-8 years

The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income on the transfer of the risks and rewards of ownership.

The Company has no class of tangible fixed asset that has been revalued. On transition to FRS 101 the net book values recorded at 1 September 2013 have been applied and these are based on historic cost or fair value recognised at the date of acquisition.

Internally-generated intangible assets – research and development expenditure

Intangible assets are amortised over the following periods on a straight-line basis:

Development expenditure	3 years
Purchased intellectual property	2 years
Licences	2-5 years
Computer software	2 years

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the Company's development of new and enhanced products is recognised only if all of the following conditions are met:

- an asset is created that can be identified (such as product designs and new processes);

2 Accounting policies (continued)

- it is probable that the asset created will generate future economic benefits; and
- the costs of developing this asset can be measured reliably.

Where no internally-generated intangible asset can be recognised, the expenditure is recognised as an expense in the period in which it is incurred.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired. Capitalised development costs are calculated by reference to the Company's product development department and will therefore be tested for impairment at cash generating unit level.

Recoverable amount is the higher of: (i) fair value less costs to sell and (ii) value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease to the extent that the revaluation balance is greater than the impairment loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years for the asset (or cash-generating unit). A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using either the First-In-First-Out method or, for fast moving items, the average cost method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. Provision for impairment is made through profit or loss when there is objective evidence that the Company will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

Financial instruments

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Financial Assets

All financial assets are normally recognised and derecognised on a trade date basis where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value. On derecognition however, where a specific transaction is entered into with a counterparty that is judged to carry a high credit or liquidity risk, then management may determine that derecognition of the financial asset shall be based on settlement date rather than trade date, with any realised gain or loss taken to profit and loss on date of settlement.

Financial assets are classified into the following specified categories: financial assets at 'fair value through profit or loss' ("FVTPL"), 'held-to-maturity' investments, 'available-for-sale' ("AFS") financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

2 Accounting policies (continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Classes of financial asset

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a Company of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item in the income statement.

Held-to-maturity investments

The Company holds no financial assets classified as held-to-maturity investments.

Available for sale financial assets

The Company holds no financial assets classified as available for sale.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or

2 Accounting policies (continued)

- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the differences between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the income statement.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

2 Accounting policies (continued)

Derivative financial instruments

The Company is able to enter into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross currency swaps.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Company designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Hedge accounting

Up to 31 August 2015 the Company has not adopted hedge accounting for the foreign currency forward contracts purchased to hedge against short term movements in cash flows of the underlying hedged item. The exposure has been short-term and involves relatively few but highly predictable transactions. Whilst the exposure to foreign currency risk remains relatively low the cost of implementing the required controls and administration processes to perform hedge accounting is judged to be uneconomic at present. Should these circumstances change the Company will review the adoption of hedge accounting.

Note 20 sets out details of the fair values of any derivative instruments used for hedging purposes.

3 Critical judgements and estimations in applying the Company's accounting policies

The following are the critical judgements that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the Financial Information.

Revenue recognition

In making its judgement, management considered the detailed criteria for the recognition of revenue set out in IAS 18. Management is satisfied that the significant risks and rewards of ownership are transferred and that the recognition of revenue upon despatch is appropriate.

Share option scheme

The Company has established a share option scheme known as the Enterprise Management Incentive ('the Scheme'). The fair value of the options issued under the scheme is derived by the Company using the Black-Scholes model and the resultant values are allocated to the income statement over the period of vesting. In arriving at the fair value using this model, the Company calculates a number of inputs to the model, including estimated share price volatility.

Further details regarding the Scheme are set out in note 29.

Inventory valuation

The Company has an inventory provisioning policy that reflects the fact that there are strong physical controls carried out by the independent service provider which manages the Company's inventory resulting in low inventory loss or damage. Also, the levels of inventory are managed with the aim that inventory is sold before it becomes too old.

Recoverability of internally-generated intangible asset

Management reconsidered the recoverability of its internally-generated intangible asset for development costs which is included in the balance sheet at 31 August 2015 at £3,419,000 (2014: £2,568,000). These projects continue to progress in a very satisfactory manner, and customer reaction has reconfirmed management's previous estimates of anticipated revenues from the project.

Management is confident that the carrying amount of the asset will be recovered in full. This situation will be closely monitored, and adjustments made in future periods if future market activity indicates that such adjustments are appropriate.

3 Critical judgements and estimations in applying the Company's accounting policies (continued)

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires an entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at 31 August 2015 was £419,000 (2014: £419,000). Further details are given in note 14.

Allowance for doubtful debts

Management undertake a review of all new customers and a periodic review of existing customers to determine whether specific risks of default exist. A substantial proportion of the Company's trade receivables ledger is covered by credit insurance. Beyond identification of specific risks, management undertake periodic reviews into the calculation of allowances for doubtful debts to ensure historic trends continue to provide a basis for determining a reliable estimate for doubtful debts.

4 Revenue

An analysis of the Company's revenue is as follows:

	Year ended 31 August	
	2015 £000	2014 £000
Continuing operations		
USA	18,498	14,307
Europe, Middle East and Africa	21,460	19,612
Rest of World	8,071	7,046
Revenue	<u>48,029</u>	<u>40,965</u>

5 Business Segments

Products and services from which reportable segments derive their revenues

Information reported to the Company's Chief Executive (who has been determined to be the Company's Chief Operating Decision Maker) for the purposes of resource allocation and assessment of segment performance is focused on the main product groups which Focusrite sells. The Company's reportable segments under IFRS 8 are therefore as follows:

Focusrite	-	Sales of Focusrite branded products
Novation	-	Sales of Novation branded products
Distribution	-	Distribution of third party brands including KRK speakers, Ableton, Stanton, Cerwin Vega and Cakewalk

5 Business Segments (continued)

Segment revenues and results

The following is an analysis of the Company's revenue and results by reportable segment in 2015:

	Focusrite 2015 £000	Novation 2015 £000	Distrib- ution 2015 £000	Total 2015 £000
Revenue				
External sales	31,187	14,169	2,673	48,029
Result				
Segment result	14,221	6,842	846	21,909
Central distribution costs and administrative expenses				(15,388)
Operating profit				6,521
Finance income				159
Finance costs				-
Profit before tax				6,680
Tax				(987)
Profit after tax				5,693

The following is an analysis of the Company's revenue and results by reportable segment in 2014:

	Focusrite 2014 £000	Novation 2014 £000	Distrib- ution 2014 £000	Total 2014 £000
Revenue				
External sales	26,820	11,544	2,601	40,965
Result				
Segment result	12,814	6,270	918	20,002
Central distribution costs and administrative expenses				(14,292)
Operating profit				5,710
Finance income				186
Finance costs				(86)
Profit before tax				5,810
Tax				(763)
Profit after tax				5,047

The accounting policies of the reportable segments are the same as the Company's accounting policies described in note 2. Segment profit represents the profit earned by each segment without allocation of the share of central administration costs including Directors' salaries, investment revenue and finance costs, and income tax expense. This is the measure reported to the Company's Chief Executive for the purpose of resource allocation and assessment of segment performance.

Central administration costs comprise principally the employment related costs and other overheads incurred by Focusrite and its US subsidiary, net of inter-company commission income. Also included within central administration costs is the charge relating to the share option scheme (note 29) of £nil for the year ended 31 August 2015 (2014: £12,000).

5 Business Segments (continued)

Segment net assets and other segment information

Management does not make use of segmental data relating to net assets and other balance sheet information for the purposes of monitoring segment performance and allocating resources between segments. Accordingly, other than the analysis of the Company's non-current assets by geographical location shown below, this information is not available for disclosure in the financial information.

The Company's non-current assets, analysed by Geographical location were as follows:

	2015 £000	2014 £000
Non-current assets		
USA	13	13
Europe, Middle East and Africa	4,678	3,714
Rest of World	552	280
	<hr/>	<hr/>
Total non-current assets	5,243	4,007
	<hr/>	<hr/>

Revenues from major products and services

The Company's revenues from its major products and services are disclosed in note 4.

Information about major customers

Included in revenues shown for 2015 is £18.5 million (2014 £14.3 million) attributed to the Company's largest customer, American Music & Sound.

6 Profit for the year

Profit for the year has been arrived at after charging/(crediting):

	Year ended 31 August	
	2015 £000	2014 £000
Net foreign exchange (gains)/losses (note 8)	(48)	86
Research and development costs	743	620
IPO related costs	704	552
Depreciation and impairment of property, plant and equipment (note 16)	354	407
Loss on disposal of property, plant and equipment	(1)	(100)
Amortisation of intangibles (note 15)	1,902	1,461
Operating lease rental expense (note 22)	156	130
Cost of inventories recognised as an expense	25,606	20,681
Staff costs (note 11)	5,408	5,656
Impairment loss recognised on trade receivables	12	41
Change in fair value of financial instruments	(105)	(127)
Share based payments charge to profit and loss (note 29)	-	12
	<hr/>	<hr/>

7 Auditor's remuneration

	Year ended 31 August	
	2015 £000	2014 £000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	29	19
Fees payable to the Company's auditor and its associates for other services:		
Audit-related assurance services	9	-
Other assurance services	313	219
Tax compliance services	11	5
	<u>362</u>	<u>243</u>

8 Finance Income

	Year ended 31 August	
	2015 £000	2014 £000
Interest on loan to related party	-	53
Bank deposit interest	6	6
Exchange gain	48	-
Change in fair value of financial instrument	105	127
	<u>159</u>	<u>186</u>

9 Other gains and losses

	Year ended 31 August	
	2015 £000	2014 £000
Rent receivable	-	15
	<u>-</u>	<u>15</u>

10 Finance costs

	Year ended 31 August	
	2015 £000	2014 £000
Exchange loss	-	86
Finance costs	<u>-</u>	<u>86</u>

11 Staff costs and directors' remuneration

a) Staff costs

	Year ended 31 August	
	2015	2014
	£000	£000
Wages and salaries	4,687	4,758
Social security costs	516	545
Other pension costs	205	353
	<u>6,129</u>	<u>5,656</u>

The average number of persons, including executive directors, employed by the Company during the year was as follows:

	2015	2014
	Number	Number
Research and development	50	40
Sales and marketing	43	27
Operations	39	25
Administration and central	18	14
	<u>150</u>	<u>106</u>

b) Directors' remuneration

	Year ended 31 August	
	2015	2014
	£000	£000
Management remuneration and fees	950	1,442
Pension contributions	58	228
Benefits	20	8
	<u>1,028</u>	<u>1,678</u>
In respect of the highest paid director:		
Aggregate remuneration	<u>169</u>	<u>340</u>

12 Tax

	Year ended 31 August	
	2015	2014
	£000	£000
Corporation tax charges:		
Overprovision in prior year	(69)	-
Current year	843	585
Deferred tax charges / (credits) (note 21):		
Current year	<u>213</u>	<u>136</u>
	<u>987</u>	<u>721</u>

Corporation tax is calculated at 20.58% (2014: 22.17%) of the estimated taxable profit for the year.

12 Tax (continued)

The tax charge for each year can be reconciled to the profit per the income statement as follows:

	Year ended 31 August	
	2015	2014
	£000	£000
Profit before tax on continuing operations	6,680	5,720
Tax at the UK corporation tax rate of 20.58% (2014: 22.17%)	1,375	1,268
Tax effect of:		
Expenses that are not deductible in determining taxable profit	445	128
R&D tax credit	(816)	(633)
Effect of deferred tax of changes in tax rates	52	(42)
Overprovision in prior year	(69)	-
Tax expense for the year	987	721

13 Dividends

The following equity dividends have been declared and paid.

	Year ended 31 August	
	2015	2014
	£000	£000
Dividend on ordinary shares – representing 5.5 pence per £0.001 Ordinary share (2014: £81 per £1 Ordinary share)	3,194	4,244

During the year the Company paid interim dividends in respect of the year ended 31 August 2015 of 2 pence per share, declared on 26 February 2014, amounting to £1,161,500 and 3.5 pence per share, declared on 28 August 2015, amounting to £2,032,625.

14 Goodwill

	£000
Cost	
At 1 September 2013	419
At 31 August 2014	419
At 31 August 2015	419
Carrying amount	
At 31 August 2013	419
At 31 August 2014	419
At 31 August 2015	419

No impairment losses have been required on goodwill amounts recognised in the Company to date.

Goodwill arose as a result of a transfer on 31 August 2006 of the assets and liabilities of Novation Digital Music Systems Limited for a consideration of £711,000. Accordingly, the whole of the value of goodwill is attributable to the Novation operating segment and cash generating unit ('CGU').

14 Goodwill (continued)

The Company tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The recoverable amount of the CGU is determined using 'value in use' calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to earnings before interest, tax, depreciation and amortisation (EBITDA is used as a proxy of free cash flows) as well as the level of capital expenditure required to maintain the existing business into the future. These assumptions are reviewed and revised annually in light of current economic conditions and the future outlook for each CGU. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to each CGU. This has been generally set at 10%.

The growth rates used are based on management's assessment of the cash flow forecasts over the medium term. The growth for the next 5 years is based on the lower of 2% and either the rate forecast for year 5 or the average annual growth rate derived over the initial 5 year term and does not exceed the average long-term growth rate for the relevant economies in which these CGUs operate. These are based on conservative estimates of the Company's ability to participate in growth expected in the industry and a modest dilution in market share as more competitors enter the market over the next 10 years. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The value of goodwill recognised in the accounts has been compared to the derived value in use. Throughout the three year period the goodwill carrying value has been below its value in use. The Company has conducted a sensitivity analysis on the impairment test results for each CGU and concluded no material sensitivity exists in these calculations.

15 Other Intangible assets

	Intellectual property £000	Development costs £000	Licences £000	Computer software £000	Total £000
Cost					
At 1 September 2013	160	5,372	-	-	5,532
Additions	22	1,865	-	-	1,887
At 31 August 2014	182	7,237	-	-	7,419
Transfers between classes	(182)	-	182	-	-
Transfer from property, plant and equipment	-	-	-	97	97
Additions	72	2,667	29	10	2,778
At 31 August 2015	72	9,904	211	107	10,294
Amortisation					
At 1 September 2013	126	3,216	-	-	3,342
Charge for the year	8	1,453	-	-	1,461
At 31 August 2014	134	4,669	-	-	4,803
Charge for the year	30	1,816	31	25	1,902
Transfers between classes	(134)	-	134	-	-
Transfer from property, plant and equipment	-	-	-	67	67
At 31 August 2015	30	6,485	165	92	6,772
Carrying amount					
At 31 August 2015	42	3,419	46	15	3,522
At 31 August 2014	48	2,568	-	-	2,616
At 31 August 2013	34	2,156	-	-	2,190

16 Property, plant and equipment

	Plant, tooling equipment and machinery £000	Fixtures, fittings & leasehold improvements £000	Computer equipment £000	Total £000
Cost				
At 1 September 2013	2,052	421	623	3,096
Additions	217	448	99	764
Disposals	-	-	(2)	(2)
At 31 August 2014	2,269	869	720	3,858
Additions	540	114	93	747
Transfer to other intangible assets	-	-	(96)	(96)
Disposals	(2)	-	(8)	(10)
At 31 August 2015	2,807	983	709	4,499
Accumulated depreciation and impairment				
At 1 September 2013	1,592	375	561	2,528
Charge for the year	319	21	67	407
Eliminated on disposals	-	-	(2)	(2)
At 31 August 2014	1,911	396	626	2,933
Charge for the year	215	77	62	354
Transfer to other intangible assets	-	-	(67)	(67)
Eliminated on disposals	(2)	-	(8)	(10)
At 31 August 2015	2,124	473	613	3,210
Carrying amount				
At 31 August 2015	683	510	96	1,289
At 31 August 2014	358	473	94	925
At 31 August 2013	460	46	62	568

17 Subsidiaries

The Company's principal subsidiary undertaking for the period is set out below, including the name, country of incorporation, and proportion of ownership interest. The investment of £13,000 represents the entire issued share capital of Focusrite Novation Inc.

Name	Country of registration or incorporation	Principal activity	Class of shares	2015 %	2014 %
Focusrite Novation Inc	United States of America	Marketing services	Ordinary	100	100

18 Inventories

	2015	2014
	£000	£000
Raw materials	64	386
Finished goods	8,535	6,192
	<u>8,599</u>	<u>6,578</u>

No inventories have been pledged as security against borrowings (2014: £nil). Stock days recorded against cost of sales amounted to 106 days in 2015 (2014: 111 days).

19 Trade and other receivables

	2015	2014
	£000	£000
Amount receivable for the sale of goods	6,499	5,879
Allowance for doubtful debts	(36)	(24)
	<u>6,463</u>	<u>5,855</u>
Other debtors	1,102	26
Prepayments	141	301
	<u>7,706</u>	<u>6,182</u>

Trade receivables

Trade receivables disclosed above are classified as loans and receivables and are measured at amortised cost.

The average credit period offered on sales of goods during 2015 was 45 days (2014: 30 days). The average days sales outstanding ("DSO") in 2015 was 48 days (2014: 48 days).

The Company has not charged interest for late payment of invoices in 2014 or 2015.

Allowances against doubtful debts are recognised against overdue trade receivables based on estimated irrecoverable amounts determined by reference to past default experience. Specific counterparty risk is also considered where an analysis of the counterparty's current financial position indicates a change in credit risk.

Before accepting any significant new customer, the Company uses a variety of credit scoring systems to assess the potential customer's credit quality and to define credit limits for each customer. Limits and scoring attributed to customers are reviewed regularly. A single major distributor accounted for 45% of the total balance of trade receivables net of allowances for doubtful debts on 31 August 2015 (2014: 42%). No other single customer accounted for more than 10% of the total balance of trade receivables net of allowances for doubtful debts during the period under review.

Trade receivables disclosed above include amounts which are past due at the year-end but against which the Company has not recognised an allowance for doubtful receivables. There has not been a significant change in credit quality and the amounts are still considered recoverable.

20 Other investments including derivatives

During 2015 and 2014 the Company entered into a number of foreign currency forward contracts to provide economic hedging for known cash flow transactions. The fair values of the contracts outstanding at the year end are summarised below. In each case the forward contracts were settled during the year with any realised gain or loss recognised in profit and loss.

	2015 £000	2014 £000
Fair value of outstanding forward contracts:		
Euro to US dollar	76	18
Euro to Pounds Sterling	147	100
	<u>223</u>	<u>118</u>

21 Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Company:

	Accelerated tax depreciation £000	Other temporary differences £000	Unrelieved tax losses £000	Total £000
At 1 September 2013	394	-	-	394
Credit to profit or loss	136	-	-	136
At 31 August 2014	530	-	-	530
Credit to profit or loss	213	-	-	213
At 31 August 2015	<u>743</u>	<u>-</u>	<u>-</u>	<u>743</u>

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2015 £000	2014 £000
Deferred tax liabilities	743	564
Deferred tax assets	-	(34)
	<u>743</u>	<u>530</u>

22 Operating lease arrangements

	Minimum lease payments	
	2015 £000	2014 £000
Minimum lease payments under operating leases recognised as an expense during the year	156	130

22 Operating lease arrangements (continued)

At the balance sheet date the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Present value of minimum lease payments	
	2015 £000	2014 £000
Within one year	167	166
In the second to fifth years inclusive	654	658
After five years	383	703
	<u>1,204</u>	<u>1,527</u>

Operating lease payments typically represent rentals payable by the Company for its office properties and office equipment. Rent reviews and break clauses apply to leased property agreements.

23 Trade and other payables

	2015 £000	2014 £000
Trade payables	5,607	4,327
Accrued expenses	2,925	2,524
Amounts owed to Group undertakings	1,823	9
	<u>10,355</u>	<u>6,860</u>

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases was 66 days (2014: 59 days). No interest costs have been incurred in relation to trade payables. The Company policy is to ensure that payables are paid within the pre-agreed credit terms and to avoid incurring penalties and/or interest on late payments. Other creditors include sales taxes, property taxes, social security and employment taxes due to local tax authorities.

The directors consider that the carrying amount of trade payables approximates their fair value.

24 Share capital

	2015 Number	2014 Number
Issued and fully paid:		
Ordinary shares of £1 each	-	52,399
Ordinary shares of £0.001 each	<u>58,075,000</u>	<u>-</u>
	2015 £	2014 £
Issued and fully paid:		
Ordinary shares of £1 each	-	52,399
Ordinary shares of £0.001 each	<u>58,075</u>	<u>-</u>
	<u>58,075</u>	<u>52,399</u>

The Company has one class of ordinary shares which carry no right to fixed income. On 17 September 2014 the Company undertook a share subdivision of 1,000 £0.001 Ordinary shares for each of its £1 Ordinary shares. On 21 November 2014 the Company allotted 5,676,000 £0.001 Ordinary shares.

25 Share premium reserve

	£000
Balance at 31 August 2015	332
Balance at 31 August 2014	332

The share premium reserve represents the consideration that was received in excess of the nominal value of shares on issue of new ordinary share capital.

26 Other reserves

Capital redemption reserve

The capital redemption reserve was established for the purpose of maintaining capital levels following the redemption of preference shares in earlier years, under the requirements of the Companies Act 2006 and earlier legislation.

	2015 £000	2014 £000
Balance at 1 September	1,116	1,116
Balance at 31 August	1,116	1,116

27 Retained earnings

	£000
Balance at 1 September 2013	10,737
Net profit for the year	4,999
Share based payments credit	12
Dividends	(4,244)
Balance at 31 August 2014	11,504
Net profit for the year	5,693
Dividends	(3,194)
Balance at 31 August 2015	14,003

28 Retirement benefit scheme

The Company operates a stakeholder retirement benefit scheme which is open to all employees.

Other than amounts that are deducted from employees' remuneration and accrued pending payment to the pension fund, no further obligations fall on the Company as the assets of these arrangements are held and managed by third parties entirely separate from the Company.

The pension charge for the period represents contributions payable to the fund and amounted to £205,000 for the year ended 31 August 2015 (2014: £353,000). Contributions totalling £20,000 (2014: £nil) were payable to the fund at the balance sheet date and are included in trade and other payables.

29 Share option scheme

The Company operated three options scheme, the 2012 EMI Scheme, the 2014 EMI Scheme and an unapproved option scheme ("Share option Scheme").

Prior to Focusrite Plc's incorporation, the Company operated Scheme Option Schemes and granted options over its share capital ("Old Options"), under which 8,143 share options were outstanding at the beginning of the period. Following Admission, the Old Options had been rolled over into options over shares in Focusrite Plc and Focusrite Plc took over the operation of the Share option Scheme. As result, the number of exercisable at end reporting period is Nil.

30 Related party transactions

Transactions between the Company and related parties, which are not wholly owned subsidiaries, are disclosed below.

Loans to related parties

On 25 July 2014 the Company made an unsecured loan of £24,000 to Mr D Froker, a director of the Company. Interest was charged at 1% above bank base rate and repayment is dependent on the fulfilment of a number of terms, but at the latest, by the date of finalisation of the Company's accounts for the year ended 31 August 2015. The principal terms of the loan are considered by management to be determined on an arms' length basis. The loan, together with accrual interest thereon, was repaid in full in December 2014.

Other related party transactions

During the period, the Company entered into a commercial lease agreement in Lincoln Road, High Wycombe. Mr P Dudderidge, a director and shareholder of the Company is the landlord of the property. The annual rental is £15,000.

31 Explanation of transition to FRS 101 Reduced Disclosure Framework

For all periods up to and including the year ended 31 August 2014, the Company prepared its financial statements in accordance with United Kingdom generally accepted accounting practice (UK GAAP). These financial statements, as stated in note 1, are the Company's first financial statements prepared in accordance with FRS 101 *Reduced Disclosure Framework*.

The basis of preparation and accounting policies set out in notes 1 and 2 have been applied in preparing the financial statements for the year ended 31 August 2015, the comparative information presented in these financial statements for the year ended 31 August 2014 and in the preparation of an opening FRS 101 balance sheet at 1 September 2013 (the Company's date of transition).

In preparing its opening FRS 101 balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to FRS 101 has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

31 Explanation of transition to FRS 101 (continued)

Reconciliation of equity

	Note	31 August 2013			31 August 2014		
		UK GAAP	Effect of transition	FRS 101	UK GAAP	Effect of transition	FRS 101
		£000	to FRS 101	£000	£000	to	£000
			£000			FRS 101	FRS 101
						£000	£000
Non-current assets							
Goodwill	a	363	56	419	336	83	419
Other intangible assets	b	34	2,156	2,190	48	2,568	2,616
Property, plant and equipment		568	-	568	925	-	925
Investments		13	-	13	13	-	13
Deferred tax assets	d	100	-	100	34	-	34
		<u>1,078</u>	<u>2,212</u>	<u>3,290</u>	<u>1,356</u>	<u>2,651</u>	<u>4,007</u>
Current assets							
Inventories		6,872	-	6,872	6,578	-	6,578
Other investments including derivatives	c	-	-	-	-	118	118
Trade and other receivables		7,574	-	7,574	6,181	1	6,182
Cash and cash equivalents		1,493	-	1,493	3,736	-	3,736
		<u>15,939</u>	<u>-</u>	<u>15,939</u>	<u>16,495</u>	<u>119</u>	<u>16,614</u>
Total assets		<u>17,017</u>	<u>2,212</u>	<u>19,229</u>	<u>17,851</u>	<u>2,770</u>	<u>20,621</u>
Current liabilities							
Trade and other payables		(6,319)	-	(6,319)	(6,859)	(1)	(6,860)
Current tax liability		(403)	-	(403)	(193)	-	(193)
Derivative financial instruments	c	-	(9)	(9)	-	-	-
		<u>(6,722)</u>	<u>(9)</u>	<u>(6,731)</u>	<u>(7,052)</u>	<u>(1)</u>	<u>(7,053)</u>
Non-current liabilities							
Deferred tax liability		-	(494)	(494)	-	(564)	(564)
Total liabilities	c	<u>(6,722)</u>	<u>(503)</u>	<u>(7,225)</u>	<u>(7,052)</u>	<u>(565)</u>	<u>(7,617)</u>
Net assets		<u>10,295</u>	<u>1,709</u>	<u>12,004</u>	<u>10,799</u>	<u>2,205</u>	<u>13,004</u>
Equity attributable to equity holders of the parent							
Share capital		49	-	49	52	-	52
Share premium		102	-	102	332	-	332
Capital redemption reserve		1,116	-	1,116	1,116	-	1,116
Retained earnings		9,028	1,709	10,737	9,299	2,205	11,504
Shareholders' funds		<u>10,295</u>	<u>1,709</u>	<u>12,004</u>	<u>10,799</u>	<u>2,205</u>	<u>13,004</u>
Minority interests		-	-	-	-	-	-
Total capital employed		<u>10,295</u>	<u>1,709</u>	<u>12,004</u>	<u>10,799</u>	<u>2,205</u>	<u>13,004</u>

31 Explanation of transition to FRS 101 (continued)

Reconciliation of equity (continued)

Notes to the reconciliation of equity

a) *Goodwill*

Amortisation is charged on goodwill under UK GAAP. This has been reversed to arrive at the balance shown under FRS 101.

b) *Intangible assets - other*

Development costs expensed under UK GAAP for which relevant FRS 101 criteria are met, are capitalised in arriving at the FRS 101 balance sheet figures.

c) *Other investments including derivatives*

Forward currency contracts which are not recognised under UK GAAP have been recognised at fair value in the FRS 101 balance sheet.

d) *Deferred taxation*

Under UK GAAP, certain deferred tax was provided on timing differences that had originated but not reversed at the balance sheet date. Under IAS 12, deferred tax is provided on temporary differences based upon future recovery or settlement of assets and liabilities recognised in the balance sheet. In addition IAS 12 requires that within a group deferred tax assets and liabilities arising in separate entities are not offset unless the entities intend to settle current tax net. Consequently under FRS 101 deferred tax assets and liabilities are shown separately on the balance sheet.

In addition adjustments to deferred tax in relation to FRS 101 adjustments made elsewhere in the financial statements have been made.

Under UK GAAP certain deferred tax assets are not recognised by the Company due to uncertainty as to when these assets will be realised. The same principles exist under IAS 12 so an element of the FRS 101 deferred tax asset has also not been recognised.

31 Explanation of transition to FRS 101 (continued)

Reconciliation of profit for the year ended 31 August 2014

	Note	UK GAAP £000	2014 Effect of transition to FRS 101 £000	FRS 101 £000
Revenue		40,965	-	40,965
Cost of sales		(25,158)	-	(25,158)
Gross profit		15,807	-	15,807
Other operating income		15	-	15
Administrative expenses	a,b	(10,642)	440	(10,202)
Operating profit		5,180	440	5,620
Financial income	c	59	127	186
Financial expenses	c	(86)	-	(86)
Net financing income		(27)	127	100
Profit before tax		5,153	567	5,720
Taxation		(651)	(70)	(721)
Profit for the year		4,502	497	4,999

Notes to the reconciliation of profit

a) Administrative expenses – amortisation costs

Amortisation is charged on goodwill under UK GAAP. This has been reversed to arrive at the balance shown under FRS 101.

b) Administrative expenses – development costs

Development costs expensed under UK GAAP for which relevant FRS 101 criteria are met, are capitalised in arriving at the FRS 101 balance sheet figures.

c) Financial expenses

Forward currency contracts which are not recognised under UK GAAP have been recognised at fair value in the FRS 101 balance sheet.