

Focusrite Audio Engineering Limited

Annual report and financial statements

31 August 2016



Company registered number: 02357989

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Strategic report

The directors present their annual report and the audited financial statements for the year ended 31 August 2016.

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 12 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.

Importantly, all our achievements represent the collective efforts of an outstanding workforce. With the majority of our employees being active musicians there is a real enthusiasm for what we do and a wealth of inherent expertise. Approximately a third of our people are engaged in product development with world-class capabilities. Our marketing and sales staff are exemplars in the global market we inhabit, employing state-of-the-art digital marketing techniques to ensure that the Focusrite and Novation brands are recognised as the 'Best Choice at Every Price Point', a company ambition that we are continually striving to achieve.

In this regard, FY16 produced a number of significant product achievements, most notably the complete renewal of our Focusrite Scarlett audio interface range, the global leader in the sub-\$500 product category. This complete design revision of Scarlett improves the audio performance, industrial design and control software, and as a result will continue to defend and improve our market share in a competitive market. Scarlett Gen.2 is also bundled free with 'Avid Pro Tools | First' recording software for the first time. This is a ringing endorsement of Focusrite as the perfect partner for Pro Tools.

Additionally we remain active across all price points in the professional music recording market, addressing identified market requirements. The new Focusrite Clarett and Red ranges (\$500-\$4,000) were successfully launched this year, as were second generation RedNet products, targeted at high-calibre institutional customers such as Microsoft and Disney, as well as broadcasters and universities.

Progress at Novation, our Company's music creation brand, was predominantly driven by our innovative Circuit product. Launched in the first half of FY16, Circuit is a new concept musical instrument, which actually inspires and helps in the creation of electronic music. Regular software enhancements are meeting customer aspiration and Circuit is becoming a considerable success in this new category.

During FY16, we have also been active on the sales, distribution and marketing side of the business and recently established a marketing and sales subsidiary in the Asia Pacific region to represent our brands in these territories, working without third-party distributors. This region continues to show substantial growth.

In Europe we appointed a new distributor for France and Benelux. Algam is the market-leading distributor of musical instruments and professional audio products in these geographies and this move has resulted in a valuable increase in sales in these territories.

Our largest market remains the USA and six years ago we established Focusrite Novation Inc. as a marketing subsidiary to promote and support our brands alongside our third-party distributor. This continues to prove a successful business model with sales into the retail channel continuing to increase in FY16.

We acknowledge our excellent relationships with all our authorised retailers, distributors and resellers in the USA and across the rest of the world and we thank them for their continued custom and support.

Overall it has been a real year of progress we were the proud winners of the Queen's Award for Enterprise for International Trade and, for the fifth year running, were included in the Sunday Times 100 Best Small Companies to Work For. As we look forward to the next financial year, we will be focused on the same mantra!

Strategic and Operational Review

Our growth this year was driven by new product releases which were supported by positive industry and consumer acceptance. The Company continues to penetrate new market segments and price points with best in class, user-friendly products. Customer and sales channel satisfaction feedback remains strong on new and existing products and continued high levels of end-user satisfaction are illustrated by our top net promoter scores for individual products.

Strategic report (continued)

Growth strategy

Our strategy of innovation and expansion continues to work and we are leading the market with our cutting edge technology and design, which continues to attract industry recognition. We remain committed to making music easier to make for professionals and hobbyists and our success is driven by our entrepreneurial and pioneering team, many of whom are themselves musicians.

The market

Pleasingly, the overall music equipment market still continues to grow and the Company grew market share despite facing some macroeconomic headwinds.

The most notable of these was the UK's Brexit vote in June 2016 and the resulting significant currency exchange rate volatility both before and after the result. It is too early to know if there will be any impact on underlying consumer demand for our products as a result of Brexit, but to date we have seen no evidence of this.

The USA still has a relatively healthy economy, and overall seems in better shape than the Eurozone and Latin America. Asia continues to grow faster than the rest of the world despite China's slowdown, although it is currently a small part of our business, but we hope to capitalise more on this region of the world now we have a dedicated presence in Hong Kong.

Products

During the year we introduced 16 new products across our business segments. Our major product launches and growth drivers this year have been within the Focusrite business segment, which accounts for 69.2% of our overall turnover. All new products were delivered on schedule and are gaining market share. The feedback via our sales channels and from end customers has been positive.

Within Focusrite our major initiative this year was the launch of the new generation of Scarlett, an improved version of the world's number one audio interface. The new and upgraded Scarlett range is targeted widely, from aspiring musicians recording at home (a large market) through to professional producers and sound engineers. This second generation of Scarlett has been well received by our sales channels and consumers and has received enthusiastic industry media reviews.

Alongside this, we also entered the lucrative adjacent price segments with new Clarett and Red interfaces. The Clarett Thunderbolt line is priced between \$500 and \$1,300 and has sold well since its introduction. The Red Series offers unequalled sound quality, speed and ease of use for professional recording engineers and producers, and has been widely acclaimed in the trade media. It started shipping in April and sales are now starting to build up nicely.

We also continue to open up new market segments with our RedNet products, which enable numerous high-quality audio signals to be distributed via 'Audio over IP' based technology, utilising common off-the-shelf networking infrastructure. Delivered in real time across a network, these products are targeted at the live sound and broadcast business-to-business markets.

In the previous financial year we introduced a large number of new Novation products and so this year has been a quieter year for this brand as expected. We have executed our new strategy for this market segment by continuously upgrading our innovative Circuit groove box with new software. We continue to strive to make music easier to make and in this regard we are particularly pleased with the performance and market acceptance of Circuit, across all our sales channels.

As announced at the time of the interim results, we launched Blocs Wave, the second iOS app from our London based software team. The app has been designed for everybody to use, whether a professional or beginner, and is highly intuitive. Blocs Wave makes it easier for musicians to create their own sounds and songs from scratch on any iOS smartphone or tablet. With initial support from Apple, downloads have been strong with over 47,000 to date.

Finally, although a small part of our overall product mix, we continue to distribute third-party products and during the year, we agreed a new distribution deal for sE Electronics microphones in the UK.

Strategic report (continued)

New initiatives

We are always looking at ways to expand our sales channels, improve our distribution and capture margin.

During the year we opened an office in Hong Kong as mentioned above. This will give us a better understanding of our customers and help to maintain close links with our contract manufacturers in China. Ultimately, we plan to increase the proportion of the Company's revenue coming from Asia.

Additionally, we launched Focusrite's first web-store in the UK. We have now expanded this to the USA and some European territories and although still in its infancy we see the potential for creating a direct sales channel for our products. In addition, where customers wish to try our products prior to buying, we will direct them to the dealers that sell our products, providing a further benefit to those dealers.

On the logistics side of the business, we successfully transitioned our business to Kuehne + Nagel to achieve more highly integrated supply chain and delivery management. This is expected to impact our logistics positively and further improve the efficiency of our operations.

Our people

Managed by a skilled operations board with combined music industry experience in excess of 100 years and with an average Focusrite service of over 12 years each, we can truly demonstrate strength and depth in our management team.

Supporting them we have an energetic, committed and creative young workforce who develop, market and sell our products. A very high proportion of our workforce are users of our products, 62% are 35 years of age or below and 87% own shares or stock options in Focusrite Plc.

Financial Review

Revenue

Revenue grew from £48.0 million to £54.3 million, continuing the record of double digit percentage growth achieved each year since 2009. In FY15, the faster growth was in the Novation range as the Company launched several new or updated products within that brand. In FY16, the Company has launched more new or updated products in the Focusrite range and consequently the Focusrite brand has increased revenue by 20.4%. This included the high-end RedNet range which increased by 15.9%. The Novation brand declined by 3.4% although consumer registrations increased by 11.9% indicating that the revenue decline was due to the managing of stock held by dealers rather than a decline in consumer demand.

Regionally, the USA grew by 15.6% to £21.4 million, Europe by 5.2% to £22.6 million and the Rest of World by 28.1% to £10.3 million. The primary driver of growth in the Rest of World region was Asia, which has been a great market for the Novation products and in which the Company launched a new sales office in Hong Kong in early 2016.

As ever, exchange rates played a part with the US Dollar and the Euro both strengthening against Sterling during FY16. At constant exchange rates, revenue grew by 7.5%.

Gross profit

Gross profit increased to £20.7 million (FY15: £18.5 million), a gross margin of 38.2% (FY15: 38.6%). The gross margin reduced slightly due to the strengthening of the US Dollar which increased revenue but also increased cost of sales by a similar value in Sterling terms, thereby reducing the gross margin as a percentage of revenue.

Foreign exchange and hedging

The Company has a largely effective natural hedge in US Dollars. Therefore, while the US Dollar strengthened from an average USD:GBP exchange rate of \$1.56 in FY15 to \$1.45 in FY16, the positive impact on revenue is negated by the impact on cost of sales because the Company's products are bought in US Dollars from China and therefore become correspondingly more expensive in Sterling terms.

Strategic report (continued)

The Euro represents approximately 25% of revenue and little cost. The Company hedges its Euro cash flows up to one financial year ahead. In FY16, the average rate was €1.29 and approximately 75% of the flows were hedged at €1.39 creating an effective exchange rate of €1.37. In FY15, the average EUR:GBP exchange rate was €1.35 and approximately 75% of the Euro flows were hedged at €1.27 creating an effective exchange rate of €1.29. The hedged exchange rate for the coming financial year (FY17) is €1.28.

In previous years, the outstanding hedging contracts have been revalued and movement in fair value shown in the income statement. The hedging contracts relating to FY17 have been matched to income flows and, providing the hedging contracts remain effective, movements in fair value are shown in a hedging reserve in the balance sheet.

Corporation tax

The effective tax rate for FY16 was approximately 12.4% as the Company is expected to benefit from tax credits in respect of research and development and share options.

Balance sheet

Non-current assets

The non-current assets comprise mainly capitalised research and development costs. Approximately 80% of research and development costs are capitalised and they are amortised over three years. The typical product life is three to six years. This policy is unchanged from last year.

Working capital

Working capital increased from 12.4% of revenue to 16.5% of revenue. The biggest factor driving this was the increased level of stock. The Company developed and launched several new and innovative Focusrite and Novation products without a demand history both this financial year and in the previous year and, in light of the lead times being as long as six months, decided to increase stock to reduce the risk of running out of stock, should demand soar. As the demand pattern becomes more predictable, the stock quantities will be reduced. A second, less significant factor was a change in payment terms afforded to one customer.

Summary

The Company has grown revenue by 13.1% in the year, is cash-generative and well-funded, supported by £5.3 million of cash and a £10 million revolving credit facility. The performance this year has continued the trend, over many years, of strong growth and the Company is working hard to maintain that positive progress going forward.

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 promoter score
- Make easy (the proportion of people who own a Focusrite product and have no need to call our technical helpline)

Strategic report (continued)

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. 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.
UK exit from the European Union	The impact of the decision to exit the European Union remains uncertain. There has already been foreign exchange volatility and it is possible that, in future, the UK may not be part of the European free trade zone, or the Customs Union.	The Company has increased selling prices in UK to correct the imbalance caused by the significant foreign exchange rate changes. The Company will continue to monitor other possible effects of Brexit and act accordingly as they become known.
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.
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 aims to diversify 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.

Strategic report (continued)

Risk area	Description	Mitigation
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 the majority 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.	The Company or its distributors sell to both 'bricks and mortar' and e-commerce 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 US Dollars to buy product in US Dollars. In addition, the Company mitigates its Euro exposure by entering into forward foreign exchange hedging contracts for the conversion of Euros to Sterling.
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, for its continued success, on being able to hire and retain such individuals.	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 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.

Strategic report (continued)

Risk area	Description	Mitigation
Information security	Information security and cyber threats are currently a priority across all industries and remain a key Government agenda item.	The Company is undergoing a detailed review of IT systems to upgrade older elements. There has already been a widespread upgrade of core IT functionality and the improvement of back up and disaster recovery processes. There is an improving business continuity framework and a dedicated internal IT support team aided by external support providers.

By order of the board



Jeremy Wilson

Chief Financial Officer

16 February 2017

Directors' report

The Directors present their report together with the audited financial statements for the year ended 31 August 2016.

Financial results and dividends

The audited accounts for the Company for the year ended 31 August 2016 are set out on pages 13 to 33. The Company profit for the year after taxation from continuing operations was £6.3 million (FY15: £5.7 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 Froker
D R Hawley
R D Jenkins
G R Orford
P R Wagner
M F G Warriner
J M C Wilson

Dividends

During the year the directors assessed the appropriateness of the company declaring a dividend and recommended that a dividend of £2,903,750 should be paid. Consequently dividends of £2,903,750 (FY15: £3,194,125) 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.

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.

Directors' report (continued)**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



Jeremy Wilson

Director

Windsor house
Turnpike Road,
High Wycombe
Buckinghamshire
HP12 3FX
16 February 2017

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 2016, set out on pages 13 to 33. The financial reporting framework that has been applied in their preparation is applicable law and 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 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on 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 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

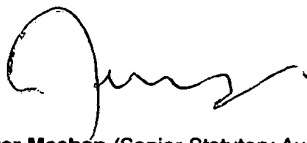
Opinion on other matter prescribed by the Companies Act 2006

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

16 February 2017

Statement of comprehensive income

For the year ended 31 August 2016

		2016	2015
	Note	£'000	£'000
Revenue	4	54,301	48,029
Cost of sales		(33,562)	(29,488)
Gross profit		20,739	18,541
Administrative expenses		(12,942)	(11,316)
Exceptional legal and professional costs		(537)	(704)
Operating profit		7,260	6,521
Finance income	8	320	159
Finance costs	9	(339)	-
Profit before tax		7,241	6,680
Income tax expense	11	(901)	(987)
Profit for the year	6	6,340	5,693
Other comprehensive income, net of income tax			
<i>Items that may be reclassified subsequently to the income statement</i>			
Loss on forward foreign exchange contracts designated and effective as a hedging instrument		(914)	-
Total comprehensive income for the period		5,426	5,693
Profit attributable to:			
Owners of the Company		5,426	5,693
		5,426	5,693

The result has been derived from continuing operations.

Notes 1 to 26 form part of the financial statements.

Statement of financial position

As at 31 August 2016

	Note	2016 £'000	2015 £'000
Non-current assets			
Goodwill	13	419	419
Other intangible assets	14	4,373	3,522
Property, plant and equipment	15	1,515	1,289
Investments	16	13	13
Total non-current assets		6,320	5,243
Current assets			
Inventories	17	11,361	8,599
Trade and other receivables	18	11,151	7,706
Other investments including derivatives	19	-	223
Cash and cash equivalents		5,322	5,280
Total current assets		27,834	21,808
Total assets		34,154	27,051
Current liabilities			
Trade and other payables	22	13,568	10,355
Current tax liabilities		696	444
Derivative financial instruments		1,143	-
Total current liabilities		15,407	10,799
Net current assets		12,427	11,009
Total assets less current liabilities		18,747	16,252
Non-current liabilities			
Deferred tax	20	282	743
Total liabilities		15,689	11,542
Net assets		18,465	15,509
Capital and reserves			
Share capital	23	58	58
Share premium		332	332
Deferred tax reserve		333	-
Hedging reserve		(914)	-
Capital redemption reserve fund		1,116	1,116
Retained earnings		17,540	14,003
Total shareholder's funds		18,465	15,509

The financial statements were approved by the Board of Directors and authorised for issue on 16 February 2017.
They were signed on its behalf by:



Jeremy Wilson
Director

Company registered number: 02357989

Statement of changes in equity

For the year ended 31 August 2016

	Share capital £'000	Share premium £'000	Deferred tax reserve £'000	Hedging reserve £'000	Capital redemption reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 September 2014	52	332	-	-	1,116	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 1 September 2015	58	332	-	-	1,116	14,003	15,509
Profit for the period	-	-	-	-	-	6,340	6,340
Other comprehensive income for the period	-	-	-	(914)	-	-	(914)
Total comprehensive income for the period	-	-	-	(914)	-	6,340	5,426
Transactions with owners of the Company:							
Recharged share-based payment expense	-	-	-	-	-	(262)	(262)
Share-based payment deferred tax deduction in excess of remuneration expense	-	-	333	-	-	-	333
Share-based payment current tax deduction in excess of remuneration expense	-	-	-	-	-	363	363
Issue of ordinary shares	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	(2,904)	(2,904)
Balance at 31 August 2016	58	332	333	(914)	1,116	17,540	18,465

Notes to the financial statements
for the year ended 31 August 2016

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.

The Company has applied IFRS 1 whilst ensuring that its assets and liabilities are measured in accordance with FRS 101.

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;
- Disclosures in respect of transactions with wholly owned subsidiaries ;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;

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 2 to 8.

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.

Sale of apps

Revenue from the download of apps is recognised upon confirmation from the app store provider.

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.

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.

2 Accounting policies (continued)

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
Customer demonstration units	2 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);
- 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.

2 Accounting policies (continued)

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.

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.

2 Accounting policies (continued)

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.

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
- 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.

2 Accounting policies (continued)

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.

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.

Hedge accounting

Up to 31 August 2015 the Company had 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. For the year ended 31 August 2016 and subsequent years, the Company has adopted hedge accounting for qualifying transactions. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured 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.

2 Accounting policies (continued)

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

For cash flow hedges, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

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.

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 FRS 101. 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 25.

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 2016 at £4,172,000 (2015: £3,419,000). 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.

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 2016 was £419,000 (2015: £419,000). Further details are given in note 13.

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

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

	Year ended 31 August	
	2016 £'000	2015 £'000
Continuing operations		
USA	21,382	18,498
Europe, Middle East and Africa	22,582	21,460
Rest of World	10,337	8,071
Revenue	54,301	48,029

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 FRS 101 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, Cakewalk and sE Electronics

Segment revenues and results

	Year ended 31 August	
	2016 £'000	2015 £'000
Revenue from external customers		
Focusrite	37,563	31,187
Novation	13,683	14,169
Distribution	3,055	2,673
Total	54,301	48,029
Segment profit		
Focusrite	17,159	14,221
Novation	6,743	6,842
Distribution	917	846
	24,819	21,909
Central distribution costs and administrative expenses before non-underlying items	(17,559)	(15,388)
Operating profit	7,260	6,521
Finance income	320	159
Finance costs	(339)	-
Profit before tax	7,241	6,680
Tax	(901)	(987)
Profit after tax	6,340	5,693

5 Business Segments (continued)

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 re-charged amount relating to the share option scheme (note 25) of £120,000 for the year ended 31 August 2016 (2015: £nil).

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:

	2016 £'000	2015 £'000
Non-current assets		
USA	13	13
Europe, Middle East and Africa	5,602	4,678
Rest of World	705	552
Total non-current assets	6,320	5,243

Information about major customers

Included in revenues shown for 2016 is £21.4 million (2015 £18.5 million) attributed to the Company's largest customer. Amounts owed at end of year is £5.2 million (2015: £2.7 million).

6 Profit for the year

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

		Year ended 31 August	
	Note	2016 £000	2015 £000
Net foreign exchange gains	8,9	(92)	(48)
Research and development costs		779	743
Exceptional costs		537	704
Depreciation and impairment of property, plant and equipment	15	435	354
Loss on disposal of property, plant and equipment		-	(1)
Amortisation of intangibles	14	2,051	1,902
Operating lease rental expense	21	183	156
Cost of inventories recognised as an expense		27,955	25,606
Staff costs	10	6,608	5,408
Impairment loss recognised on trade receivables	18	4	12
Change in fair value of financial instruments		223	(105)
Share based payments charge to profit and loss		120	-

7 Auditor's remuneration

	Year ended 31 August	
	2016	2015
	£000	£000
Fees payable to the Company's auditors for the audit of Company's annual accounts	38	29
Fees payable to the company's auditor and its associates for other services:		
Audit-related assurance services	2	9
Tax compliance services	4	11
Other assurance services	30	313
	74	362

In 2015 the other assurance services comprised mainly of services supporting the Initial Public Offering process.

8 Finance Income

	Year ended 31 August	
	2016	2015
	£000	£000
Bank deposit interest	5	6
Exchange gain	315	48
Change in fair value of financial instrument	-	105
Finance income	320	159

9 Finance costs

	Year ended 31 August	
	2016	2015
	£000	£000
Bank charges	116	-
Exchange loss	223	-
Finance costs	339	-

10 Staff costs and directors' remuneration

a) Staff costs

	Year ended 31 August	
	2016	2015
	£000	£000
Wages and salaries	5,872	4,687
Social security costs	562	516
Other pension costs	174	205
	6,608	5,408

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

	2016	2015
	Number	Number
Research and development	57	50
Sales and marketing	45	43
Operations	39	39
Administration and central	18	18
	159	150

10 Staff costs and directors' remuneration (continued)

b) Directors' remuneration

	Year ended 31 August	
	2016	2015
	£000	£000
Management remuneration and fees	718	950
Pension contributions	142	58
Benefits	7	20
	867	1,028
In respect of the highest paid director:		
Management remuneration and fees	163	168
Pension contributions	10	10
Benefits	2	1
	175	179

11 Tax

	Year ended 31 August	
	2016	2015
	£'000	£'000
Corporation tax charges:		
Overprovision in prior year	(231)	(69)
Current year	1,031	843
	800	774
Deferred taxation		
Current year	101	213
	901	987

Corporation tax is calculated at 20.00% (2015: 20.58%) of the estimated taxable profit for the year.

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

	Year ended 31 August	
	2016	2015
	£'000	£'000
Current taxation		
Profit before tax on continuing operations	7,241	6,680
Tax at the UK corporation tax rate of 20.00% (2015: 20.58%)	1,448	1,375
Effects of:		
Expenses not deductible for tax purposes	480	445
Income not taxable for tax purposes	(1)	-
R&D tax credit	(706)	(816)
Prior period adjustment - current tax	(231)	(69)
Prior period adjustment - deferred tax	(12)	-
Effect of change in standard rate of corporation tax	-	52
Share options expense deductible - current tax	(25)	-
Share options expense deductible - deferred tax	(52)	-
Total tax charge for period	901	987

12 Dividends

The following equity dividends have been declared.

	Year to 31 August 2016	Year to 31 August 2015
Dividend per qualifying ordinary share	5.0p	5.5p

During the year, the Company paid an interim dividend in respect of the year ended 31 August 2016 of 5 pence per share (2015: 2 pence per share).

The Directors recommended a final dividend of nil pence per share (2015: 3.5 pence per share), making a total of 5 pence per share for the year (2015: 5.5 pence per share).

13 Goodwill

	£'000
Cost	
At 31 August 2014	419
At 31 August 2015	419
At 31 August 2016	419
No impairment losses have been required on goodwill amounts recognised in the Company to date.	
Carrying amount	
At 31 August 2014	419
At 31 August 2015	419
At 31 August 2016	419

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').

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 the 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.

14 Other Intangible assets

	Intellectual property £'000	Development costs £'000	Licences £'000	Computer software £'000	Total £'000
Cost					
At 1 September 2014	182	7,237	-	-	7,419
Additions	72	2,667	29	10	2,778
Transfers between classes	(182)	-	182	-	-
Transfer from property, plant and equipment	-	-	-	97	97
At 31 August 2015	72	9,904	211	107	10,294
Additions	133	2,716	-	53	2,902
At 31 August 2016	205	12,620	211	160	13,196
Depreciation					
At 1 September 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
Charge for the year	42	1,963	32	14	2,051
At 31 August 2016	72	8,448	197	106	8,823
Carrying amount					
At 31 August 2016	133	4,172	14	54	4,373
At 31 August 2015	42	3,419	46	15	3,522
At 31 August 2014	48	2,568	-	-	2,616

15 Property, plant and equipment

	Plant, tooling equipment and machinery £'000	Fixtures, fittings & leasehold improvements £'000	Computer equipment £'000	Customer demonstration units £'000	Total £'000
Cost					
At 1 September 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
Additions	402	6	152	101	661
At 31 August 2016	3,209	989	861	101	5,160
Accumulated depreciation and impairment					
At 31 August 2015	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
Charge for the year	275	71	89	-	435
At 31 August 2016	2,399	544	702	-	3,645
Carrying amount					
At 31 August 2016	810	445	159	101	1,515
At 31 August 2015	683	510	96	-	1,289
At 31 August 2014	358	473	94	-	925

16 Investments

	Shares in group undertakings £'000
Cost and net book value	
At 31 August 2016	13
At 31 August 2015	13
At 31 August 2014	13

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

Name	Country of registration or incorporation	Principal activity	Class of shares	2016 %	2015 %
Focusrite Novation Inc	United States of America	Marketing services	Ordinary	100	100
Focusrite Novation Asia Limited	Hong Kong	Marketing services	Ordinary	100	n/a

17 Inventories

	2016 £'000	2015 £'000
Raw materials	95	64
Finished goods	11,266	8,535
	11,361	8,599

No inventories have been pledged as security against borrowings (2015: £nil). Stock days recorded against cost of sales amounted to 124 days in 2016 (2015: 106 days).

18 Trade and other receivables

	2016 £'000	2015 £'000
Amount receivable for the sale of goods	9,643	6,499
Allowance for doubtful debts	(40)	(36)
	9,603	6,463
Other debtors	1,407	1,102
Prepayments	141	141
	11,151	7,706

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 2016 was 57 days (2015: 45 days). The average days sales outstanding ("DSO") in 2016 was 63 days (2015: 48 days).

The Company has not charged interest for late payment of invoices in 2015 or 2016.

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 53% of the total balance of trade receivables net of allowances for doubtful debts on 31 August 2016 (2015: 45%). 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.

19 Other investments including derivatives

During 2016 and 2015 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.

	2016 £'000	2015 £'000
Fair value of outstanding forward contracts:		
Euro to US dollar	-	76
Euro to Pounds Sterling	-	147
	-	223

20 Deferred tax

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

	Accelerated tax depreciation £'000	Share based payments £'000	Hedging instrument £'000	Total £'000
Cost				
At 1 September 2014	530	-	-	530
Credit to profit or loss	213	-	-	213
At 31 August 2015	743	-	-	743
Credit to profit or loss	153	(52)	-	101
Debit to equity	-	(333)	(229)	(562)
At 31 August 2016	896	(385)	(229)	282

There is no net off of tax assets/liabilities included within the above categories. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2016 £000	2015 £000
Deferred tax liabilities	896	743
Deferred tax assets	(614)	-
	282	743

21 Operating lease arrangements

	Minimum lease payments	
	2016 £'000	2015 £'000
Minimum lease payments under operating leases recognised as an expense during the year	183	156

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	
	2016 £'000	2015 £'000
Within one year	164	167
In the second to fifth years inclusive	650	654
After five years	216	383
	1,030	1,204

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.

22 Trade and other payables

	2016	2015
	£'000	£'000
Trade payables	6,374	5,607
Accrued expenses	2,328	2,925
Amounts owed to Group undertakings	4,866	1,823
	13,568	10,355

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases was 68 days (2015: 66 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.

The amounts owed to Group undertakings are interest free and repayable on demand.

23 Share capital

The Company has one class of ordinary shares which carry no right to fixed income.

	2016	2015
	Number	Number
Issued and fully paid:		
Ordinary shares of £0.001 each	58,075,000	58,075,000

	2016	2015
	£	£
Issued and fully paid:		
Ordinary shares of £0.001 each	58,075	58,075
	58,075	58,075

24 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 £174,000 for the year ended 31 August 2016 (2015: £205,000). Contributions totalling £20,000 (2015: £20,000) were payable to the fund at the balance sheet date and are included in trade and other payables.

25 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 a result, the number of exercisable at end reporting period is Nil.

26 Related party transactions

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

Loans to related parties (in the previous period)

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 was 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 arm's length basis. The loan, together with accrual interest thereon, was repaid in full on 17 November 2014.

Other related party transaction

During the year, the Company continued a commercial lease agreement in Lincoln Road, High Wycombe. Mr P Dudderidge, a Director of Focusrite Audio Engineering Limited and shareholder of Focusrite plc, is the landlord of the property in Lincoln Road, High Wycombe. The annual rental is £19,750 (2015: £15,000).