Focusrite Audio Engineering Limited

Annual report and financial statements

31 August 2018

Company registered number: 02357989

Contents

Strategic report

The directors present their annual report and the audited financial statements for the year ended 31 August 2018.

Introduction: innovation at our core

I am very pleased to update our shareholders on our record year of performance, with revenue growing by 13.7%, operating profit growing by 26.1%, and net cash growing from £14.2 million to £22.8 million. The Company has had another year of operational and financial success that extends across our portfolio as well as on a regional basis, with all reported regions showing growth.

This year has seen the launch of five new products, a host of upgrades to our existing portfolio, and investments in many new systems, people and resources to continue to drive our growth strategy.

Our employee footprint, growing to 175 by August 2018, continues to expand in our High Wycombe headquarters as well as our office in London, with further employees in Germany and Mexico. We are fortunate to have so many employees globally that have a real passion for music and audio; many being musicians, audio engineers, or DJs themselves using our products in real-world environments every week. It continues to be a great pleasure and privilege to help guide and lead them, and I thank them for their hard work and dedication.

Our Operations

The Company's products are sold in approximately 160 territories and countries all over the world. We utilise an effective mix of retailers – online and 'bricks and mortar' locations, distributors in select areas, a hybrid approach in North America utilising a wholesale distributor with our own demand generation team, and direct business to consumer with our own e-commerce store and in-app software purchases.

We sold approximately 900,000 physical products to end-users last year, and our music creation apps were downloaded over 2 million times with over 750,000 in-app customer transactions. Our manufacturing partners are located in South China and we use third-party logistics support.

Our market

The global audio production market remains a growth sector for technology companies like Focusrite. Our products and solutions are key components for many personal and professional audio recording customers and musicians, allowing them to focus on the creative process. Alongside that, we recognise the opportunity to continue to make audio recording technology easier to use and more accessible to a larger addressable market.

While we lead the market in many product categories, we continuously seek ways to grow our core business while also exploiting opportunities to expand into adjacent product categories that would make commercial and strategic sense for the business. Focusrite is pursuing these opportunities with organic development as well as by acquisition.

Sales of our second-generation Scarlett USB audio interface range remained strong with 15% growth, increasing in overall market share from what was already a very high position.

RedNet is well poised to help any professional or facility scale their production capability; a vital component for success as we see sweeping increases in original content production, live sound events and multi-format on-air shows.

To that end, and to ensure we focus all of our resources and energy with precision, we have refined our customer personas into five core categories. We have identified 'The New Creator', a customer who might have little or no music knowledge; the 'Passionate Maker', someone who may or may not play a traditional instrument but wants to make 'good' music; the 'Serious Aspiring Producer', for whom music is more than just a hobby; and the 'Master' and 'Facility' personas - highly skilled musicians, audio engineers, or business entities focused on audio production.

Operating review of another record year

This year has seen further operational progress, and this has translated into financial success with careful management of our cost base and a focus on cash generation. Revenues grew by 13.7% to £75.1 million and gross margin grew from 39.7% to 42.0%, resulting in an operating profit of £11.9 million, representing year-on-year growth of 24.9%.

This positive performance has been driven by a number of factors. We have witnessed a wider market acceptance and growth of share in many of our core products. New product introductions over the course of the year resonated well with customers and provided incremental lift. Likewise, customer and sales channel satisfaction feedback remains strong on existing products illustrated by our top net promoter scores ('NPS') for individual products.

Additionally, we have begun to see positive results from many of our IT-based initiatives that we funded over the year: enhanced websites, social media demand generation, and localised online experiences in markets such as Japan, Mexico and Germany.

We continue to invest in talented and passionate people across the globe to support our business in sales, marketing, customer support and product development. We now have two full-time employees in Latin America and have increased our UK, German, Hong Kong and US hires to support the business.

Throughout this year we have witnessed several events, namely ongoing Brexit negotiations and the imposition of US tariffs, that require scrutiny to ensure the business is well prepared to mitigate any possible associated effects. The Company has spent considerable time weighing options and in some instances, such as for the US tariffs, are already acting to protect the profitability of the business. We believe we are well prepared for these events and further comment is included in the section on Principal Risks and Uncertainties.

Segmental Review

Focusrite

Within Focusrite, our Scarlett, Clarett and RedNet ranges all grew, leading to total segment revenue growth of 17.2%. In each category we increased market share and experienced growth beyond the industry norms.

Sales of our second-generation Scarlett USB audio interface range remained strong with 15% growth and grew in overall market share from what was already a high market share. This product line remains the number one selling audio interface product in the world and has earned the reputation as a best-in-class, premium solution at affordable pricing. The build quality, highly-skilled Mac and Windows driver development and well thought out suite of recording software tools make this the perfect solution for the new creator and aspiring producer.

Focusrite was honoured to have won our fourth Queen's Award this year for innovation for our Scarlett Gen 2 line.

The Clarett range continues to set new price/performance standards in our mid-range interface offerings. Created for both the aspiring and professional recordist, Clarett has disrupted the market with a price to performance mix that is unparalleled in the industry. Refreshing the line with a new USB range this year, we have widened our opportunity base and have seen pleasing growth from this part of our portfolio.

Our commercial and pro-audio range, led by RedNet, is gaining momentum as applications for its use and potential customers grow, especially in post production, education, installed sound and broadcast markets. Major broadcasters such as NBC, and Hollywood post-production facilities such as Formosa Group, have started implementing RedNet into their production workflows to reap numerous benefits in efficiency, costs and productivity. RedNet is well poised to help any professional or facility scale their production capability; a vital component for success as we see sweeping increases in original content production, live sound events and on multi-format distribution on-air shows.

Novation

The Novation product line is all about the creation and production of electronic music. Electronic music and its many genres has democratised music making in a powerful way, vastly widening the net of potential music makers. Our Launchpad, Launchkey, and synthesiser product categories all experienced growth, with overall growth in this business segment of 6.4%.

Launchpad continues to be a powerful and widely accepted creation and performance tool for electronic music. We have seen a continued growth of customers purchasing Launchpad that are just starting their journey into electronic music making. This, coupled with larger penetration from online distribution channels such as Amazon, has driven demand for Launchpad and made Novation an integral part of many electronic musician's workflows.

Our Launchkey family of keyboard controllers also enjoyed year-on-year growth. With an intuitive feature-set and extensive, integrated control features with top music-making software such as Ableton Live, Launchkey delivers a set of differentiated features that appeals to many music makers and performers.

Our family of professional synthesisers complete the Novation family of products. Synthesisers have been core to the Novation brand since inception and have developed a reputation as cutting-edge instruments that add a unique pallet of sounds and colour to an artist's production. Our new flagship synthesiser, Peak, has seen widespread adoption and won numerous accolades from the industry as a true next-generation synthesiser; building on the legacy of the Novation brand and its many famous, earlier synthesiser products.

Ampify develops powerful yet brilliantly simple music creation tools for new creators. Requiring no more than an iOS device, our apps allow anyone to create amazing music tracks in a wide variety of styles. Our apps consistently rank in the top ten for music creation tools on Apple's app store and are currently included on products displayed in Apple stores worldwide. We are investing substantially in Ampify, as we aim to grow the Company's own software capability and 'leverage' software to further our ability to enable creative workflows for users at all levels.

We are extremely proud that our apps have now been downloaded over 9.5 million times and this is an indication of the strength not only of our software products but the size of the market opportunity.

Distribution

We are happy to report that revenue from this segment grew by 8.4% over the prior year. These products, such as KRK monitors and sE Electronics microphones, are a small overall proportion of Company revenue but remain important to us as they offer add-on products within the music-making industry and provide us with invaluable market feedback, insight and knowledge.

Geographic overview

I am pleased to report that our success this year was global and sales in all our major regions grew. North America finished with a 10.2% rise in revenue when compared with last year. Europe, Middle East and Africa experienced 18.1% growth. Rest of World finished the year with 13.3% year-on-year growth.

North America

The US market, which accounts for approximately 41% of total Company revenue, grew by 11%. This growth was realised in all product categories. The US had a very strong first half with the holiday season showing robust sales for our more retail-oriented products such as Scarlett and Launchpad. The second half also experienced year-on-year growth but, as predicted, at a slower rate than the first half. We continue to invest in our US demand generation and customer support team, and have successfully moved into a new Los Angeles location to accommodate our growth.

Canada, which accounts for approximately 2% of Company revenue was flat year-on-year. We are increasing our investment into this region this coming year by utilising our demand generation teams in the US and expect to see solid growth out of the region in future.

Europe, Middle East and Africa ('EMEA')

EMEA, which represents approximately 40% of Company revenue, had a successful year with strong growth performance in all major product categories. Including the UK and mainland Europe, the region is comprised of direct resellers, distributors and our own e-store. We have offices in the UK and a team in Germany to support our European business.

Rest of the World

Within the Rest of the World region, Asia-Pacific had a good year with 19% growth. We continue to invest in people for the region and our Hong Kong office is now fully functional and integrated with our Company systems, including local and 'follow the sun' customer support.

This year was an investment year for Latin America as we made our first full-time hires for Mexico and Brazil, as well as new IT infrastructure to support localised content and transactions. These new hires came on board late in the financial year, but early signs are positive, as is feedback from our new localised customer experience. We view Latin America as an area with significant growth potential and will continue to assign resources over the course of this year.

Growth drivers

Innovation is clearly a key focus for us and has been a key driver of growth. We continue to spend approximately 6% of revenue on R&D so as to provide a constant stream of new and relevant products for our various customer channels.

During the year we launched five new hardware products and numerous software/firmware updates to expand and enhance our product offerings. These new products are across different price segments and target different customer markets, giving us further penetration and reach. Feedback from the consumer, retailer and distribution channels continues to be positive and acceptance so far has been very pleasing.

We regularly update and enhance our offerings to improve the creative workflow, maintain world-class customer service and make our solutions easier to install and use, generating industry-leading NPS and overall customer experience statistics.

Another key part of our drive towards growth is our e-commerce store with special emphasis on markets where we see an opportunity to augment local distribution with localised content, language support and swift delivery to end-users. Currently our e-commerce business is about 1% of Company revenue. However, the e-store is also a powerful marketing tool and, in many countries, helps support the local reseller channel as well with its reseller locator features.

We continue to refine and improve the 'out-of-the-box' experience for all our customers, beginners and professionals alike. We believe that a great first experience with our products is paramount to our overall success.

Summary and outlook

We are focused on three core goals: growing our customer base; increasing the lifetime value of our customers; and expanding into new market segments. To achieve this, we will continue to innovate, disrupt, grow our audience and help all our customers, from beginners to professionals, remove barriers from the creative process of music creation and audio recording.

There is much change in the trading environment, providing risk and some opportunity: changes in technology and new customer requirements can emerge quickly, macroeconomic and political factors affect our end customers and distributors alike and competitive pressures remain strong. We manage these factors proactively.

Last year, we had a record period pre-Christmas driven by a burst of demand for the Company's more consumer-oriented products such as Launchpad, resulting in a weighting in favour of the first half. As anticipated, trading in the first few months of this financial year has been broadly similar to the results achieved in the same period last year. The Board expects the current year to follow the Company's more usual seasonal pattern and, at this early stage, believes that Focusrite is well placed to deliver further growth for shareholders.

Financial Review

Overview

The Company has generated growth of 13.7% in revenue, growth of 24.9% in operating profit and growth of 21.5% in profit after tax.

The Company has regularly reported longer-term growth. Since FY09, the overall revenue growth is 729%, or if you prefer, 26.4% compound; all of which has been organic.

Income statement

Revenue
Revenue grew 13.7% (15.3% at constant exchange rates) from £66.1 million to £75.1 million.

The Focusrite segment comprises the products used in the recording and broadcasting of music. The primary ranges are Scarlett, Clarett, Red and RedNet. All ranges grew in revenue. Scarlett, which is approximately three-quarters of the revenue in this segment, increased by 15%. As a segment, Focusrite increased by 17.2%, from £44.6 million to £52.2 million, as the Company launched further products in the Clarett and Red ranges in addition to further Scarlett second-generation growth in market share.

The Novation segment is directed towards the creation of music and consists of the Novation and Ampify brands. About half of this segment relates to the Launchpad range although the star product this year was the new synthesiser (Peak). Peak was launched in 2017 and helped our sales of synthesisers to grow by 46%, while the bigger ranges such as Launchpad and Launchkey grew more slowly. The segment revenue was £20.1 million, up 6.4% on £18.9 million last year.

Finally, in the UK, the Company distributes products such as studio monitors and microphones manufactured by other organisations. Revenue was £2.9 million, up 8.4% from £2.6 million in 2017.

All the major regions grew. North America is 43% of the Company and grew at 10.2% (constant currency: 17%) to £32.7 million. North America is biased towards the Focusrite brands versus Novation (Focusrite is 76% of the total revenue in North America). The growth was across all brands although Pro was the strongest, growing at 24%.

Europe represents 40% of Company revenue. Europe grew 18.1% (constant currency: 11%) to £29.7 million. Within Europe, UK was weaker, while EMEA grew more strongly. For the brands, Focusrite was strong.

The Rest of the World ('ROW') comprises mainly Asia and South America and is the remaining 17% of Company revenue. This has been a key area of investment as the Company has opened a sales and marketing office in Hong Kong and now employed a full-time regional sales manager in Mexico. ROW grew by 13.3% (constant currency: 21%) to £12.7 million. Within this region the faster growth was within Focusrite.

Exchange rates were more stable this year. In FY17, GBP weakened, which helped the result: reported revenue growth was 21.6% and constant exchange rate growth was 13%. In FY18, foreign exchange rates represented a minor headwind. In particular, the US Dollar weakened from an average of $1.27 = £1 to $1.35 = £1. Therefore, constant exchange rate revenue growth (15.3%) was stronger than reported growth (13.7%).

Furthermore the Board are aware of the possible results of the Brexit discussions and the effect that the resultant agreement will have on the Euro/GBP exchange rate. This effect would be mitigated partially by the Company's hedging arrangements: the Company aims to hedge 75% of net Euro flows in the coming financial year, and 50% in the following financial year.

Segment profit
Segment profit is disclosed in note 5 to the accounts, 'Business Segments'. For each reportable segment, Focusrite, Novation and Distribution, the revenue is compared with the directly attributable costs to create a segment profit.

The segment profit for Focusrite was £25.1 million (2017: £20.2 million). This increased by 24.2% over the prior year, driven primarily by revenue growth and higher gross margin. The segment profit for Novation was £10.1 million (2017: £9.2 million). This increased by 9.4% over the prior year. Finally, the segment profit for Distribution was £0.8 million (2017: £0.7 million).

Gross profit
While revenue grew by 13.7%, gross profit grew by 20.2% to £31.5 million. This was a function of the higher revenue and a higher gross margin. Gross margin was 42.0% (FY17: 39.7%). The significant increase in gross margin was due to the stronger Euro and closer management of customer discounts.

Administrative expenses
Administrative expenses consist of sales, marketing, operations, the uncapitalised element of R&D and central functions such as legal and finance. These expenses were £19.6 million, up from £16.7 million last year. Again, the major part of the growth was in sales and marketing, including the Focusrite Pro sales team, further investment in the Hong Kong office, further investment in e-commerce and marketing expenditure, especially on-line marketing.

Non-underlying item
The Company has considered the amortisation of research and development intangible assets on a project-by-project basis rather than applying a standard principle across all. This change of estimation of the start date of amortisation has resulted in a single adjustment to reduce the amortisation previously charged by £0.3m and has been shown as a non-underlying item in FY18. There were no non-underlying items in FY17.

Foreign exchange and hedging
The average US Dollar rate has weakened from $1.27 to $1.35. The US Dollar accounts for approximately 60% of Company revenue so this reduces the revenue growth. However, the Company also buys product in US Dollars and has some US Dollar operating costs so there is a natural hedge. Therefore, the US Dollar weakening reduced revenue but had little effect on gross profit.

The Euro comprises approximately a quarter of revenue but little cost. The Company enters into forward contracts to convert Euro to GBP. In FY17, approximately three-quarters of Euro flows were hedged at €1.28, thereby creating a blended exchange rate of approximately €1.26. In FY18, the equivalent hedging contracts were at €1.12, being very close to the transactional rate of €1.13 and so creating a blended exchange rate of €1.12.

Hedge accounting is used, meaning that the hedging contracts 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, until the hedge transaction occurs.

The major part of the balance within financing costs was the cumulative foreign exchange loss on the translation of cash held in US Dollars.

Corporation tax
Corporation tax as a proportion of profit before tax was 9.7% (FY17: 9.7%). The Company's profits are taxed in UK, where the headline rate is 19%. The effective tax rate is lower than this headline rate, due largely to enhanced tax relief on R&D costs.

Balance sheet

Non-current assets

The non-current assets comprise mainly capitalised development costs; property, plant and equipment; and software. Approximately 70% of development costs are capitalised and they are amortised over three years. This policy is unchanged from last year.

Working capital
Working capital was stable at 15.3% of revenue (FY17: 16.8%).

The improved business practices around stock have been maintained. Stock was increased from £8.3 million to £11.4 million. The majority of this increase was to support the increase in demand.

Customers continue to pay essentially on time with only 5% of customer debts overdue at the year end. Finally, suppliers are paid on time.

Cash flow
The total cash balance at the year end was £8.9 million, up from £6.5 million at 31 August 2017, driven by the higher profit and lower working capital explained previously.

Summary
The Company has had another strong year with growth across revenue, profits, and cash. Revenue has grown by 13.7%, operating profit by 24.9% and profit after tax by 21.5%. In addition, the free cash flow has been strong and the cash balance has been increased from £6.5 million to £8.9 million. The strategy is clear and we press on.

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
- Underlying free cash flow
- NPI revenue as a % of full year revenue
- Net promotor score
- Make easy (the proportion of people who own a Focusrite product and have no need to call our technical helpline)

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 the retail environment with products being sold to consumer end-user musicians. Such operations are influenced by global and national economic factors.	The Company sells products at all levels of the market in c.160 territories worldwide via two distinct product categories and is working to reduce reliance on any single product or territory.
Macro-economic changes affecting the ease and cost of moving stock between countries	The impact of the decision to exit the European Union remains uncertain. There has already been foreign exchange volatility. It is probable that the UK will not be part of the customs union and the Company anticipates the imposition of some additional duties and minor disruption to the logistics network.	The Company is positioning itself to be able to react to the uncertainties faced by the business. The Company has previously increased selling prices in the UK to correct the imbalance caused by the significant foreign exchange rate changes. The Company has also discussed an operations contingency with its external provider, Kuehne & Nagel. Furthermore, the Company has discussed the risks surrounding logistics with its external carriers, who are Authorised Economic Operator (AEO) accredited.
	In October 2018 the USA implemented tariffs of 10% (potentially rising to 25% in March 2019) on the importing of most products manufactured in China. The Company has product manufactured in China, so selling product in the US will become more expensive.	The Company has increased the minimum advertised price to cover the additional tariffs. This provides a possible upside from the higher price charged but an uncertainty regarding the effect of the higher price on consumer demand.
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.	R&D remains one of the Company's largest investments. The Company has a bespoke project system that facilitates the operation of 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 Company continuously seeks efficiencies and minimises costs where possible.

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 has supply agreements with four major Chinese manufacturers. The Company works with its resellers and distributors to ensure they are holding sufficient stock levels should there be disruption to the supply chain. Relationships are long-lasting and strong. Members of the operations department within Focusrite meet each supplier three to four times per year to review performance and costs.
Key resellers and distributors	In certain countries, including the USA, 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 or distributor, or even the failure of a major customer of that distributor, could significantly and adversely affect the Company's business.	In cases where there is a large distributor in a significant market, the Company also communicates 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 US Dollar transactions 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 attract, retrain and motivate such individuals.	The Company is a leading company in the UK music industry and so attracts high-quality technical personnel. The Company also attracts graduates from music technology, electronics and engineering courses at renowned universities. The Company invests in developing its employees and incentivises them through 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 established a programme for protecting its intellectual property and pursues infringements. The Company has data and information technology controls which are reviewed by the Board. Additionally, the Company includes data protection provisions in the contracts of all Company employees.
Information security	Information security and cyberthreats are currently a priority across all industries and remain a key government agenda item.	The Company has carried out a detailed review of IT systems to identify elements requiring upgrade. There has already been a widespread upgrade of core IT functionality including cybersecurity (firewalls, anti-virus, mobile device management) and the implementation of backup and disaster recovery processes. The Company has moved core enterprise resource planning systems to the cloud with robust service level agreements in place to ensure data availability and security. The Company implemented a customer relationship management system to ensure GDPR compliance. 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

7 March 2019

Directors' report

The Directors present their report together with the audited financial statements for the year ended 31 August 2018.

Financial results and dividends

The audited accounts for the Company for the year ended 31 August 2018 are set out on pages 17 to 35. The Company profit for the year after taxation from continuing operations was £10.5 million (FY17: £8.7 million).

Directors and directors' interests

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

T Carroll
T J Dingley
P S Dudderidge
D R Hawley
S Holt
G R Orford
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 £8,130,500 should be paid. Consequently dividends of £8,130,500 (FY17: £4,646,000) were paid in respect of Ordinary Shares during the financial year to 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 Director and the Company. The Company has purchased and maintained throughout the year Directors' and Officers' liability insurance.

Future business developments

The strategy of the Company is explained in the Strategic Report section of this Annual Report and Accounts which, as noted in the preamble to the Directors' Report, is incorporated into this Report by reference.

R&D

The Company continues to invest in its research and development activities, as explained in the Strategic Report. The R&D costs expensed in the period were £1,524,000 (2017: £1,120,000).

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 General Counsel has overall accountability for health and safety across the organisation.

Going concern

The Company's business activities, together with risk factors which potentially affect its future development, performance or position can be found in the Strategic Report on pages 2 to 11.

After making reasonable enquiries, the Board has an expectation that the Company have adequate financial resources together with a strong business model to ensure they continue to operate for the foreseeable future. The Company is a cash-generative business that, when required, has access to borrowing facilities to meet the Company's future cash requirements. Accordingly, the Directors have adopted the going concern basis in preparing the financial statements.

Audit information

Each of the Directors at the date of the Directors' Report confirms that so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware and they have taken all the reasonable steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of the information.

The confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Auditor

Pursuant to section 487 of the Companies Act 2006 and having indicated its willingness to act, the Company will propose a resolution at the AGM that KPMG LLP be reappointed as auditor of the Company.

By order of the Board

Jeremy Wilson

Director

Windsor house
Turnpike Road,
High Wycombe
Buckinghamshire
HP12 3FX

7 March 2019

Statement of Directors' Responsibilities in respect of the Strategic report, the Directors' report and the Financial Statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report to the Members of Focusrite Audio Engineering Limited

Opinion
We have audited the financial statements of Focusrite Audio Engineering Limited ("the company") for the year ended 31 August 2018 which comprise the Statement of comprehensive income, Statement of financial position, Statement of changes in equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 August 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to the UK exiting the European Union on our audit
Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as recoverability of assets including trade receivables and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and group's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern
The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.
However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Strategic report and directors' report
The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.
Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception
Under the Companies Act 2006 we are required 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.

We have nothing to report in these respects.

Directors' responsibilities
As explained more fully in their statement set out on page 14, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities
This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

M. Froom

Michael Froom (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
One Snowhill
Snow hill Queensway
Birmingham
B4 6GH

7 March 2019

Statement of comprehensive income

For the year ended 31 August 2018

	Note	2018 £'000	2017 £'000
Revenue	4	**75,121**	66,055
Cost of sales		**(43,597)**	(39,837)
Gross profit		**31,524**	26,218
Administrative expenses	8	**(19,576)**	(16,653)
Operating profit		**11,948**	9,565
Finance income	9	**4**	86
Finance costs	10	**(274)**	(44)
Profit before tax		**11,678**	9,607
Income tax expense	12	**(1,138)**	(930)
Profit for the year	6	**10,540**	8,677
Other comprehensive income, net of income tax			
Items that may be reclassified subsequently to the income statement			
Gain on forward foreign exchange contracts designated and effective as a hedging instrument		**435**	525
Total comprehensive income for the period		**10,975**	9,202
Profit attributable to:			
Owners of the Company		**10,975**	9,202
		10,975	9,202

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 2018

	Note	2018 £'000	2017 £'000
Non-current assets			
Goodwill	14	**419**	419
Other intangible assets	15	**5,617**	4,544
Property, plant and equipment	16	**1,186**	1,306
Investments	17	**13**	13
Total non-current assets		**7,235**	6,282
Current assets			
Inventories	18	**11,391**	8,344
Trade and other receivables	19	**13,108**	12,829
Cash and cash equivalents		**8,869**	6,547
Derivative financial instruments		**57**	-
Total current assets		**33,425**	27,720
Total assets		**40,660**	34,002
Current liabilities			
Trade and other payables	22	**12,607**	9,053
Current tax liabilities		**426**	527
Derivative financial instruments		**-**	484
Total current liabilities		**13,033**	10,064
Net current assets		**20,392**	17,656
Total assets less current liabilities		**27,627**	23,938
Non-current liabilities			
Deferred tax	20	**300**	245
Total liabilities		**13,333**	10,309
Net assets		**27,327**	23,693
Capital and reserves			
Share capital	23	**58**	58
Share premium		**332**	332
Deferred tax reserve		**541**	447
Hedging reserve		**46**	(389)
Capital redemption reserve		**1,116**	1,116
Retained earnings		**25,234**	22,129
Total shareholder's funds		**27,327**	23,693

The financial statements were approved by the Board of Directors and authorised for issue on 7 March 2019. They were signed on its behalf by:

Jeremy Wilson
Director

Company registered number: 02357989

Notes 1 to 26 form part of the financial statements.

Statement of changes in equity

For the year ended 31 August 2018

	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 2016	58	332	333	(914)	1,116	17,540	18,465
Profit for the period	-	-	-	-	-	8,677	8,677
Other comprehensive income for the period	-	-	-	525	-	-	525
Total comprehensive income for the period	-	-	-	525	-	8,677	9,202
Transactions with owners of the Company:							
Share-based payment deferred tax deduction in excess of remuneration expense	-	-	114	-	-	-	114
Share-based payment current tax deduction in excess of remuneration expense	-	-	-	-	-	558	558
Dividends	-	-	-	-	-	(4,646)	(4,646)
Balance at 1 September 2017	58	332	447	(389)	1,116	22,129	23,693
Profit for the period	-	-	-	-	-	**10,540**	**10,540**
Other comprehensive income for the period	-	-	-	**435**	-	-	**435**
Total comprehensive income for the period	-	-	-	**435**	-	**10,540**	**10,975**
Transactions with owners of the Company:							
Share-based payment deferred tax deduction in excess of remuneration expense	-	-	**94**	-	-	-	**94**
Share-based payment current tax deduction in excess of remuneration expense	-	-	-	-	-	**696**	**696**
Dividends	-	-	-	-	-	**(8,131)**	**(8,131)**
Balance at 31 August 2018	**58**	**332**	**541**	**46**	**1,116**	**25,234**	**27,327**

Notes 1 to 26 form part of the financial statements.

Notes to the financial statements
For the year ended 31 August 2018

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.

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 11.

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

The Company has three routes to market for the sale of goods, covering all segments and geographical markets. Sales to distributors are made under contractual incoterms which mean that control is transferred when goods are shipped. The incoterms used for sales to resellers and sales to end-users mean that control is transferred when goods are delivered.

Sale of apps

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

Non-underlying items

Non-underlying items are those items that are unusual because of their size, nature or incidence. The Directors consider that these items should be separately identified within their relevant income statement category to enable a full understanding of the Company's result.

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.

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.

Internally-generated intangible assets – research and development expenditure

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

Development expenditure	2-3 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.

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 30-60 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, 'held for sale' ("HFS") 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.

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 HFS, 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.

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

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 hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges).

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 important judgements and estimations 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.

Judgements

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 risks and rewards of ownership are transferred and that the recognition of revenue upon despatch or delivery, depending on the relevant contractual terms, is appropriate.

In the USA, it is normal for a manufacturer or distributor to set a Minimum Advertised Price (MAP) at which resellers may advertise the manufacturer's products for sale.

If the MAP is reduced by the manufacturer or distributor, it is then normal for the reseller to claim back the lost gross profit from the manufacturer or distributor in relation to stock held by the reseller at the time of the change of MAP. There can also be a reciprocal arrangement for MAP increases.

Management have considered this involvement in the setting of advertised prices in the USA, together with customer payment arrangements, in their assessment of whether they recognise revenue to that customer on despatch. On balance, it is considered by management that the customer does have the primary risks and rewards of ownership, including credit and inventory risk, and hence revenue is recognised on sale to the distributor.

In September 2018, the Company made the decision to increase the MAP of products affected by duty increases announced during that month. A financial consequence of this is expected to be that the Company will receive a credit during the first half of FY19 from the US distributor for the extra profit earned on the stock held by that distributor at the time of the MAP change. In the judgement of the Directors, this constitutes a non-adjusting event after the reporting period.

Estimates

The Directors believe that the following items are critical due to the degree of estimation required, and that they have the risk of material change which could impact upon the financial statements of future periods.

Revenue recognition
There are certain cases where the Company would issue a credit note after the year end in respect of goods sold prior to the year end. One example is a retrospective rebate issued to a reseller if the reseller buys more than a targeted value of stock from the Company. A second example is in respect of a warranty claim made by a consumer for a non-working product. A third example could be in the case where the Company announces a change in MAP in the US with the consequential financial adjustment as explained in the section on judgements above.

The Company estimates the post-year-end financial impact of all of these adjustments and ensures that a sufficient credit note reserve exists to be confident that revenue recognised in the reported financial year will not be reversed in the following financial year. As an indication of the estimation in this area, the credit note provision at year end is £888,000 (2017: £712,000).

Inventory provisions
Estimation is required to determine the level of inventory at the year end that may become obsolete due to changes in consumer habits or technology, and therefore the level of provision against it. 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. The provision is based upon the ageing of stock, together with allowances for slow-moving, excess, or obsolete items. The provision at the year end was £670,000 (2017: £672,000), and the amount written off to the income statement in the year was £99,000 (2017: £293,000). There are a number of estimates made in arriving at the stock provision. There are no individual estimates that are sufficiently sensitive to require disclosure.

Capitalisation and recoverability of internally-generated intangible asset
Management considered both the capitalisation and the recoverability of its internally-generated intangible asset for development costs which is included in the balance sheet at 31 August 2018 at £4,641,000 (2017: £4,071,000). The amount capitalised in the year was £2,995,000 (2017: £2,721,000). Management applied estimates in their assessment of amounts capitalised in accordance with IAS 38 *Intangible Assets*, in particular around measuring reliably the expenditure incurred on projects during their development. These projects continue to progress in a satisfactory manner, and customer reaction has reconfirmed management's previous estimates of anticipated revenues from the projects.

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.

Management has also reconsidered the dates for the commencement of amortisation for individual development projects rather than applying a more generic estimate. As a result the accumulated amortisation has been recalculated, resulting in a reduction of the accumulated amortisation. The adjustment has been shown in FY18 as a non-underlying item.

4 Revenue

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

	Year ended 31 August	
	2018	2017
	£'000	£'000
Continuing operations		
North America	**32,720**	29,702
Europe, Middle East and Africa	**29,706**	25,153
Rest of World	**12,695**	11,200
Revenue	**75,121**	66,055

In previous financial statements the Company has disclosed revenue earned in Canada within the Rest of the World region. In the year ended 31 August 2018 this revenue was reclassified to the USA region, and the region was renamed North America. The table below sets out the regional analysis of revenue under the previous classification:

	Year ended 31 August 2018 £'000	2017 £'000
Continuing operations		
USA	**31,184**	27,990
Europe, Middle East and Africa	**29,706**	25,153
Rest of World	**14,231**	12,912
Revenue	**75,121**	66,055

5 Business Segments

Products and services from which reportable segments derive their revenues

Information reported to the Board of Directors for the purposes of resource allocation and assessment of segment performance is focused on the main product groups which Focusrite sells. While the results of Focusrite and Focusrite Pro are reported separately to the Board, they are aggregated together for the purposes of segmental reporting. Similarly, the results of Novation and Ampify also meet the aggregation criteria set out in IFRS 8 segmental reporting. The Company's reportable segments under IFRS 8 are therefore as follows:

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

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

	Year ended 31 August 2018 £'000	2017 £'000
Revenue from external customers		
Focusrite	**52,193**	44,552
Novation	**20,066**	18,862
Distribution	**2,862**	2,641
Total	**75,121**	66,055
Segment profit		
Focusrite	**25,107**	20,221
Novation	**10,063**	9,198
Distribution	**795**	711
	35,965	30,130
Central distribution costs and administrative expenses before non-underlying items	**(24,346)**	(20,565)
Non-underlying items	**329**	-
Operating profit	**11,948**	9,565
Finance income	**4**	86
Finance costs	**(274)**	(44)
Profit before tax	**11,678**	9,607
Tax	**(1,138)**	(930)
Profit after tax	**10,540**	8,677

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 Board of Directors 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 25) of £216,000 for the year ended 31 August 2018 (2017: £145,000).

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

	2018 £'000	2017 £'000
Non-current assets		
North America	13	13
Europe, Middle East and Africa	6,706	5,665
Rest of World	516	604
Total non-current assets	7,235	6,282

Information about major customers

Included in revenues shown for 2018 is £31.2 million (2017 £28.0 million) attributed to the Company's largest customer. Amounts owed at end of year is £6.3 million (2017: £6.8 million).

6 Profit for the year

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

	Note	Year ended 31 August 2018 £000	2017 £000
Net foreign exchange gains	9,10	234	(84)
Research and development costs		1,524	1,120
Depreciation and impairment of property, plant and equipment	16	683	625
Loss on disposal of property, plant and equipment		4	7
Amortisation of intangibles	15	2,803	2,950
Operating lease rental expense	21	215	181
Cost of inventories recognised as an expense		39,093	35,493
Staff costs (excluding share based payments)	11	6,014	5,228
Impairment loss recognised on trade receivables	19	29	(3)
Share based payments charge to profit and loss		216	145

7 Auditors' remuneration

	Year ended 31 August 2018 £000	2017 £000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	57	43
Fees payable to the company's auditors and its associates for other services:		
Audit-related assurance services	9	10
Tax compliance services	-	3
Other assurance services	1	5
	67	61

8 Non-underlying items

During the year ended 31 August 2018, the Directors considered the date from which amortisation of development costs should start and decided that it was more appropriate that the amortisation start date be assessed for each product developed rather than applying a single, albeit more prudent, rule for all. As a result, there has been an adjustment to the Income Statement to reduce the amortisation charged to date by £329,000.

9 Finance income

	Year ended 31 August 2018 £000	2017 £000
Bank deposit interest	4	2
Exchange gain	-	84
Finance income	4	86

10 Finance costs

	Year ended 31 August 2018 £000	2017 £000
Bank charges	**40**	44
Exchange loss	**234**	-
Finance costs	**274**	44

11 Staff costs and directors' remuneration

a) Staff costs

	Year ended 31 August 2018 £000	2017 £000
Wages and salaries	**7,395**	6,657
Social security costs	**770**	539
Other pension costs	**363**	285
Share-based payments	**216**	145
	8,744	7,626
Less amounts capitalised within development costs	**(2,514)**	(2,253)
	6,230	5,373

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

	2018 Number	2017 Number
Research and development	**76**	63
Sales and marketing	**43**	24
Operations	**31**	43
Administration and central	**16**	15
	166	145

b) Directors' remuneration

	Year ended 31 August 2018 £000	2017 £000
Management remuneration and fees	**1,180**	688
Pension contributions	**15**	193
Termination benefits	**64**	-
Other taxable benefits	**8**	9
	1,267	890
In respect of the highest paid director:		
Management remuneration and fees	**247**	167
Pension contributions	**3**	9
Benefits	**2**	2
	252	178

12 Tax

	Year ended 31 August 2018 £'000	2017 £'000
Corporation tax charges:		
Overprovision in prior year	**(160)**	(113)
Current year	**1,254**	1,100
	1,094	987
Deferred taxation		
Current year	**44**	(57)
	1,138	930

Corporation tax is calculated at 19% (2017: 19.58%) 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	
	2018	2017
	£'000	£'000
Current taxation		
Profit before tax on continuing operations	**11,678**	9,607
Tax at the UK corporation tax rate of 19% (2017: 19.58%)	**2,219**	1,881
Effects of:		
Expenses not deductible for tax purposes	**(63)**	(28)
R&D tax credit	**(872)**	(773)
Prior period adjustment - current tax	**(160)**	(113)
Prior period adjustment - deferred tax	**-**	(18)
Effect of change in standard rate of deferred tax	**14**	(19)
Total tax charge for period	**1,138**	930

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) was substantively enacted on 25 October 2015. Further reduction to 18% (effective from 1 April 2020) was substantively enacted on 25 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly. The deferred tax asset at 31 August 2018 has been calculated based on these rates.

13 Dividends

The following equity dividends have been approved and paid:

	Year to 31 August 2018	Year to 31 August 2017
Dividend per qualifying ordinary share	**14.0p**	8.0p

During the year, the Company paid an interim dividend in respect of the year ended 31 August 2018 of 14 pence per share (2017: 8 pence per share).

The Directors recommended a final dividend of nil pence per share (2017: nil pence per share), making a total of 14 pence per share for the year (2017: 8 pence per share).

14 Goodwill

	£'000
Cost	
At 31 August 2016	419
At 31 August 2017	419
At 31 August 2018	**419**

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

Carrying amount	
At 31 August 2016	419
At 31 August 2017	419
At 31 August 2018	**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 cash generating unit ('CGU'). As it is not material it is not tested for impairment annually.

15 Other intangible assets

	Intellectual property £'000	Development costs £'000	Licences £'000	Trademark £'000	Computer software £'000	Total £'000
Cost						
At 1 September 2016	205	12,620	211	-	160	13,196
Additions	-	2,721	-	127	273	3,121
Disposals	-	-	(124)	-	(10)	(134)
At 31 August 2017	205	15,341	87	127	423	16,183
Additions	290	2,995	2	159	430	3,876
At 31 August 2018	**495**	**18,336**	**89**	**286**	**853**	**20,059**
Depreciation						
At 1 September 2016	72	8,448	197	-	106	8,823
Charge for the year	72	2,822	9	14	33	2,950
Eliminated on disposal	-	-	(124)	-	(10)	(134)
At 31 August 2017	144	11,270	82	14	129	11,639
Charge for the year	63	2,425	6	100	209	2,803
At 31 August 2018	**207**	**13,695**	**88**	**114**	**338**	**14,442**
Carrying amount						
At 31 August 2018	**288**	**4,641**	**1**	**172**	**515**	**5,617**
At 31 August 2017	61	4,071	5	113	294	4,544
At 31 August 2016	133	4,172	14	-	54	4,373

16 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 2016	3,209	989	861	101	5,160
Additions	279	20	130	18	447
Disposals	(905)	(114)	(539)	(26)	(1,584)
At 31 August 2017	2,583	895	452	93	4,023
Additions	308	45	216	-	569
Disposals	(14)	-	(8)	-	(22)
At 31 August 2018	**2,877**	**940**	**660**	**93**	**4,570**
Accumulated depreciation and impairment					
At 1 September 2016	2,399	544	702	-	3,645
Charge for the year	397	84	129	15	625
Eliminated on disposal	(903)	(112)	(538)	-	(1,553)
At 31 August 2017	1,893	516	293	15	2,717
Charge for the year	398	77	153	55	683
Eliminated on disposal	(14)	-	(2)	-	(16)
At 31 August 2018	**2,277**	**593**	**444**	**70**	**3,384**
Carrying amount					
At 31 August 2018	**600**	**347**	**216**	**23**	**1,186**
At 31 August 2017	690	379	159	78	1,306
At 31 August 2016	810	445	159	101	1,515

17 Investments

	Shares in group undertakings £'000
Cost and net book value	
At 31 August 2018	**13**
At 31 August 2017	13
At 31 August 2016	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	Address	Principal activity	Class of shares	2018 %	2017 %
Focusrite Novation Inc	USA	840 Apollo St, El Segundo, CA, 90245, USA	Marketing services	Ordinary	**100**	100
Focusrite Novation Asia Limited	Hong Kong	2316, 23/F Hong Kong Plaza, 181-191 Connaught Road West, Shek Tong Tsui, Hong Kong	Marketing services	Ordinary	**100**	100

18 Inventories

	2018 £'000	2017 £'000
Raw materials	**314**	61
Finished goods	**11,077**	8,283
	11,391	8,344

The stock value includes a provision of £670,000 (2017: £672,000). No inventories have been pledged as security against borrowings (2017: £nil). Stock days recorded against cost of goods sold amounted to 106 days in 2018 (2017: 76 days). The write-down of inventories to net realisable value amounted to £99,000 (2017: £293,000). The reversal of write-downs amounted to £nil (2017: £nil). The write-down and reversal are included in cost of sales.

19 Trade and other receivables

	2018 £'000	2017 £'000
Amount receivable for the sale of goods	**10,607**	11,223
Allowance for doubtful debts	**(49)**	(20)
	10,558	11,203
Other debtors	**1,960**	1,141
Prepayments	**524**	485
Amounts owed by Group undertakings	**66**	-
	13,108	12,829

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 2018 was 41 days (2017: 56 days). The average days sales outstanding ("DSO") in 2018 was 51 days (2017: 60 days).

The Company has not charged interest for late payment of invoices in 2017 or 2018.

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 59% of the total balance of trade receivables net of allowances for doubtful debts on 31 August 2018 (2017: 60%). 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 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 2016	896	(385)	(229)	**282**
(Credit)/debit to profit or loss	(40)	(17)	-	**(57)**
(Credit)/debit to other comprehensive income	-	-	134	**134**
(Credit)/debit to equity	-	(114)	-	**(114)**
At 31 August 2017	856	(516)	(95)	**245**
(Credit)/debit to profit or loss	**32**	**12**	**-**	**44**
(Credit)/debit to other comprehensive income	**-**	**-**	**106**	**106**
(Credit)/debit to equity	**-**	**(95)**	**-**	**(95)**
At 31 August 2018	**888**	**(599)**	**11**	**300**

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:

	2018 £000	2017 £000
Deferred tax liabilities	**899**	856
Deferred tax assets	**(599)**	(611)
	300	245

21 Operating lease arrangements

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	
	2018 £'000	2017 £'000
Within one year	**223**	233
In the second to fifth years inclusive	**562**	725
After five years	**-**	54
	785	1,012

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

	2018 £'000	2017 £'000
Trade payables	**6,400**	4,303
Accrued expenses	**3,265**	3,481
Other payables	**267**	-
Amounts owed to Group undertakings	**2,675**	1,269
	12,607	9,053

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases was 47 days (2017: 37 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.

	2018 Number	2017 Number
Issued and fully paid:		
Ordinary shares of £0.001 each	**58,075,000**	58,075,000

	2018 £'000	2017 £'000
Issued and fully paid:		
Ordinary shares of £0.001 each	**58**	58
	58	58

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 £363,000 for the year ended 31 August 2018 (2017: £285,000). Contributions totalling £29,442 (2017: £16,448) 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 Share 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.

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 (2017: £19,750), and is charged on an arm's length basis