Focusrite Plc

Focusrite Plc

Admission Document

Placing and Admission to trading on AIM

PANMURE GORDON & CO

INTEGRITY IN INVESTMENT BANKING SINCE 1876

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document, or the action you should take, you should consult a person authorised under the FSMA who specialises in advising on the acquisition of shares and other securities. This document, which comprises an AIM admission document, has been drawn up in accordance with the AIM Rules and has been issued in connection with the application for admission to trading on AIM of the entire issued share capital of Focusrite Plc. This document does not constitute an offer or constitute any part of an offer to the public within the meaning of sections 85 and 102B of FSMA. Accordingly, this document does not constitute a prospectus under the Prospectus Rules published by the FCA and has not been approved by or filed with the FCA. The definitions used in this document are at pages 7 to 9.

Focusrite Plc, whose registered office appears on page 6, and the Directors, whose names appear on page 6, accept responsibility for the information contained in this document, including individual and collective responsibility for Focusrite Plc's compliance with the AIM Rules. To the best of the knowledge and belief of Focusrite Plc and the Directors (each of whom have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Application has been made for the Issued Share Capital to be admitted to trading on AIM. It is expected that Admission will become effective and that dealings in the Ordinary Shares will commence on AIM on 11 December 2014.

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the UK Listing Authority. The London Stock Exchange has not itself examined or approved the contents of this document. The rules of AIM are less demanding than those of the Official List. The Ordinary Shares are not traded on any other recognised investment exchange and no application has been made for the Ordinary Shares to be listed on any other recognised investment exchange.

Each AIM company is required pursuant to the AIM Rules for Companies to have a nominated adviser. The nominated adviser is required to make a declaration to the London Stock Exchange on admission in the form set out in Schedule Two to the AIM Rules for Nominated Advisers.

The London Stock Exchange has not itself examined or approved the content of this document.

A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. Your attention is drawn in particular to the risk factors set out in Part II of this document; however, the whole text of this document should be read.

Focusrite Plc

(a company incorporated in England and Wales under the Companies Act 2006 with company number 9312676)

Vendor placing of 17,806,984 Ordinary Shares at 126 pence per ordinary share

Admission to trading on AIM

Nominated Adviser and Broker

PANMURE GORDON & CO

Share capital immediately following Admission

	Issued and Fully Paid	
	Number	*Amount*
Ordinary Shares of £0.001 each	58,075,000	£58,075

Panmure Gordon, which is regulated by the FCA, is acting as nominated adviser and broker to Focusrite Plc and will not be responsible to any person other than Focusrite Plc for providing the protections afforded to its customers or for advising any other person on the contents of this document or any transaction or arrangement referred to herein. Panmure Gordon has not authorised the contents of any part of this document for the purposes of the AIM Rules. The responsibilities of Panmure Gordon as Focusrite Plc's nominated adviser and broker under the AIM Rules are owed solely to the London Stock Exchange and are not owed to Focusrite Plc or any Director, Shareholder or any other person in respect of a decision to subscribe for Ordinary Shares in Focusrite Plc. Panmure Gordon is not making any representation or warranty, express or implied, as to the contents of this document.

This document does not constitute an offer to sell or issue, or the solicitation of an offer to subscribe for or buy, securities in any jurisdiction in which such offer or solicitation is unlawful and, in particular, is not for distribution into the United States of America, Canada, Australia, the Republic of South Africa or Japan. The Ordinary Shares have not been and will not be registered under the United States Securities Act 1933 (as amended) nor under the applicable securities laws of the United States of America or any province or territory of Canada, Australia, the Republic of South Africa or Japan, nor in any country or territory where to do so may contravene local securities laws or regulations and will not be made to any national, resident or citizen of the United States of America, Canada, Australia, the Republic of South Africa or Japan. The distribution of this document in other jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restriction. Any failure to comply with these restrictions may constitute a violation of the securities law of any such jurisdictions. The Ordinary Shares have not been approved or disapproved by the SEC, any state securities commission in the United States or any other US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the accuracy or adequacy of this Admission Document. Any representation to the contrary is a criminal offence in the United States.

In making any investment decision in respect of the Ordinary Shares, no information or representation should be relied upon other than as contained in this document. No person has been authorised to give any information or make any representation other than that contained in this document and, if given or made, such information or representation must not be relied upon as having been authorised.

Neither Focusrite Plc nor the Directors are providing prospective investors with any representations or warranties or any legal, financial, business, tax or other advice. Prospective investors should consult with their own advisers as needed to assist them in making their investment decision and to advise them whether they are legally permitted to purchase the Ordinary Shares.

IMPORTANT INFORMATION

Investment in Focusrite Plc carries risk. There can be no assurance that the Group's strategy will be achieved and investment results may vary substantially over time. Investment in Focusrite Plc is not intended to be a complete investment programme for any investor. The price of the Ordinary Shares and any income from Ordinary Shares can go down as well as up and Investors may not realise the value of their initial investment. Prospective Shareholders should carefully consider whether an investment in the Ordinary Shares is suitable for them in light of their circumstances and financial resources and should be able and willing to withstand the loss of their entire investment (see further under "Part III").

Potential Investors contemplating an investment in the Ordinary Shares should recognise that their market value can fluctuate and may not always reflect their underlying value. Returns achieved are reliant upon the performance of the Group. No assurance is given, express or implied, that Shareholders will receive back the amount of their investment in the Ordinary Shares.

If you are in any doubt about the contents of this document you should consult a person authorised under FSMA, who specialises in advising on the acquisition of shares and other securities.

Investment in Focusrite Plc is suitable only for financially sophisticated individuals and institutional investors who have taken appropriate professional advice, who understand and are capable of assuming the risks of an investment in Focusrite Plc and who have sufficient resources to bear any losses which may result therefrom.

Potential Shareholders should not treat the contents of this document as advice relating to legal, taxation, investment or any other matters. Potential Shareholders should inform themselves as to: (a) the legal requirements within their own countries for the purchase, holding, transfer, redemption, conversion or other disposal of Ordinary Shares; (b) any foreign exchange restrictions applicable to the purchase, holding, transfer or other disposal of Ordinary Shares that they might encounter; and (c) the income and other tax consequences that may apply in their own countries as a result of the purchase, holding, transfer or other disposal of Ordinary Shares. Potential Shareholders must rely upon their own representatives, including their own legal advisers and accountants, as to legal, tax, investment or any other related matters concerning Focusrite Plc and an investment therein.

Statements made in this document are based on the law and practice currently in force in England and Wales and are subject to changes therein.

This document should be read in its entirety before making any investment in Focusrite Plc.

Certain statements contained herein are forward looking statements and are based on current expectations, estimates and projections about the potential returns of the Group and industry and markets in which the Group will operate, the Board's beliefs and the assumptions made by the Board. Words such as "expects", "anticipates", "should", "intends", "plans", "believes", "seeks", "estimates", "projects", "pipeline", "aims", "may", "targets", "would", "could" and variations of such words and similar expressions are intended to identify such forward looking statements and expectations. These statements are not guarantees of future performance or the ability to identify and consummate investments and involve certain risks, uncertainties, outcomes of negotiations and due diligence and assumptions that are difficult to predict, qualify or quantify. Therefore, actual outcomes and results may differ materially from what is expressed in such forward looking statements or expectations. Among the factors that could cause actual results to differ materially are: the general economic climate, competition, interest rate levels, loss of key personnel, the result of legal and commercial due diligence, the availability of financing on acceptable terms and changes in the legal or regulatory environment. These forward-looking statements speak only as at the date of this document. Focusrite Plc expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained herein to reflect any change in the Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statements are based unless required to do so by applicable law or the AIM Rules for Companies.

MARKET AND FINANCIAL INFORMATION

The data, statistics and information and other statements in this document regarding the markets in which Focusrite operates, or Focusrite's position therein, are based on Focusrite's records or are taken or derived from statistical data and information derived from the sources described in this document.

In relation to these sources, such information has been accurately reproduced from the published information, and, so far as the Directors are aware and are able to ascertain from the information provided by the suppliers of these sources, no facts have been omitted which would render such information inaccurate or misleading.

Unless otherwise indicated, financial information in this document, including Focusrite Audio Engineering Limited's audited consolidated financial statements for the three years ended 31 August 2014, and the notes to those financial statements, has been prepared in accordance with International Financial Reporting Standards. Focusrite Plc was incorporated on 14 November 2014 and has not yet commenced operations and has no material assets or liabilities, therefore, no financial statements have been prepared as at the date of this document.

Various figures and percentages in tables in this document have been rounded and accordingly may not total.

Certain financial data has also been rounded. As a result of this rounding, the totals of data presented in this document may vary slightly from the actual arithmetical totals of such data.

All times referred to in this document are, unless otherwise stated, references to London time.

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EXPECTED TIMETABLE FOR THE PLACING AND ADMISSION

Publication of Admission Document	5 December 2014
Admission becomes effective and dealings in the Issued Share Capital expected to commence on AIM	8.00 a.m. on 11 December 2014
Expected date for CREST accounts to be credited (where applicable)	11 December 2014
Despatch of definitive share certificates (where applicable)	by 19 December 2014

The times and dates in the above timetable are indicative only and are subject to change. References to time in this document are to London time unless otherwise stated.

PLACING STATISTICS

Placing Price per Placing Share	126 pence
Number of Placing Shares being sold on behalf of the Selling Shareholders	17,806,984
Number of Ordinary Shares in issue	58,075,000
Expected market capitalisation of Focusrite Plc at the Placing Price immediately following Admission(1)	£73.2 million
Percentage of Ordinary Share capital represented by Placing Shares	30.7%
Gross proceeds of the Placing receivable by the Selling Shareholders	£22.4 million
Estimated net proceeds of the Placing receivable by the Selling Shareholders(2)	£21.9 million
TIDM	TUNE.L
ISIN	GB00BSBMW716
SEDOL	BSBMW71

Notes:

(1) *The market capitalisation of Focusrite Plc at any given time will depend on the market price of the Ordinary Shares at that time. There can be no assurance that the market price of an Ordinary Share will equal or exceed the Placing Price.*

(2) *Net proceeds receivable by the Selling Shareholders are stated after deducting Placing commissions (excluding VAT).*

DIRECTORS, SECRETARY AND ADVISERS

Directors	Philip ("Phil") Stephen Dudderidge, Executive Chairman and Founder David ("Dave") Rollins Froker, Chief Executive Officer Jeremy Michael Charles Wilson, Chief Financial Officer David Charles Bezem, Independent Non-Executive Director Paul David Dean, Independent Non-Executive Director
Company Secretary	Michael ("Mike") Francis Giles Warriner
Registered Office and Principal Place of Business	Windsor House Turnpike Road High Wycombe Buckinghamshire HP12 3FX
Website	www.focusriteplc.com
Financial Adviser, Nominated Adviser and Broker	Panmure Gordon (UK) Limited One New Change London EC4M 9AF
Reporting accountant and auditor to Focusrite Plc	KPMG LLP Arlington Business Park Theale Reading RG7 4SD
Legal counsel to Focusrite Plc	White & Black Limited Chalford Park Oxford Road Old Chalford Oxfordshire OX7 5QR
Legal counsel to the Nominated Adviser and Broker	Memery Crystal LLP 44 Southampton Buildings London WC2A 1AP
Financial Public Relations Adviser to Focusrite Plc	Bell Pottinger LLP Holborn Gate 330 High Holborn London WC1V 7QD
Registrar	Equiniti Limited Aspect House Spencer Road Lancing West Sussex BN99 6DA

DEFINITIONS

"2012 EMI Scheme"	the EMI Share Option Scheme established by Focusrite Plc and FAEL, the terms of which are summarised in paragraph 4 of Part IV
"2014 EMI Scheme"	the EMI Share Option Scheme established by Focusrite Plc and FAEL, the terms of which are summarised in paragraph 4 of Part IV
"Admission"	the admission of the issued Ordinary Shares to trading on AIM becoming effective in accordance with the AIM Rules for Companies
"AIM"	AIM, a market operated by the London Stock Exchange
"AIM Rules"	the AIM Rules for Companies and AIM Rules for Nominated Advisers, as appropriate
"AIM Rules for Companies"	the rules for AIM companies published by the London Stock Exchange
"AIM Rules for Nominated Advisers"	the rules for nominated advisers to AIM companies published by the London Stock Exchange
"Articles"	the articles of association of Focusrite Plc, a summary of which is set out in paragraph 3 of Part IV of this document
"CAGR"	compound annual growth rate
"Companies Act"	the Companies Act 2006 (as amended)
"Company" or **"FAEL"**	Focusrite Audio Engineering Limited
"Corporate Governance Guidelines"	the Corporate Governance Guidelines for Small and Mid-Size Quoted Companies published by the QCA in May 2013
"CREST"	the relevant system (as defined in the Uncertificated Securities Regulations 2001) in respect of which Euroclear UK & Ireland is the operator (as defined in the Uncertificated Securities Regulations 2001)
"CREST Regulations"	the Uncertificated Securities Regulations 2001, including (i) any enactment or subordinate legislation which amends or supersedes those regulations; and (ii) any applicable rules made under those regulations or any such enactment or subordinate legislation for the time being in force
"Directors" or **"Board"**	the directors of Focusrite Plc as at the date of this document, whose names are set out on page 6 of this document
"EBITDA"	earnings before interest, tax, depreciation and amortisation
"EBT"	the Focusrite Audio Engineering Limited Employee Benefit Trust, of which Elian Employee Benefit Trust Limited is the trustee
"EDM"	Electronic Dance Music
"EIS"	Enterprise Investment Scheme under the provisions of Part 5 of the Income Tax Act 2007
"EMEA"	Europe, Middle East and Africa
"Euroclear UK & Ireland"	Euroclear UK & Ireland Limited
"EUR" or **"Euro"**	the currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended
"Executive Directors"	the executive directors of Focusrite Plc as at the date of this document, namely Phil Dudderidge, Dave Froker and Jeremy Wilson
"FAEL Group"	FAEL together with its subsidiary undertaking
"FCA"	the UK Financial Conduct Authority
"Focusrite Plc"	Focusrite Plc incorporated and registered in England and Wales with company number 9312676

"Focusrite Novation Inc."	Focusrite Novation Inc. a company incoprated in Delaware, United States
"FSMA"	the Financial Services and Markets Act 2000, as amended
"FY2014"	financial year ending 31 August 2014
"GBP", **"Pounds Sterling"**, **"pence"** or **"£"**	lawful currency of the United Kingdom
"Group" or **"Focusrite"**	Focusrite Plc and its subsidiaries (including FAEL)
"IP"	intellectual property rights
"ISIN"	international security identification number
"Issued Share Capital"	the 58,075,000 Ordinary Shares as of the date of this document and immediately following Admission
"Lock-in Agreements"	the lock-in agreements between Focusrite Plc, Panmure Gordon and the Directors and certain shareholders, summary details of which are set out in paragraph 17 of Part I of this document
"London Stock Exchange"	London Stock Exchange plc
"Major Shareholder"	Phil Dudderidge
"Nominated Adviser", "Nomad" or **"Panmure Gordon"**	Panmure Gordon (UK) Limited, a company incorporated in England and Wales (registered number 4915201) and having its registered office at One New Change, London EC4M 9AF
"Nominated Adviser and Broker Agreement"	the agreement between Focusrite Plc and Panmure Gordon dated 5 December 2014 pursuant to which Focusrite Plc has appointed Panmure Gordon to act as nominated adviser and broker to Focusrite Plc for the purposes of the AIM Rules for Companies for the Placing and for the purpose of making the application for Admission
"Official List"	the Official List of the UK Listing Authority
"Options"	rights to acquire (whether by subscription or market purchase) Ordinary Shares as described in paragraph 4 of Part IV of this document
"Ordinary Shares"	ordinary shares of £0.001 each in the share capital of Focusrite Plc
"Panel"	the UK Panel on Takeovers and Mergers
"Placees"	those persons who have agreed to subscribe for the Placing Shares
"Placing"	the conditional placing of the Placing Shares by Panmure Gordon, at the Placing Price pursuant to the Placing Agreement
"Placing Agreement"	the conditional agreement dated 5 December 2014 between *inter alia* Focusrite Plc, the Directors, the Selling Shareholders and Panmure Gordon relating to the Placing summary details of which are set out in paragraph 8.2 of Part IV of this document
"Placing Price"	126 pence per Placing Share
"Placing Shares"	the 17,806,984 Ordinary Shares currently held by the Selling Shareholders, to be placed pursuant to the Placing
"Prospectus Rules"	the prospectus rules of the Financial Conduct Authority made under Part VI of the FSMA
"QCA"	the Quoted Companies Alliance
"Registrar"	Equiniti Limited
"Relationship Agreement"	the relationship agreement dated 5 December between Focusrite Plc and the Major Shareholder, details of which are set out in paragraph 8.3 of Part IV of this document
"Selling Shareholders"	Phil Dudderidge, Jennifer Dudderidge, Christopher Gooddie, Michael Johnson, Robert Jenkins, Pauline Cornwell, Timothy Dingley, Damian Hawley, Phillip Wagner, Giles Orford, Simon Jones and Mike Warriner

"Share Exchange Agreement"	an agreement between the existing shareholders of FAEL and Focusrite Plc relating to the acquisition of the shares of FAEL by Focusrite Plc in exchange for Ordinary Shares, dated 4 December 2014, as more fully described in paragraph 8.4 of Part IV
"Shareholders"	the holders of the Ordinary Shares
"Subsidiary"	as defined in section 1159 of the Companies Act
"Takeover Code"	the City Code on Takeovers and Mergers published by the Panel
"TIDM"	tradable investment display mnemonic
"UK" or **"United Kingdom"**	the United Kingdom of Great Britain and Northern Ireland
"UK Corporate Governance Code"	the UK Corporate Governance Code published by the Financial Reporting Council
"UK Listing Authority"	the Financial Conduct Authority acting in its capacity as the competent authority for the purposes of Part VI of the FSMA and in the exercise of its functions in respect of admission to the Official List
"USA" or **"United States"**	United States of America, each state of the United States and the District of Columbia, its territories and possessions
"USD", **"US dollar"** or **"$"**	lawful currency of the United States
"VCT"	a company which is, or which is seeking to become, approved as a venture capital trust under Section 842AA of the UK Income and Corporation Taxes Act 1988

Exchange rates:

(1) Calculations from USD have been calculated at a rate of £1:$1.60

PART I

INFORMATION ON THE GROUP

1. OVERVIEW

Focusrite is a global music and audio products group supplying hardware and software products used by professional and amateur musicians, which enables the high quality production of music. The Group has two established and rapidly growing brands: Focusrite and Novation. The Focusrite brand makes audio interface and other products for audio recording musicians. The Novation brand allows its customers to make electronic music using synthesisers and computer-enabled technology.

The Group has a global customer base with a distribution network covering approximately 160 territories. Focusrite is headquartered in High Wycombe, United Kingdom with a marketing subsidiary in Los Angeles, United States and has over 140 employees[1].

The Group has demonstrated a consistent track record of growth and profitability. In FY2014, FAEL achieved revenue of £41.0 million and EBITDA of £8.2 million, which represent CAGRs of 27% and 43% respectively since 31 August 2012[2].

The Group has a strong pipeline of new products with approximately 40 products due to be launched by September 2016, which the Directors believe will continue the trend of organic growth. The Group is cash generative and has no bank debt, which allows flexibility in the Group's on-going operations. Furthermore, this creates the opportunity for entering adjacent markets that could broaden the range of brands and products.

The global music instrument and pro audio wholesale market was worth £2.7 billion[3] in 2013, according to Music Trade Magazine, representing year-on-year growth of 2.2% since 2012. The electronic music segment has grown year-on-year by 5.6% between 2012 and 2013[4].

Admission of Focusrite Plc will enable the Selling Shareholders to realise part of their investment in Focusrite Plc, provide a public market for the Ordinary Shares, which will benefit employee shareholders and enable Focusrite Plc, if required, to access the capital markets to support its strategic objectives.

2. HISTORY AND BACKGROUND

The Focusrite brand was established in 1985 to serve high end professional recording studios. Initially, its products were focused on high quality recording and production equipment for professionals. Phil Dudderidge acquired the assets of Focusrite Limited in 1989 and began to broaden the range of products to serve a wider customer base of professional, commercial and hobbyist musicians. The Directors believe Focusrite has been able to capitalise on its professional studio heritage to build a strong reputation within the music making industry.

In 2004, FAEL acquired the Novation Electronic Music Systems Limited business, a market-leading British producer of keyboards, synthesisers and controllers with products used by musicians globally. In addition the Novation brand has further expanded the range of products and customers of the Group into the electronic dance music ("EDM") segment of the market, the fastest growing music making segment according to 2014 International Music Summit Business Report[5].

Since 2004, the Group has continued to develop its range of innovative products with the introduction of Launchpad in 2009, developing a new niche in EDM and spawning a range of YouTube videos generating millions of views, and Scarlett USB in 2010, one of the top selling product lines for home studio recording.

In 2010, Focusrite opened an in-house marketing office in Los Angeles, United States.

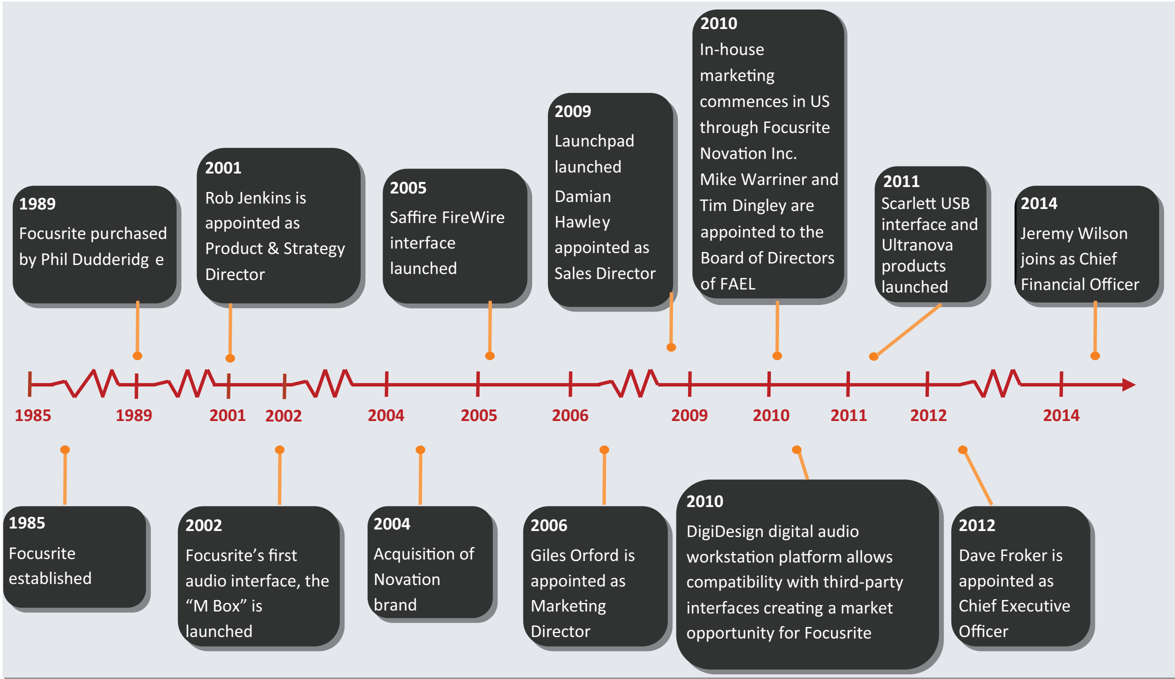
Focusrite has won many awards in recognition of its achievements to date:

- The Sunday Times, International Track 200, Fast Track 2013
- The Queen's Awards for Enterprise Innovation – Innovation, 2008, International Trade, 2012

1 *As at 13 November 2014.*
2 *Company calculations based on audited IFRS accounts.*
3 *Music Trades Corporation Magazine, 2013 market report.*
4 *2014 International Music Summit Business Report, page 3.*
5 *2014 International Music Summit Business Report, page 3.*

- The Sunday Times, 100 Best Small Companies to Work For – 2012, 2013, 2014
- The Sunday Times, Profit Track 100, Fast Track 2013
- Investec, Hot 100 – 2013

Focusrite's key milestones



3. KEY STRENGTHS

3.1. Proven financial track record

The Group has achieved strong organic growth in revenue and profits over the last six years. Over the period covered by the last three financial years (ended 31 August 2014), the Group has delivered CAGRs of 27%, 57% and 43% in revenue, gross profit and EBITDA, respectively. In FY2014, gross margin was 39%, EBITDA margin was 20% and profit before tax margin was 14%. The growth and profitability track record is coupled with a strong balance sheet, and net cash of £3.8 million, as at 31 August 2014[6].

3.2. Brand strength

Focusrite and Novation are both well established brands that bring high quality studio heritage to the wider market. Focusrite's customers include many world renowned musicians, artists and producers who use its products to record and/or perform live music.

3.3. Highly experienced management team

The management team of Focusrite has been built up over a number of years and has a range of experience and backgrounds. The team has considerable experience in the music technology industry both within Focusrite and with previous employers. This experience has helped to facilitate the continued profitable growth of the business of the Group.

3.4. Diversified and international customer base

The Group derives sales from a broad geographic area. The five main revenue generating regions are USA (35%), EMEA (20%), UK (17%), Germany (11%) and Asia (10%)[7]. At present, Focusrite mostly sells to local retail partners and distributors who in turn sell to the end users of the Group's products.

6 *Company calculations based on IFRS accounts.*
7 *Percentages based on FY2014 revenue.*

Focusrite has a marketing office in Los Angeles creating a presence in the USA, the largest market for the Group by revenue in FY2014. The United States marketing office enables the Group to market its products directly to end users building a stronger affinity with the Focusrite and Novation brands. Sales of such products in the United States represent 35% of Focusrite's revenue in FY2014.

3.5. Continued product innovation

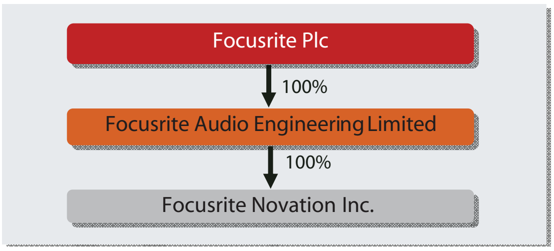
A key strength of Focusrite is its in-house development of new, technologically innovative products. The Group has a dedicated in-house team of approximately 40 employees working full time in its research and development ("R&D") department headed by Robert Jenkins, who has been with the Group for 25 years. The R&D team is split into four key product teams: "Professional and Project" (Focusrite brand); "Hobbyist" (Focusrite brand); "Commercial and Networked Audio" (Focusrite RedNet brand); and Novation. Each team has the capability to design and engineer prototypes and successfully take them to market. This allows for continued innovation of existing products, rapid new product development and the protection of know-how and intellectual property.

The R&D team has proven itself in the market in which the Group operates by taking products including Launchpad, Scarlett and iTrack from concept, through design and into production. It is expected that up to 40 new products will be released by the Group by September 2016.

4. CORPORATE STRUCTURE

Focusrite Plc was incorporated in 2014 as the new holding company for the Group, with FAEL and Focusrite Novation Inc. as the 100% owned subsidiaries. FAEL is the principal operating company of the Group holding the assets and IP of the Group, while Focusrite Novation Inc. is the US subsidiary based in Los Angeles, and is focused on marketing.

Group structure chart



5. OPERATING OVERVIEW

5.1. Operating segments

Focusrite was established as a brand in 1985, producing equipment for professional recording studios. Since 1989, Focusrite has developed a range of products aimed at the professional market using advanced technology. During this period, Focusrite has built a strong reputation in the market for innovative products with professional sound quality. The Group has capitalised on its professional brand heritage to build a loyal customer base of resellers and an end user base including hundreds of thousands of semi-professional and amateur recording musicians, that include many world renowned musicians and producers who use Focusrite and Novation equipment.

The Group markets and sells its products under two principal brands: Focusrite and Novation. Each brand has over 20 years of quality sound heritage and is well established in the music making industry. These two brands cover a broad customer base.

Both Focusrite and Novation brands have stable customer bases and high levels of end user satisfaction, as evidenced by Focusrite's high "net promoter score" of 70%[8] as compared with its main competitors, in addition to positive feedback from key opinion leaders within the music industry. As at November 2014, the Focusrite Facebook page had 77,818 likes and the Novation page 152,580 likes, as well as millions of YouTube views of its product videos. The Group's products are used by world renowned artists such as Muse, will.i.am, Sting, Jay-Z, Madonna, Madeon and Beyoncé to record or perform their music. Focusrite and Novation brand products are

8 *Focusrite market research of its end users, April 2013.*

also used by institutions such as Warner Bros. Entertainment Inc., Twentieth Century Fox Film Corporation, Capitol Studios, Berklee College of Music and Full Sail University as well as at major events such as the 2014 FIFA World Cup in Brazil.

The product ranges sold by the Group can be divided into four main market segments based around unique customer needs identified by the Group for each type of product. In addition to the four main segments, the Group has a new tablet and software segment, which aims to develop iOS and Android apps to support the "Hobbyists" and "Producer Performers" segments. The market segments and their key products are detailed in the table below[9]:

Brand	Segment	% of FY2014 revenue	Number of products	Description
Focusrite	1. Professional and Project	15%	16	Computer audio interfaces, mic pres and other analogue gear for pro recording studios and for-profit "project" room. Typical product price $1,000.
	2. Hobbyist	47%	23	Computer audio interfaces and iOS device docks & software for hobbyists, and pros on the run. Typical product price $200.
	3. Commercial & Networked Audio	2%	8	Ethernet-based audio networking for live performance, educational facilities, large recording studios, post production and broadcast markets. Typical product price $2,500.
Novation	4. EDM Producer Performers	30%	28	Keyboard & grid controllers, synths & software for Electronic Dance Music producers on Mac, PC and tablets. Typical product price $200.
Mobile / Tablet Software	Mobile tablet software	<1%	4	Aim to set up a dedicated team of three in London. Development of iOS and Android apps for Hobbyists & Producer Performers. Already released LaunchPadApp with approximately two million downloads and upsell of £180,000 of paid for content.

5.2 Focusrite Brand Products

The Focusrite brand makes audio interface products for recording musicians. The current Focusrite brand products can be broadly categorised into five product ranges that cover price points from sub $100 to over $3,000:

- **iTrack:** a range of audio interfaces that allows instrument and vocal recording using a smartphone or tablet; typically for the "Hobbyist" segment of the market;
- **Scarlett:** a range of audio interfaces that delivers instrument and vocal recording into a digital audio workstation ("DAW") such as a PC or a Macbook via a USB 2.0 interface; primarily aimed at the hobbyist market segment but more advanced products are also used by customers in the "Professional and Project" segment;
- **Saffire:** a range of interfaces that delivers instrument and vocal recording into DAW via Firewire, Thunderbolt, USB and Alesis Digital Audio Tape ("ADAT"); typically aimed at the "Professional and Project" market segment;
- **Input Signal Amplifier ("ISA") and Octopre:** a range of high end input signal amplifiers born out of the original Focusrite console sold in the late 1980s; primarily aimed at the "Professional and Project" market segment; and
- **RedNet:** range of modular Ethernet-networked interfaces that use the Audinate Dante digital audio networking protocol; designed for commercial use in organisations such as educational institutions or broadcasting companies, as well as for live sound.

5.3. Novation Brand Products

The Novation brand's end users create electronic music using synthesisers and computers, which are different from the Focusrite brand's customers who use Focusrite brand products to capture and record their sounds. Originally a UK synthesiser brand, Novation was acquired in an asset purchase by FAEL in 2004 and integrated into the business, where it has been re-launched and organically grown.

9 *In addition to the product categories listed, 6% of the Company's FY2014 revenue is derived from UK distribution of third party products.*

The current Novation brand products are divided broadly into three categories based around the end user preference for grid or keyboard, and software control over standalone operation. The Novation brand products are primarily aimed at producer-performers in the electronic dance music space.

- **Launch:** a range of intuitive grids and controllers that are used to create and launch rhythms, melodies, loops, samples or entire songs and mix them together; compatible and bundled with Ableton Live[10];
- **Launchkey:** a range of controller keyboards for those who play electronic music with physical controls; compatible and bundled with Ableton Live software and integrated with the free Novation Launchkey and Launchpad apps; and
- **Synths:** a range of analogue and digital synthesisers that include optimised effects, filters and touch-sense performance technology; numerous add-ons and SoundPacks can be downloaded.

Ableton AG's software supports the Novation business, notably with the Launchpad controller which was developed under a licence agreement with Ableton AG to integrate the hardware with its software, Ableton Live, which is currently sold bundled with the Launchpad controller.

5.4. Other Products and Services

The Group also acts as a distributor in the United Kingdom for the products of Gibson Pro Audio, incorporating KRK loudspeakers, Stanton and Cerwin Vega DJ products, as well as CakeWalk software. Focusrite has distributed the KRK brand for eight years and sales have grown from under £500,000 annually to over £2.0 million for FY2014.

5.5. Manufacturing and Suppliers

The majority of the Group's finished goods are manufactured by a large, well established third-party contract manufacturer in China, allowing the Group to deliver high quality products to the market at competitive costs.

Focusrite has maintained a stable supplier base historically with the top 10 suppliers accounting for 98% of total product purchases in FY2014. The Group has worked closely with its largest supplier since 2008, which accounted for 63% of total purchases of materials in FY2014 and supplies Focusrite interfaces. The Group purchases supplies such as keyboard products, speakers, transformers and silicon chips from a number of other suppliers.

5.6. Product Distribution Channel

The Group sells two main product categories, Focusrite and Novation. In the United Kingdom, Focusrite also acts as a distributor of several products including KRK products, as described above. Focusrite and Novation products are designed by the Group in the United Kingdom head office located in High Wycombe, manufactured in China and sold worldwide to end users through a distribution network of resellers, third party distributors and agents covering 157 territories.

In the United Kingdom and Germany, the products are supplied directly by the Group to resellers. In the United States, the products are supplied to resellers through a distributor, but the primary retailer relationships are maintained by Focusrite Novation Inc. based in Los Angeles. These three markets represent approximately 63% of the Group's annual revenue in FY2014. The remaining 37% is accounted for by other territories managed by regional third-party distributors. Typically the distributors focus exclusively on a single country.

The UK based marketing department supports the United States subsidiary, the German branch office and their respective marketing sub-contractors, as well as all of Focusrite's global national distributors. Each distributor is responsible for the marketing, distribution and supporting of the products it sells into its territory. The distributors in turn are supported by Focusrite's own marketing activities, with the Group's product specialists and global customer support team. The in-house marketing team includes technical and creative specialists who are responsible for product marketing, communications, exhibitions, events and Focusrite's social media and online presence.

The distributors of the Group's products act as order fulfillers and purchase directly from the Group and collect the products either from warehouses in the United Kingdom or China. The Group has created a third-party managed Southern China distribution centre, of which the Chinese warehouse

10 *Ableton AG's software product.*

is a part. The Southern China distribution centre is strategically positioned to provide goods to United States and Asia Pacific territories quickly and at a low cost. It also enables the Group to take advantage of international trade benefits under certain customs treaties.

5.7. Customers

The Group has maintained a stable base of key distributors and resellers with a number of large customers with a long track record with the Group. During FY2014, approximately 38% of revenue was generated from the top 10 retail partners or resellers with Guitar Center being the largest reseller. Sales to Amazon.com, Best Buy and Guitar Center are made through the Group's distributor, which has been the Group's exclusive distributor in the United States since 2004.

The levels of churn of the Group's largest customers is low, with revenue growth historically driven by increasing sales to existing customers.

The geographical spread of customers is diverse with the largest market being the United States as shown below:

Percentage of FY2014 Revenue by Region

USA	35%
EMEA	20%
UK	17%
Germany	11%
Asia	10%
Latin America	3%
Other	4%

5.8. Customer Service and Support

The Group has a UK based customer support team. The end users are able to register their purchased products online on the Focusrite brand or Novation brand websites using the serial numbers of the purchased products. This enables the end users to access any free software and activation codes that come with the relevant product, as well as ensure that they have the latest drivers, software and firmware.

In addition to a comprehensive library of product information available online, the Group provides telephone and live web chat support for its current and prospective end users. For professional and commercial product ranges such as RedNet and Saffire, the Group is able to deploy product specialists on site to assist with the installation of hardware and software.

5.9. In-house Research and Development Function

The Group has a dedicated in-house team of approximately 40 employees working full time in its research and development ("R&D") department[11] headed by Robert Jenkins, who has been with the Group for 25 years. The in-house R&D team is split into four key product teams: "Professional and Project" (Focusrite brand); "Hobbyist" (Focusrite brand); "Commercial and Networked Audio" (Focusrite RedNet brand); and Novation. Each team has the capability to design and engineer prototypes and successfully take them to market. This allows for continued innovation of existing products, rapid new product development, and the protection of know-how and intellectual property. The Group's annual spend on R&D was £2.5 million in FY2014 and £2.1 million in the financial year ending 31 August 2013.

5.10. Intellectual Property

Focusrite's technology is built on a proprietary basis. The Group protects its intellectual property through a number of key practices and activities that include:

- continuous product innovation and regular upgrades of functionality for core products;
- filing and maintenance of trade marks, together with copyright protection; and
- incorporating non-competition and non-disclosure terms in employee contracts.

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11 *As at 13 November 2014.*

The Directors believe that Focusrite's trade marks, trade secrets, copyrights and other intellectual property are a central value to the business and continue to seek to further develop and protect the Group's intellectual property assets. As at the date of this document the Group has a portfolio of 37 individual trademarks, 13 brandnames, 35 domain names and three families of design registrations.

5.11. New Product Pipeline and Marketing Strategy

Focusrite has a proven track record of delivering innovative products within its product ranges. The Group considers new products as both improved versions of existing products on the market, as well as new or complementary ranges of products.

The Group has launched 42 new products between the year commencing 1 September 2011 and 31 August 2014. The products launched between September 2011 and August 2014 accounted for approximately 80% of Focusrite's revenue in FY2014. Historically, up to a third of FAEL's annual revenue is derived from new products that have been launched within the last 12 months. The new product pipeline is augmented and extended each quarter to maintain a rolling 18 month product pipeline. The pipeline targets a diverse customer base creating multiple organic growth opportunities. All new products are developed in-house and are self-funded from the Group's cash flow.

The current new product pipeline extending to September 2016 contains approximately 40 new products and is centred on identifying key opportunities for growth in each of the four market segments. This includes both entry into new markets and increasing existing product market share through improvement of existing products.

Focusrite's marketing strategy is focused on creating a competitive position for each of the products at a relevant price point. The Group aims to achieve this through its brand heritage, focus on customer needs and uncovering solutions its products can deliver.

Focusrite Brand Marketing Strategy

Focusrite's brand marketing strategy is to provide the best combination of customer value attributes in each of its product ranges by targeting a broad customer market from the hobbyist up to the professional recording studio. Each product segment is served by a range of products each with a variety of features and prices.

The Directors believe that the major opportunity for the Focusrite brand will be to offer products above the $500 product price point, where there is currently a gap in the Group's product portfolio and at below the $100 product price point where the Group is starting to offer new lower cost solutions. In addition, the Group aims to strengthen brand consistency between the four product ranges of audio interfaces.

Focusrite Commercial and Networks Marketing Strategy

The Directors believe there is a technological transition taking place in the professional audio market where audio technology is converging with ethernet technology to provide a new infrastructure to connect together different equipment and locations. The Directors believe that ethernet audio technology offers significantly improved functionality and cost benefits, compared to the historic paradigm as it enables users to replace large and complex cable installations with a single ethernet cable.

Focusrite was an early implementer of this type of ethernet audio technology with RedNet, originally designed for professional recording studios. The Directors believe the Group is well positioned to take advantage of this technological transition by adapting its RedNet range to enter adjacent markets to the professional audio sphere such as the live, education, post production and broadcast markets.

RedNet's current customers include educational establishments such as West London College of Music, Arcada University in Finland and North Western Michigan College in the United States, as well as the BBC. RedNet is a higher value and higher margin product achieving a typical selling price per unit of $2,500 and contribution margin of greater than 60%. The Group is planning to fully deploy its RedNet range to new markets in the first half of 2015.

Novation Marketing Strategy

The Novation strategy is based on the unique benefits the brand can bring to its product groups based on grids, keys, control and standalone.

The Directors believe there is currently an opportunity in the market to expand Novation's synth ranges to include higher price points and capture the broader range of analogue and digital synthesis. Furthermore, there is an opportunity to create a new product range that combines the grid with a standalone synthesiser, which can be used anywhere without a need for a computer.

5.12. Operational Strengths

The Directors consider that Focusrite's operational strengths include:

- **Brand heritage:** Focusrite draws on over 25 years of professional music-making experience to create and deliver high quality products to the wider market
- **Customer satisfaction**: High levels of end user satisfaction evidenced by Focusrite's Net Promoter Score of 70%[12] and use by professional artists and institutions for recording and/or live performances
- **Proven and reliable distribution:** An extensive distribution network through established relationships with resellers and third-party distributors allowing Focusrite products to be sold in approximately 160 territories
- **Product driven innovation:** Four specialist R&D product segment teams and the new software team within the organisational structure allow the Group to respond quickly and efficiently to customer and market needs
- **Experienced management team:** Executive management team of nine people with a combined experience of 99 years as Directors of Focusrite and a successful track record of building and operating the business, as well as attracting and retaining the technical expertise required for product innovation

6. MARKET OVERVIEW

6.1. Market Size and Dynamics

The global music instrument and pro audio wholesale market was worth £2.7 billion in 2013, according to Music Trades Magazine, representing a year-on-year growth of 2.24%[13]. The Group estimates that its current Focusrite and Novation brand product portfolio addresses approximately £350 million[14] of the Musical Instrument ("MI") market represented by approximately £100 million in the electronic music segment and approximately £250 million in the recording segment. The electronic music segment grew year-on-year by 5.60% in 2013. Furthermore, according to the 2014 International Music Summit Business Report, Dance and Electronic music was the highest growing genre in terms of track sales in 2013[15].

In addition to electronic music and recording segments, the Directors believe that Focusrite's commercial market segment, into which the recently launched RedNet products are sold, represents an annual market of approximately £100 million. Together, with electronic music and recording segments, the Directors believe the Group's current total addressable market ("TAM") to be approximately £450 million.

6.2. Market Penetration

Focusrite's penetration of the 2013 MI market based on its FY2014 revenue was approximately 1.5%[16]. The Group has a market share of 9% of its current total addressable market of approximately £450 million based on its FY2014 revenue[17]. The MI market's two year CAGR to 31 December 2013 was 1.97%, while Focusrite's two year CAGR to 31 August 2014 was 27%[18].

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12 *Focusrite market research, April 2013, based on "Would you recommend Company X to a friend or colleague?"*

13 *Music Trades Corporation Magazine, 2013 market report.*

14 *Music Trades Corporation Magazine, 2013 market report; based on Recording and Electronic Dance Music categories.*

15 *2014 International Music Summit Business Report, page 3.*

16 *Management calculation based on the analysis of the Music Trades Corporation Magazine, 2013 market report and based on FY2014 revenue of £41.0 million.*

17 *Based on FY2014 revenue of £41.0 million.*

18 *Company Calculations based on IFRS accounts.*

The Directors believe the FAEL's growth rates compared to that of the market illustrate that Focusrite has been gaining market share in the last three years. According to Music Trades Magazine, in 2013, only 8% of the MI market was represented by computer-based music products[19]. The Directors believe that end users are not embracing music technology more quickly because technological advances have made it cheaper, but not easier, to make and share music. Focusrite market research illustrates that end users value "easy", "quality" and "works" the most when asked "why would they recommend a brand"[20]. The Directors believe that Focusrite's strategy is dedicated to finding solutions which help musicians make music easier to make and intend to achieve this through end user education and marketing; integration of software and hardware; higher quality gear and online content, introduction of Instagram-like features and new instruments; and increasing the use of internet-based distribution and sharing of music.

By increasing the number of musicians buying technology-enabled products, Focusrite plans to increase its market penetration, as well as growing its potential addressable market.

6.3. Competitive Landscape

Focusrite operates in a number of segments across its product range. The Directors believe that the market in most segments is fragmented with a wide range of competitors. The Directors believe Focusrite's key competitors across its product ranges are: AKAI Professional LP, Ableton AG, Apogee Electronics Corp., Avid Technology Inc., Native Instruments GmbH, inMusic Brands, Inc. (M-Audio), Presonus and Yamaha Commercial Audio Systems Inc.

7. GROUP STRATEGY

The Group has four key elements to its growth strategy:

- Build on the currently low market share in current market segments through product innovation
- Exploit industry trends and technological industry transitions
- Continuously evolve the sales channel to capture margin
- Enter adjacent market segments organically and through acquisitions

The Directors believe that these four key elements will provide the platform to drive growth.

8. HISTORICAL TRADING

The following audited financial information for the years ended 31 August 2012 to 31 August 2014 has been derived from the financial information contained in Part III of this document prepared in accordance with IFRS, and should be read in conjunction with the full text of this document. Investors should not rely solely on the summarised information.

	Year ended 31 August 2012 £'000	**Year ended 31 August 2013 £'000**	**Year ended 31 August 2014 £'000**
Revenue	25,270	36,078	40,965
Growth	*25%*	*43%*	*14%*
Gross profit	9,695	14,283	15,897
Gross profit margin	*38.4%*	*39.6%*	*38.8%*
Adjusted EBITDA[21]	4,039	7,163	8,228
Adjusted EBITDA margin	*16.0%*	*19.9%*	*20.1%*

9. CURRENT TRADING AND FUTURE PROSPECTS

Trading in the period since 31 August 2014 continues to be positive and in line with management's expectations with two new product launches in the first two months of the financial year. The Directors will continue to implement the Group strategy as detailed above and remain confident in the future prospects of the Group.

19 *Directors calculation based on management market analysis; computer-based music products as identified by the Directors.*

20 *Focusrite market research, April 2012.*

21 *Adjusted EBITDA is calculated as EBITDA excluding costs of the Initial Public Offering accrued as at 31 August 2014 and additional pension contribution made to Phil Dudderidge during the year which are not expected to recur in future periods. There were no one off costs in the financial years ended 31 August 2012 or 31 August 2013.*

10. DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

Short biographies of the Directors and details of their roles, including the principal activities performed by the Directors outside the Group, are set out below.

10.1. Board of Directors

Philip "Phil" Dudderidge, Executive Chairman and Founder, Age 65

Phil has a distinguished career in the professional audio industry, including working as Led Zeppelin's first dedicated live soundman. He set up RSD in 1971, building bespoke PA systems with custom-built mixing consoles. In 1973, Phil set up Soundcraft Electronics, a company specialising in live audio mixing consoles, which was sold to Harman International in 1988. Phil acquired the assets of Focusrite Ltd. in 1989. Phil served as Chief Executive Officer of Focusrite from 1989 until he became Chairman in 2012.

David "Dave" Froker, Chief Executive Officer, Age 59

Dave was appointed Chief Executive Officer of Focusrite in March 2012. Previously, he was Chief Marketing Officer at Line 6. He served as Chief Executive Officer of Stanton Group until 2007, where he led the turnaround of audio equipment businesses Stanton Magnetics, Cerwin-Vega and KRK. Prior to Stanton Group, Dave was the General Manager of a digital audio technology company Digidesign from 1996 to 2002, where he presided over the growth of Pro Tools into the industry's audio workstation standard, as Digidesign's revenue tripled to $135 million.

Jeremy Wilson, Chief Financial Officer, Age 48

Jeremy was appointed Chief Financial Officer of Focusrite in September 2014. Jeremy has prior public market experience in a number of finance roles. Most recently, Jeremy was Chief Financial Officer of Atex Group Ltd, a leading worldwide developer of content management and advertising software to the media industry. Previously, Jeremy was CFO at Regenersis plc, the AIM-listed support services business. Prior to his CFO roles, Jeremy held several senior finance roles at DHL Express (UK) Limited and Electrocomponents Plc. He qualified as a Chartered Accountant at KPMG in 1992.

David Bezem, Independent Non-executive Director, Age 54

David joined the Board of Focusrite in December 2014 bringing with him more than 25 years of experience of providing mergers and acquisitions and general corporate finance advice to UK small and mid-market public and private companies. Most recently he was a Managing Director at Altium Corporate Finance between 2009 and 2011 and, prior to that, a Managing Director at Close Brothers Corporate Finance where he worked between 1999 and 2008. David qualified as a Chartered Accountant with Arthur Andersen & Co. in 1984. Currently, David is a Non-Executive Director at Harvey Nash Group Plc where he is also Chairman of the Remuneration Committee.

Paul Dean, Independent Non-executive Director, Age 53

Paul joined the Board of Focusrite in December 2014. Paul has over 30 years of experience across numerous sectors, including technology. Previously, he was Group Finance Director at Ultra Electronics Holdings Plc between 2009 and 2013 and Group Finance Director of Foseco Plc between 2001 and 2008, including the period of its flotation in 2005. He also held various senior finance roles at Burmah Castrol Plc from 1990 to 2000. Currently Paul is a Non-executive Director and Chairman of the Audit Committee at Polypipe Group Plc and Porvair Plc. He is also the Senior Independent director at Porvair Plc. Paul is a Chartered Management Accountant.

10.2. Other Directors and Senior Management

Michael "Mike" Warriner, Commercial Director, Age 42

Mike joined Focusrite in January 2010 as Legal Counsel and Head of Business Development, but became Commercial Director in July of the same year and subsequently, Finance Director from January 2013 to September 2014. Prior to joining Focusrite, Mike was a founder at the specialist corporate and technology law firm White & Black Legal LLP, where he headed up the Technology and IP practice from June 2007. Prior to this, he worked at an Oxford-based firm Darbys Solicitors LLP as a lawyer in the corporate, technology and finance team. Mike attended Trinity College of Music from 1994 to 1996 where he achieved a Post Graduate Diploma in Performance for the Double Bass.

Phillip Wagner, Chief Executive Officer of Focusrite Novation Inc., Age 52

Philip began his 30-year career with Soundcraft in the mid-1980s as a Eastern Regional Sales Manager and later joined Rupert Neve Inc. and Siemens in a similar role. He then joined Trident Audio Developments in California, United States. For 17 years, Philip held various positions for Solid State Logic Inc., including President. He attended New York University in the Music, Business & Technology Bachelor program.

Robert Jenkins, Product Director, Age 48

Robert is a trained electronics engineer and studied Sound Engineering in 1987. He was a test technician and responsible for the installation and commissioning of the original Focusrite recording consoles built between 1990 and 1993. Robert became the Product Director and has led the product strategy and development engineering at Focusrite since 1994.

Timothy Dingley, Operations Director, Age 33

Timothy has been with Focusrite for the last 13 years and is responsible for supply chain, vendor management, new project delivery and customer service. He has created and developed important manufacturing relationships and he is able to deliver quality and on-time delivery of award-winning products at competitive cost. Timothy achieved an honours degree in Audio Engineering (Tonmeister) from the University of Surrey.

Damian Hawley, Global Marketing and Sales Director, Age 43

Damian joined Focusrite's UK sales team in November 2004 and became Global Marketing and Sales Director in February 2014. Prior to joining Focusrite, he spent six years working in both the technology and business sides of JP Morgan. Damian started his career as a professional DJ and electronic music producer before graduating as a Bachelor of Engineering with an Electronic Engineering & Management Honours Degree from University of Middlesex.

Giles Orford, Marketing Director, Age 37

Giles joined Focusrite in 2000 and manages an international marketing team in the UK and USA that supports the Focusrite and Novation brands globally. He leads an innovative marketing team, producing data-driven market-leading results. Giles graduated from King's College London with a degree in Psychology.

11. CORPORATE GOVERNANCE

The Directors recognise the importance of sound corporate governance and confirm that although compliance with the UK Corporate Governance Code is not compulsory for AIM companies, following Admission, they intend to comply with the QCA Corporate Governance Guidelines (as devised by the QCA in consultation with a number of significant institutional small company investors), to the extent appropriate and practicable for a company of its nature and size. Following Admission, the Board will comprise five Directors of which three are executives and two non-executives, and reflects a blend of different experience and backgrounds. The Board considers two Directors to be independent.

Following Admission, the Board will meet regularly to review, formulate and approve the Group's strategy, budgets, and corporate actions and oversee the Group's progress towards its goals. In accordance with best practice, Focusrite Plc has established audit and remuneration committees with formally delegated duties and responsibilities and with written terms of reference. From time to time separate committees may be set up by the Board to consider specific issues when the need arises. At Admission, Focusrite Plc will have established the following committees:

11.1. Audit Committee

The Audit Committee will assist the Board in discharging its responsibilities, within agreed terms of reference, with regard to corporate governance, financial reporting and external and internal audits and controls, including, amongst other things, reviewing the Group's annual financial statements, reviewing and monitoring the extent of the non-audit services undertaken by external auditors, advising on the appointment of external auditors and reviewing the effectiveness of the Group's internal controls and risk management systems. The ultimate responsibility for reviewing and approving the annual report and accounts and the half yearly reports remains with the Board. Membership of the Audit Committee comprises the two independent directors and is chaired by Paul Dean. The Audit Committee will meet formally not less than three times every year and otherwise as required.

11.2. Remuneration Committee

The Remuneration Committee will be responsible, within agreed terms of reference, for establishing a formal and transparent procedure for developing policy on executive remuneration and to set the remuneration packages of individual Directors. This includes agreeing with the Board the framework for remuneration of the Executive Directors, the company secretary and such other members of the executive management of the Group as it is designated to consider. It is furthermore responsible for determining the total individual remuneration packages of each Director including, where appropriate, bonuses, incentive payments and share options. No Director may be involved in any decision as to their own remuneration. The membership of the Remuneration Committee comprises the two independent directors and the committee is chaired by David Bezem. The Remuneration Committee will meet not less than twice a year and at such other times as the chairman of the committee shall require.

11.3. Nomination Committee

The Nomination Committee will have responsibility for reviewing the structure, size and composition of the Board and recommending to the Board any changes required, for succession planning and for identifying and nominating for approval of the Board candidates to fill vacancies as and when they arise. The Committee is also responsible for reviewing the results of the Board performance evaluation process and making recommendations to the Board concerning suitable candidates for the role of senior independent director and the membership of the Board's committees and the re-election of Directors at the annual general meeting. The membership of the Nomination Committee comprises the two independent directors and Phil Dudderidge and the committee is chaired by David Bezem. The nomination committee will meet not less than once a year and at such other times as the chairman of the committee shall require.

12. REASONS FOR THE PLACING AND ADMISSION

The Placing will enable the Selling Shareholders to realise part of their investment in the Group. In addition, the Directors expect that the Placing and Admission will provide a public market for the Ordinary Shares, which will benefit employee shareholders, and will enable Focusrite Plc, if required, to access the capital markets to support its strategic objectives.

On Admission, the Ordinary Shares will be admitted to trading on AIM.

13. SELLING SHAREHOLDERS

The Selling Shareholders have, pursuant to the terms of the Placing Agreement, agreed to sell the Placing Shares at the Placing Price, raising gross proceeds for the Selling Shareholders of approximately £22.4 million before expenses. The Group will not receive any proceeds from the sale of the Placing Shares by the Selling Shareholders. Further details of the Selling Shareholders are set out at paragraph 5 of Part IV of this document.

The Selling Shareholders consist of Phil Dudderidge and Jennifer Dudderidge, the wife of Phil Dudderidge, (the "Major Shareholder"), senior management and certain longstanding external shareholders through their direct shareholdings in Focusrite Plc. The senior management as a whole are only selling part of their shareholdings in Focusrite Plc, and will together retain 59.6% of the Issued Share Capital.

Immediately following Admission and the Placing, the Major Shareholder will hold 30,249,000 Ordinary Shares representing 52.1% of Ordinary Shares.

Focusrite Plc has entered into a Relationship Agreement with the Major Shareholder which is summarised in paragraph 8.3 of Part IV of this document. The Relationship Agreement, which is conditional on, and takes effect from, Admission, is intended to ensure that the Group is capable of carrying on its business independently of the Major Shareholder and his connected persons following Admission.

The Takeover Code is issued and administered by the Panel. Focusrite Plc is subject to the Takeover Code and therefore all Shareholders are entitled to the protections afforded by it. As the Major Shareholder (together with those he is deemed to be acting in concert with) will hold more than 50% of the Issued Share Capital, the Major Shareholder may accordingly increase his aggregate interest in shares without having any obligation under Rule 9 to make a general offer, although individual members of the concert party will not be able to increase their percentage interest in shares through or between a Rule 9 threshold without Panel consent. Further details are set out at paragraph 3.2.2 of Part IV of this document.

14. DIVIDEND POLICY

It is the Directors' intention to implement a progressive dividend strategy subject to the discretion of the Board and subject to Focusrite Plc having appropriate distributable reserves. It is the intention of the Directors to pay a total dividend for the current financial year ending 31 August 2015 that equates, in aggregate, to a dividend yield of between 1% and 2% calculated at the Placing Price. This may vary depending on a variety of factors and conditions and is dependent on Focusrite's cashflows, capital expenditure, budgets, earnings, financial condition and other factors as the Board may consider appropriate from time to time.

15. SHARE DEALING CODE

Focusrite Plc has adopted, with effect from Admission, a share dealing code for the Directors and certain employees, which is appropriate for a company whose shares are admitted to trading on AIM (particularly relating to dealing during close periods in accordance with Rule 21 of the AIM Rules for Companies) and Focusrite Plc will take all reasonable steps to ensure compliance by the Directors and any relevant employees.

16. SHARE INCENTIVE ARRANGEMENTS

The Group operates three option schemes, the 2012 EMI Scheme, the 2014 EMI Scheme and an unapproved option scheme (''Share Option Schemes''). Prior to Focusrite Plc's incorporation, FAEL operated the Share Option Schemes and granted options over its share capital (''Old Options''). Following Admission, it is intended that the Old Options will be rolled over into options over shares in Focusrite Plc and Focusrite Plc will take over the operation of the Share Option Schemes.

Following Admission the total number of Ordinary Shares under option in Focusrite Plc will be 7,382,097, of which 5,085,097 will be non-dilutive Ordinary Shares that have already been issued to the EBT. The remaining number of options will be held by the Directors and would if exercised result in the issue of 2,297,000 Ordinary Shares, which would represent a dilution of 3.96% of the Issued Share Capital. The options to be held by the Directors are subject to performance related vesting conditions, as set out further in paragraph 4 of Part IV of this document.

The EBT holds 5,676,000 Ordinary Shares (representing 9.77% of the Issued Share Capital), in respect of non-dilutive options for employees, of which options in respect of 5,085,097 have been granted over such shares held by the EBT. The Ordinary Shares held by the EBT were issued to it in consideration of shares it previously held in the share capital of FAEL, which it transferred to Focusrite Plc pursuant to the Share Exchange Agreement. The shares that the EBT previously held in FAEL were gifted to the EBT in order to allow it to satisfy the options previously granted by FAEL, under the 2014 EMI Scheme.

The maximum number of Ordinary Shares to be made available under the Share Option Schemes or any other option plan that will be dilutive, (including the 2,297,000 Ordinary Shares in respect of which options have been granted to the Directors prior to Admission), will not exceed 10% of Focusrite Plc's Issued Share Capital over any rolling ten year period.

Further details of the Share Option Schemes are set out in paragraph 4 of Part IV of this document.

17. LOCK-IN AND ORDERLY MARKET ARRANGEMENTS

Focusrite Plc has entered into lock-in arrangements with the Selling Shareholders (whose shares represent in aggregate 59.6% of the Issued Share Capital on Admission) and Panmure Gordon pursuant to which each of such parties (other than Panmure Gordan) has agreed not to dispose of any of his interests in Ordinary Shares prior to the first anniversary of Admission and thereafter for the following 12 months only to dispose of them through Focusrite Plc's brokers at the relevant time.

Further details of the lock-in agreements are set out in paragraph 8 of Part IV of this document.

18. ADMISSION, SETTLEMENT AND DEALINGS

Application will be made to the London Stock Exchange for the Issued Share Capital to be admitted to trading on AIM. It is expected that Admission will become effective and that dealings in the Issued Share Capital will commence on 11 December 2014.

The Articles permit Focusrite Plc to issue Ordinary Shares in uncertificated form in accordance with the CREST Regulations. CREST is a computerised share transfer and settlement system. The system allows shares and other securities to be held in electronic form rather than paper form, although a Shareholder can continue dealing based on share certificates and notarial deeds of transfer. For private investors who do not trade frequently, this latter course is likely to be more cost-effective.

For more information concerning CREST, prospective Shareholders should contact their brokers or Euroclear UK & Ireland Limited at 33 Cannon Street, London EC4M 5SB.

The ISIN number of the Ordinary Shares is GB00BSBMW716. The TIDM is TUNE.

19. TAXATION INFORMATION FOR INVESTORS

The attention of prospective investors is drawn to the information regarding taxation which is set out in paragraph 9 of Part IV of this document. These details are, however, only intended as a guide to the current taxation law position in the UK. **Prospective investors who are in any doubt as to their tax position or who are subject to tax in jurisdictions other than the UK are strongly advised to consult their professional advisers.**

20. APPLICABILITY OF THE TAKEOVER CODE

Further information on the provisions of the Takeover Code can be found in paragraph 3.2.2 of Part IV.

21. RISK FACTORS

Prospective investors should consider carefully the risk factors described in the section headed "Risk Factors" and set out in Part II of this document in addition to the other information set out in this document and their own circumstances, before deciding to invest in Ordinary Shares.

22. FURTHER INFORMATION

Potential investors should read the whole of this document which provides additional information on Focusrite Plc and the Placing and not rely on summaries or individual parts only. Your attention is drawn in particular to the Risk Factors set out in Part II and to Part IV of this document which provide additional information on the Group and the markets in which it operates.

PART II

RISK FACTORS

An investment in Focusrite Plc is subject to a number of risks and uncertainties. Accordingly, in evaluating whether to make an investment in Focusrite Plc potential investors should consider carefully all of the information set out in this document and the risks attaching to an investment in Focusrite Plc, including (but not limited to) the risk factors described below, before making any investment decision with respect to the shares. The risk factors described below do not purport to be an exhaustive list and do not necessarily comprise all of the risks to which Focusrite Plc is exposed or all those associated with an investment in Focusrite Plc. In particular, Focusrite Plc's performance is likely to be affected by changes in market and/or economic conditions and changes in the laws and regulations (including in legal, accounting, regulatory and tax requirements). The risk factors described below are not intended to be presented in any assumed order of priority. Additional risks and uncertainties not presently known to the Directors, or which the Directors currently deem immaterial, may also have an adverse effect upon Focusrite Plc. If any of the following risks were to materialise, the Group's business, financial condition, results, prospects and/or future operations may be materially adversely affected. In such case, the value of the shares may decline and an investor may lose all or part of their investment in the Ordinary Shares.

RISK FACTORS RELATING TO THE BUSINESS AND OPERATIONS OF THE COMPANY

Inability to Manage Growth

The Group operates in the global economy and ultimately within a retail environment to consumer end user musicians and such operations are influenced by global and national economic activities. The Group is focused on producing relevant future facing products that meet specific use cases and historically this has created strong growth to both revenues and profit. The growth of the Group's revenues and profits in the future will depend, in part, on its ability to take advantage of the Group's growing complexity, including expanding its operation, launching new products, expanding into new geographies and adapting to an evolving market dynamic. In order to manage its planned expansion, it will need continually to evaluate the adequacy of its working capital, management capabilities, operational procedures and financial controls, including supply chain costs. Furthermore any adverse economic conditions could substantially or adversely affect the Group's prospects and returns. Accordingly, there can be no assurance that the Group will be able to achieve its expansion goals on a timely or profitable basis.

Credit Risk

The Group has financial exposure to trading partners in its sales channel. These constitute debts which are managed via insurance and customer credit limits. There is active management of exposures in the operating business through credit risk management policies and the credit team works closely with the Group's credit insurer to manage limits and risk. The credit insurance typically covers 90% of the customer debts outstanding at a point in time. In the rare cases in which the insurance company is unwilling to insure a particular debt, to try and mitigate the credit risk the sales director and finance director consider whether to give a discretionary additional credit limit based on their assessment of the customer's credit rating. The Group is exposed to credit risk in respect of these balances such that if a trading partner encounters financial difficulties this could materially or adversely affect the Group's financial results.

Currency Risks

The Group is exposed to currency and exchange rate fluctuations which may affect the Group's results or operations. The Group's activities are conducted primarily in USD, GBP and EUR. The Company's functional and reporting currency is GBP. There is a largely effective natural hedge for USD transactions in as much as the Company uses its generation of USD to buy in USD completed products from its contract manufacturers, resulting in low levels of USD transactional risk exposure. The principal foreign exchange risks to which the financial statements are exposed relate to adverse declines in the value of EUR as against USD and GBP.

The Group mitigates this exposure by entering into medium term horizon forward extra foreign exchange hedging contracts for the conversion of EUR to USD and GBP. Adverse changes in exchange rates may have a material adverse effect on the Group's business, operating results and financial condition.

Contractual Risk

The Group has entered into key contracts which are crucial to its ongoing success. These contracts may be with a key supplier, customer or partner. Each contract has its own unique risk profile. Particular risks which the Group may face in relation to certain contracts include: early termination; broad and uncapped indemnification; broad exclusions of supplier liability; short inventory sell-off periods; and misuse of the Group's or third party's IP. In relation to all its contracts, the Group faces exposure to the failure of contract performance by its contractual counterparties and termination of these contracts.

The Group manages its contractual risks through the careful drafting of contracts including, where considered advisable, in conjunction with legal experts. However some of the Group's counterparts may have substantial purchasing and bargaining power. The Group endeavours to have a clear understanding of the risks, relative to the importance of the commercial relationship which it is entering, such that the terms and conditions of each contract reflect the risk profile of the relationship. There can, however, be no assurance that the Group will be able to negotiate suitable contractual terms in the future.

The Group's most significant contracts are with customers or suppliers with which the Group has had long term relationships. Although the Directors believe they would be able to take steps to mitigate many of the effects of any such contracts ending, however, the impact could potentially be substantial and which could have a material adverse effect on the Group until alternative arrangements take effect.

Reliance on Third Party Software

The Group is reliant on third party software in the provision of its products. The willingness of such suppliers to provide their products or services to the Group may be affected by various factors. To the extent that third party suppliers are unable or unwilling to provide products or services to the Group, this may have an adverse impact on the operations, financial performance and prospects of the Group. In addition the Group would have to find an alternative company which could provide such products and services and this may be both costly and time consuming.

Health & Safety, Environmental Risks

The Group is subject to stringent environmental, health and safety laws and regulations. Non-compliance may result in the imposition of fines and/or sanctions. These laws and regulations, coupled with the safety of all employees and end users of the Group's products, are of paramount importance to the Group.

The Directors believe there is adequate training for employees together with regular testing and compliance reporting through appropriate channels in these areas to ensure that the Group meets and exceeds its obligations in these matters.

Insurance Risk

The Group maintains insurance for its business risks with various insurance companies, and it believes that its insurance programme is adequate to cover the consequences of insurable hazards and risks to which the Group's operations are subject. However, the Group is unable to insure against all risks and may be exposed under certain circumstances to uninsurable hazards and risks which may result in financial liability, property damage, personal injury or other hazards or liability.

Estimates in Financial Statements

Preparation of consolidated financial statements requires the Group to use estimates and assumptions. Accounting for estimates requires the Group to use its judgment to determine the amount to be recorded on its financial statements in connection with these estimates. The Group's accounting policies require management to make certain estimates and assumptions as to future events and circumstances. However, the actual amounts could differ from those based on estimates and assumptions. In addition, the carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. If the estimates and assumptions are inaccurate, the Group could be required to write down the value of certain assets.

Material litigation, claims or arbitration

The Group is not engaged in any material litigation, claim or arbitration, either as plaintiff or defendant, which has or would have a material effect on its financial position and the Directors do not know of any proceedings pending or threatened or of any facts likely to give rise to any proceedings which might materially and adversely affect the Group's position or business.

However, there can be no assurance that there would be no proceedings in the future and any litigation, whether or not determined in the Group's favour or settled by the Group, may be costly and divert the attention of the Group's management and other personnel from normal business operations.

Technological changes

The market for the Group's products is characterised by continued evolution in technology, evolving industry standards, changes in customer needs, competition and frequent new product introductions. As such the Group will require significant investment of resources in its research and development to ensure that the fast changing needs of its target markets are met. If the Group is unable to anticipate changes in technology and customer requirements, or fails to develop and introduce its products on a timely basis, it may have an adverse impact on the Group's business and prospects. There can be no assurance that the Group will have sufficient resources to make such investments. Furthermore, if any technical or other difficulties that could delay the introduction of new technologies or enhancements are encountered, further investment may be required to ensure the desirability of the Group's products to customers.

Protection of intellectual property

The Group has a number of assets not covered by trademarks or protected by registered rights (such as patents). There can be no guarantee that third parties have not managed and/or will not manage to develop independently one or more similar products with the same or similar functionality without infringing intellectual property rights. Furthermore any failure to protect the Group's intellectual property may result in another party copying or otherwise obtaining and using the Group's proprietary technology without authorisation. There can be no guarantee that any such competing product would not have a material adverse effect on the future prospects of the Group's intellectual property rights and/or products.

Monitoring unauthorised use of intellectual property is difficult and costly. Much of the Group's proprietary rights in its software and systems are not protected by registration (such as patents) and therefore the Group is reliant on internal processes and systems to protect such rights. Whilst the Directors believe that the Group's efforts to protect its proprietary rights in its proprietary systems, processes and software are adequate, there is a risk that they may not suffice to prevent misappropriation of its intellectual property and it may not be able to take appropriate steps to enforce its intellectual property rights.

No assurance is given that the Group will continue to develop products and solutions which are capable of being protected or that any protection gained will be sufficiently broad in scope to protect the Group's intellectual property rights and exclude competitors from producing similar competing products and solutions.

Any misappropriation of the Group's intellectual property could have a negative impact on the Group's business and its operating results. Furthermore, the Group may need to take legal action to enforce its intellectual property, to protect trade secrets or to determine the validity or scope of the proprietary rights of others. Litigation relating to the Group's intellectual property, whether instigated by the Group to protect its rights or arising out of alleged infringement of third party rights, may result in substantial costs and the diversion of resources and management attention and there can be no guarantees as to the outcome of any such litigation.

Certain agreements under which the Group licences intellectual property rights from third parties ("Licensed-in IP Contracts") do not provide protections in the event that such rights infringe third parties. In addition, a number of the Licensed-in IP Contracts also contain wide exclusions and limitations of the relevant licensor's liability together with broad exclusions or statutory warranties relating to the licensed intellectual property rights.

The Group's liability under a certain number of Licensed-in IP Contracts is uncapped.

As a result, in the event of a claim that (i) the Group's use of such intellectual property rights in accordance with the terms of a Licensed-in IP Contract infringes the rights of a third party, (ii) that the Group has breached the terms of a Licensed-in IP Contract, the Group could be required to pay compensation, cease to use the intellectual property rights in question and/or indemnify the licensor, each of which could have a material adverse effect on the Group's business and prospects.

In addition, a number of the Licensed-in IP Contracts also contain broad rights of termination in favour of their licensor. Accordingly, the Group has little certainty over the contractual term of such Licensed-in IP Contracts.

The Directors believe there is little risk of such Licensed-in IP Contracts being terminated provided the Group pays any fees when due under, and complies with the terms of, such Licensed-in IP Contracts.

Many of the Licensed-in IP Contracts are on the standard terms of market leading organisations where there is often little scope for negotiation. Accordingly, it is not uncommon for the exclusions, omissions, limitations and termination rights referred to above to be excluded from contracts of the nature of the Licensed-in IP Contracts.

Third party disputes relating to the infringement of intellectual property

A Chinese individual (''Existing TM Holder'') owned a trademark registration in China, applied for in 2005, which features the Group's Novation brand name (the ''Brand'') and which covers goods which are similar to some of the core goods sold and manufactured in China by the Group (''Competing Registration''). In 2012, the Existing TM Holder applied to register a new trade mark featuring the Brand in China (''Competing Application'') which was opposed by the Group.

The Group agreed to purchase the Competing Registration and Competing Application from the Existing TM Holder via a China-based special purpose company (''ChinaCo''). On 13 November 2014, an agreement to assign was entered into between the Company and ChinaCo, under which it was agreed that ChinaCo would transfer to the Company all rights relating to the Competing Registration and Competing Application, including the right of use (''Assigned Rights'').

At present, the Assigned Rights do not stand in the name of the Company according to the Chinese Register, since although an application to record the first assignment from the Existing TM Holder to ChinaCo has now been filed at the Chinese Registry, this will take a number of months to complete and, moreover, an application to record the second assignment from ChinaCo to the Company cannot be filed until then. Until such time as both records are complete, the Company cannot enforce the Assigned Rights against third parties solely on the basis of the agreement to assign of 13 November 2014. For this reason, the Company arranged for the execution of further agreements between a) the Existing TM Holder and ChinaCo and b) ChinaCo and the Company, which will enable the Company to enforce the Assigned Rights against third parties even before the assignment recordal process is complete. On 18 November 2014, a further agreement was entered into between the Company and ChinaCo, which authorises the Company to use and enforce the Competing Registration and Competing Application. The Company is therefore the exclusive licencee of the two marks, until such time as the date of publication of the second assignment, from ChinaCo to the Company, by the Chinese Registry, at which point, the Company will be the legal owner.

There is no guarantee that the above will prove to be enforceable or take effect and the trademarks and intellectual property of the Group will not be subject of disputes in the future.

Dependence on key executives and personnel

The Group's future development and prospects depend to a significant degree on the experience, performance and continued service of its senior management team, including the Directors. The Group has invested in its management team at all levels. The Directors also believe that the senior management team is appropriately structured for the Group's size and is not overly dependent upon any particular individual. The Group has also entered into contractual arrangements with these individuals with the aim of securing the services of each of them. Retention of these services or the identification of suitable replacements, however, cannot be guaranteed. The loss of the services of any of the Directors or other members of the senior management team and the costs of recruiting replacements may have a material adverse effect on the Group and its commercial and financial performance and reduce the value of an investment in the Ordinary Shares. The Group does not currently have any key man insurance to reduce this risk. There is no certainty that key man insurance will be available to the Group on commercially acceptable terms were it to be sought by the Group.

Scarcity of experienced technical personnel

The nature of the Group's business requires its employees in the technical and development teams to be highly skilled and experienced in their respective fields. There can be no guarantee that the Group will be able to recruit more suitably experienced employees in the future, should the team need to expand or should the existing employees leave the Group. Inability to recruit suitably experienced employees may have an adverse impact on the operations of the Group and may have a detrimental effect upon the trading performance of the Group.

Ability to win or maintain market share

The market in which the Group operates is highly fragmented and there may be products and competitors of which the Group is currently unaware. Whilst the Directors believe that the Group has developed a strong position in its chosen markets and has a proven track record of product innovation, there are no assurances that the strength of the Group's competitors will not improve or that the Group will win any additional market share from its competitors or maintain its existing market share. The Group's competitors may be able to respond faster to new or emerging technologies, changes in client requirements and/or demands or devote greater resources to the development, promotion and sales of their products and services than the Group can. The Group's current and potential competitors may develop and introduce new products that could be priced lower, provide superior performance or achieve greater market acceptance than the Group products and services. The Group's current and potential competitors may establish financial and strategic relationships amongst themselves or with existing or potential clients or other third parties to increase the ability of their products to address client needs. Accordingly, it is possible that new competitors or alliances amongst competitors could emerge and acquire significant market share. Existing and/or increased competition could, therefore, adversely affect the Group's market share and/or force the Group to reduce the price of its products, which could have a material adverse effect on the Group's performance, financial condition or business prospects.

Changes in applicable laws and regulations

The application or modification of existing law or regulations, or adoption of new laws and regulations could adversely affect the manner in which the Group currently conducts its business.

Reputation

The Group's reputation is central to its future success, in terms of the services and products it provides, the way in which it conducts its business and the financial results which it achieves. Failure to meet the expectations of its clients, suppliers, employees, shareholders and other business partners may have a material adverse effect on the Group's reputation and future revenue.

No guarantee of success with the Group's new products

The Group intends to develop and launch new products in the next 18 months and beyond. There can be no guarantee that these new products will be successful in attracting new customers, and there is a corresponding risk that the working capital and management time invested by the Group in launching these products will not be recouped. This may have an adverse impact on the Group's ability to increase its profitability and revenues, to achieve its expected level of growth or to fund its operations through cash generation.

Dependence on United States distributor

The Group's largest distributor is its United States distributor, which accounts for 35% of the FY2014 revenue of the Group. This distributor owns stock bought from the Group which equates to two to four months of future demand. In the event that this distributor decided to cancel its contract with the Group, the Group would have to buy back the stock currently owned by the distributor and would also have to find an alternative distributor. In the short term this would have a material adverse impact on the Group's cashflow and could have a material adverse effect on the Group's business, operating results and financial position. In addition, the agreement with this distributor does not include a cap on liability for either party, and as a result, the Group's product liability to the distributor is unlimited, which could have a material adverse effect on the Group's business, operating results and financial position.

Dependence on a small number of suppliers

The Group is dependent on a small number of suppliers, in particular its largest supplier, which accounts for 64% of the total purchases of materials in FY2014 and supplies Focusrite interfaces. Failure or material delay by the counterparty to perform or breach its obligations under the agreements or failure by the Group to renew such arrangements could have a material adverse effect on the Group's business, operating results and financial position. In addition, the supply agreement with its largest supplier includes a broad exclusion of liability on behalf of that supplier, which could result in there being a material risk of the Group not having any recourse against the supplier.

Tax risk

Changes in taxation rates or law, or misinterpretation of the law or any failure to manage tax risks adequately could result in increased charges, financial loss, including penalties, and reputational damage, which may have an adverse effect on the Group's financial condition and future prospects. A material change in the level or applicability of VAT, sales and other consumption taxes in the United Kingdom and other jurisdictions could have an adverse effect on the Group's sales, which could have a material adverse effect on the Group's prospects, business, financial condition and results of operations.

The Group has a marketing subsidiary in the United States. The costs of this subsidiary are charged to the main trading company in the UK, FAEL, at cost plus 5%. It is the belief of the Directors that this represents an appropriate profit margin but it should be noted that this has not been verified by the United States tax authorities and could be subject to challenge.

Legal risk

Legal risks include the inability to enforce security arrangements, an inability to enforce foreign judgments relating to contracts entered into by the Group that are (in a small number of agreements) governed by laws outside England and Wales, absence of a choice of law, and an inability to refer disputes to arbitration or to have a choice (in a small number of agreements) with regard to arbitration rules, venue and language. Mitigation measures for these risks are limited.

RISKS RELATING TO THE ORDINARY SHARES

Suitability

An investment in the Ordinary Shares may not be suitable for all recipients of this document, and is only appropriate for investors capable of evaluating the risks (including the risk of capital loss) and merits of such investment and who have sufficient resources to sustain a total loss of their investment. An investment in the Ordinary Shares should be seen as long-term in nature and complementary to investments in a range of other financial assets and should only constitute part of a diversified investment portfolio. Potential investors should consider carefully whether investment in the Ordinary Shares is suitable for them in the light of the information in this document and their personal circumstances. Before making any final decision, potential investors in any doubt should consult with an investment adviser authorised under the FSMA who specialises in advising on investments of this nature.

Trading market for the Ordinary Shares

The share price of publicly traded companies, including those listed on AIM, can be highly volatile and shareholdings illiquid. The price at which the Ordinary Shares will be quoted and the price which investors may realise for their shares will be influenced by a large number of factors, which could include, but not limited to, the performance of both the Group's and its competitors' businesses, variations in the operating results of the Group, divergence in financial results from analysts' expectations, changes in earnings estimates by stock market analysts, large purchases or sales of Ordinary Shares, legislative changes and general economic, political and regulatory conditions. Prospective investors should be aware that the value of an investment in the Company may go down as well as up. Investors may therefore realise less than, or lose all of, their investment. The volume of shares traded on AIM can be limited and this may restrict the ability of Shareholders to dispose of Ordinary Shares at any particular time. It may be more difficult for an investor to realise his investment in the Group than in a company whose shares are quoted on the Official List. The AIM Rules are less demanding than those of the Official List. It is emphasised that no application is being made for the admission of the Focusrite Plc's securities to the Official List.

Substantial sales of Ordinary Shares

There can be no assurance that certain Directors or other Shareholders will not elect to sell their Ordinary Shares following the expiry of the Lock-in Agreements, details of which are set out in paragraph 8 of Part IV of this document, or otherwise. The market price of Ordinary Shares could decline as a result of any such sales of Ordinary Shares or as a result of the perception that these sales may occur. In addition, if these or any other sales were to occur, the Group may in the future have difficulty in offering Ordinary Shares at a time or at a price it deems appropriate.

Future performance of the Group cannot be guaranteed

There is no certainty and no representation or warranty is given by any person that the Group will be able to achieve any returns referred to in this document. The financial operations of the Group may be adversely affected by general economic conditions or by the particular financial condition of other parties doing business with the Group.

The Group cannot assure investors that the Ordinary Shares will always continue to be traded on AIM or on any other exchange. If such trading were to cease, certain investors may decide to sell their shares, which could have an adverse impact on the price of the Ordinary Shares. Additionally, if in the future Focusrite Plc decides to obtain a listing on another exchange in addition or as an alternative to AIM, the level of liquidity of the Ordinary Shares traded on AIM could decline.

Shareholder Taxation

The attention of potential investors is drawn to Paragraph 9 of Part IV of this Admission Document. The tax rules, including stamp duty provisions and their interpretation relating to an investment in the Group, may change during the life of the Group.

The levels of, and reliefs from, taxation may change. The tax reliefs referred to in this Admission Document are those currently available and their value depends on investors' individual circumstances. Any change in the Group's tax status or the tax applicable to holding Ordinary Shares or in taxation legislation or its interpretation, could affect the value of the investments held by the Group, its ability to provide returns to Shareholders and/or alter the post-tax returns to Shareholders. Statements in this Admission Document concerning taxation of the Group and its investors are based on current tax law and practice which is subject to change.

Investors should therefore consider carefully whether investment in the Focusrite Plc is suitable for them, in light of the risk factors outlined, their personal circumstances and the financial resources available to them.

There is no guarantee that dividends will be paid by Focusrite Plc

Any dividend on the Ordinary Shares will be limited by the performance of the Company. Focusrite Plc's dividend policy is described in paragraph 14 of Part I of this document and should not be construed as a dividend forecast. As a holding company, Focusrite Plc's ability to pay dividends (including any special dividends) in the future is affected by a number of factors, principally the generation of distributable profits within the Group and the receipt of sufficient dividends from its subsidiaries. The inability on the part of any of its subsidiaries to pay dividends would negatively affect the amount of funds available to the Group to pay dividends. Under English law, a company can only pay cash dividends to the extent that it has distributable reserves and cash available for this purpose. In addition, the Group may not pay dividends if the Directors believe this would cause the Group to be inadequately capitalised or if, for any other reason, the Directors conclude it would not be in the best interests of the Group. Any of the foregoing could limit the payment of dividends to Shareholders or, if the Group does pay dividends, the amount of such dividends.

Dilution of Shareholders' interest as a result of additional equity fundraising

As mentioned above, Focusrite Plc may need to raise additional funds in the future to finance, amongst other things, working capital, expansion of the business, new developments relating to existing operations or new acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of Focusrite Plc other than on a *pro rata* basis to existing Shareholders, the percentage ownership of the existing Shareholders may be reduced. Shareholders may also experience subsequent dilution and/or such securities may have preferred rights, options and pre-emption rights senior to the Ordinary Shares.

Concentration of ownership

As at the date of Admission, the Major Shareholder will be interested in approximately 52.1% of the issued share capital of Focusrite Plc. Although the Relationship Agreement seeks to ensure that the Group's independence will be maintained, nonetheless this means that the Major Shareholder has the power to exercise significant influence over all matters requiring Shareholder approval, including the election and removal of the Directors, amendment to the Articles, approval of dividends and share buybacks, compromises and schemes of arrangement and mergers. This could have the effect of preventing the Group from entering into transactions that could be beneficial to it or its other Shareholders. Also the trading price of the Ordinary Shares could be materially affected if potential new investors are disinclined to invest in the Group because they perceive disadvantages to such a concentration of ownership.

Furthermore under Rule 9 of the Takeover Code, when any person acquires shares which (taken together with shares held or acquired by persons acting in concert with him) carry 30% or more of the voting rights exercisable at general meetings of a company and when any person, or persons acting in concert, hold 30% or more, but no more than 50% of the voting rights exercisable at general meetings of a company and that person, or any person acting in concert with him, acquires any additional shares which increase his percentage of the voting rights, such person is obliged (save with the consent of the Panel and the passing of an ordinary resolution by the independent shareholders of the company) to extend a general offer to all Shareholders of that company to purchase their shares for cash. However, at Admission, the Major Shareholder (together with his family) will hold more than 50% of Foscusrite Plc's voting share capital and as a result the Major Shareholder (together with those deemed to be in concert with him) will be able to increase their aggregate interest in shares without incurring any obligation under Rule 9 to make a general offer.

Forward-looking statements

This document contains forward-looking statements that involve risks and uncertainties. All statements, other than those of historical fact, contained in this document are forward-looking statements. The Group's actual results could differ materially from those anticipated in the forward-looking statements as a result of many factors. Investors are urged to read this entire document carefully before making an investment decision.

The forward-looking statements in this document are based on the relevant Directors' beliefs and assumptions and information only as of the date of this document, and the forward-looking events discussed in this document might not occur. Therefore, investors should not place any reliance on any forward-looking statements. Except as required by law or regulation, the Directors undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future earnings or otherwise.

It should be noted that the factors listed above are not intended to be exhaustive and do not necessarily comprise all of the risks to which the Group is or may be exposed or all those associated with an investment in the Group. In particular, the Group's performance is likely to be affected by changes in market and/or economic conditions, political, judicial, and administrative factors and in legal, accounting, regulatory and tax requirements in the areas in which it operates and holds its major assets. There may be additional risks and uncertainties that the Directors do not currently consider to be material or of which they are currently unaware, which may also have an adverse effect upon the Group.

If any of the risks referred to in this part of the document crystallise, the Group's business, financial condition, results or future operations could be materially adversely affected. In such case, the price of the Ordinary Shares could decline and investors may lose all or part of their investment.

PART III

HISTORICAL FINANCIAL INFORMATION

Part III contains the historical financial information of the FAEL Group for the three years ended 31 August 2014. Since the date of its incorporation, Focusrite Plc has not yet commenced operations and, save for the effects of entering the Share Exchange Agreement, has no material assets or liabilities, and therefore no financial statements have been prepared as at the date of this admission document.

Section A: Accountant's Report on the historical financial information of Focusrite Audio Engineering Limited

KPMG LLP
Arlington Business Park
Theale
Reading RG7 4SD

The Directors
Focusrite Plc
Windsor House
Turnpike Road
High Wycombe
Buckinghamshire
HP12 3FX

Dear Sirs

Focusrite Audio Engineering Limited

We report on the financial information of Focusrite Audio Engineering Limited set out on pages 34 to 73 for the three years ended 31 August 2014. This financial information has been prepared for inclusion in the AIM Admission Document dated 5 December 2014 of Focusrite Plc on the basis of the accounting policies set out in note 3 to the financial information. This report is required by Paragraph (a) of Schedule Two of the AIM Rules for Companies and is given for the purpose of complying with that paragraph and for no other purpose.

Responsibilities

The Directors of Focusrite Plc are responsible for preparing the financial information on the basis of preparation set out in note 1 to the financial information and in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Save for any responsibility arising under Paragraph (a) of Schedule Two of the AIM Rules for Companies to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Schedule Two of the AIM Rules for Companies, consenting to its inclusion in the Admission Document.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion on financial information

In our opinion, the financial information gives, for the purposes of the AIM Admission Document dated 5 December 2014, a true and fair view of the state of affairs of Focusrite Audio Engineering Limited and its subsidiary undertaking as at the dates stated and of its profits, cash flows and changes in equity for the periods then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Declaration

For the purposes of Paragraph (a) of Schedule Two of the AIM Rules for Companies we are responsible for this report as part of the AIM Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the AIM Admission Document in compliance with Schedule Two of the AIM Rules for Companies

Yours faithfully

KPMG LLP

Section B: Financial information for Focusrite Audio Engineering Limited for the three years ended 31 August 2014

Consolidated statements of comprehensive income

	Note	Year ended 31 August 2014 £000	2013 £000	2012 £000
Continuing operations				
Revenue	5	40,965	36,078	25,270
Cost of sales		(25,068)	(21,795)	(15,575)
Gross profit		15,897	14,283	9,695
Other gains and losses	10	15	55	66
Administrative expenses		(10,202)	(8,945)	(7,129)
Operating profit		5,710	5,393	2,632
Finance income	9	186	14	332
Finance costs	11	(86)	(168)	—
Profit before tax		5,810	5,239	2,964
Income tax expense	13	(763)	(638)	(300)
Profit for the year from continuing operations		5,047	4,601	2,664
Other comprehensive income, net of income tax				
Exchange differences on translation of foreign operations that may be reclassified to the income statement		—	(5)	(1)
Total comprehensive income for the period		5,047	4,596	2,663
Profit attributable to:				
Owners of the Company		5,047	4,596	2,663
		5,047	4,596	2,663
Earnings per share				
From continuing operations				
Basic (pence per share)	15	10.3	9.4	5.5
Diluted (pence per share)	15	8.8	7.6	4.6

Notes 1 to 36 form part of the historical financial information shown above.

Consolidated statements of financial position

	Note	2014 £000	2013 £000	2012 £000
Assets				
Non-current assets				
Goodwill	16	419	419	419
Other intangible assets	17	2,616	2,190	1,836
Property, plant and equipment	18	939	580	531
Deferred tax asset	24	34	100	57
Total non-current assets		4,008	3,289	2,843
Current assets				
Inventories	20	6,596	6,902	3,573
Trade and other receivables	21	6,367	6,625	4,583
Loans to related parties	22	—	1,094	—
Other investments including derivatives	23	118	—	157
Cash and cash equivalents		3,803	1,580	2,323
Total current assets		16,884	16,201	10,636
Total assets		20,892	19,490	13,479
Equity and liabilities				
Capital and reserves				
Share capital	27	52	49	49
Share premium	28	332	102	102
Capital redemption reserve fund	29	1,116	1,116	1,116
Translation reserves	29	(6)	(6)	(1)
Retained earnings	30	11,714	10,899	7,290
Equity attributable to owners of the Company		13,208	12,160	8,556
Total equity		13,208	12,160	8,556
Current liabilities				
Trade and other payables	26	6,688	6,376	4,233
Current tax liabilities		432	451	232
Derivative financial instruments	23	—	9	—
Total current liabilities		7,120	6,836	4,465
Non-current liabilities				
Deferred tax	24	564	494	458
Total liabilities		7,684	7,330	4,923
Total equity and liabilities		20,892	19,490	13,479

Notes 1 to 36 form part of the historical financial information shown above.

Consolidated statements of changes in equity

	Share capital £000	Capital redemption reserve £000	Share premium £000	Translation reserve £000	Retained earnings £000	Total £000
Balance at 1 September 2011	49	1,116	99	—	5,163	6,427
Profit for the period	—	—	—	—	2,664	2,664
Other comprehensive income for the period	—	—	—	(1)	—	(1)
Total comprehensive income for the period	—	—	—	(1)	2,664	2,663
Transactions with owners of the Company:						
Issue of ordinary shares	—	—	3	—	—	3
Dividends	—	—	—	—	(537)	(537)
Balance at 31 August 2012	**49**	**1,116**	**102**	**(1)**	**7,290**	**8,556**
Profit for the period	—	—	—	—	4,601	4,601
Other comprehensive income for the period	—	—	—	(5)	—	(5)
Total comprehensive income for the period	—	—	—	(5)	4,601	4,596
Transactions with owners of the Company:						
Share option credit	—	—	—	—	34	34
Dividends	—	—	—	—	(1,026)	(1,026)
Balance at 31 August 2013	**49**	**1,116**	**102**	**(6)**	**10,899**	**12,160**
Profit for the period	—	—	—	—	5,047	5,047
Other comprehensive income for the period	—	—	—	—	—	—
Total comprehensive income for the period	—	—	—	—	5,047	5,047
Transactions with owners of the Company:						
Issue of ordinary shares	3	—	230	—	—	233
Share option credit	—	—	—	—	12	12
Dividends	—	—	—	—	(4,244)	(4,244)
Balance at 31 August 2014	**52**	**1,116**	**332**	**(6)**	**11,714**	**13,208**

Notes 1 to 36 form part of the historical financial information shown above.

Consolidated statements of cash flow

	Note	Year ended 31 August 2014 £000	2013 £000	2012 £000
Net cash from operating activities	31	8,804	2,421	2,142
Investing activities				
Purchases of property, plant and equipment		(783)	(557)	(389)
Purchases of intangible assets		(1,888)	(1,584)	(1,389)
Proceeds from disposal of intangible assets		100	3	—
Net cash from/(used in) investing activities		(2,571)	(2,138)	(1,778)
Financing activities				
Issue of equity shares		234	—	3
Equity dividends paid		(4,244)	(1,026)	(537)
Net cash (used in) financing activities		(4,010)	(1,026)	(534)
Net increase/(decrease) in cash and cash equivalents		2,223	(743)	(170)
Cash and cash equivalents at beginning of year		1,580	2,323	2,493
Cash and cash equivalents at end of year		3,803	1,580	2,323

Notes 1 to 36 form part of the historical financial information shown above.

Notes to the historical financial information

1. General information

The historical financial information has been prepared for inclusion in the Admission Document for the Initial Public Offering of shares in Focusrite Plc on AIM. On 4 December 2014 Focusrite Plc acquired, in a share for share exchange, Focusrite Audio Engineering Limited ("FAEL"), a company registered in the United Kingdom.

The historical financial information presents the financial record of FAEL and its subsidiary (the "FAEL Group") for the three years ended 31 August 2014 (together, the "Consolidated Financial Information").

The Group (as defined in Part I) is a business engaged in the development, manufacture and marketing of professional audio and electronic music products and licensing of its intellectual property.

Basis of preparation

In preparation for the Transaction, which involves seeking admission to the AIM Market, Focusrite Plc is required to present certain historical financial information on a basis consistent with accounting policies that will be applied in preparing its next financial statements following conclusion of the Transaction. For the purposes of this document Focusrite Plc has prepared the historical consolidated financial information under International Financial Reporting Standards as adopted by the EU ("IFRS") and in accordance with UK companies legislation as applicable to companies reporting under IFRS. The Consolidated Financial Information has been prepared on a going concern basis and under a historical cost convention, modified by the revaluation of certain financial instruments.

The Consolidated Financial Information does not constitute statutory accounts.

The Consolidated Financial Information is presented in pounds sterling (GBP). This is the predominant functional currency of the FAEL Group, and is the currency of the primary economic environment in which it operates. An overseas subsidiary company is consolidated within the Consolidated Financial Information in accordance with the policies set out below. Details of the subsidiary undertaking included within the Consolidated Financial Information are shown below.

The FAEL Group has chosen to take advantage of the exemption available under IFRS 1, "First time adoption of IFRS", for reassessing acquisitions completed before 30 March 2006. The goodwill arising on business combinations of the FAEL Group prior to March 2006 remains unchanged up to 31 August 2011 and is subject to an annual impairment review.

Companies in the consolidated financial information

The subsidiary undertaking included within the Consolidated Financial Information as at 31 August 2014 is as follows:

Company name	Country of registration or incorporation	Principal activity	Date acquired	Class of shares	%
Focusrite Novation Inc.	United States	Marketing Services	—	Ordinary	100

2. Outlook for adoption of future Standards (new and amended)

At the date of authorisation of the Consolidated Financial Information, the following Standards and Interpretations which have not been applied by the FAEL Group in the Consolidated Financial Information were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IFRS 10 Consolidated Financial Statements and IAS 27 (2011) Separate Financial Statements (mandatory for year commencing on or after 1 January 2014)
- IFRS 11 Joint Arrangements and Amendments to IAS 28 (2008) Investments in Associates and Joint Ventures (mandatory for year commencing on or after 1 January 2014
- IFRS 12 Disclosure of Interests in Other Entities (mandatory for year commencing on or after 1 January 2014)
- Amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities' (mandatory for year commencing on or after 1 January 2014)

- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) (mandatory for year commencing on or after 1 January 2014)
- Amendments to IAS 36 "Recoverable Amount Disclosures for Non-Financial Assets" (mandatory for year commencing on or after 1 January 2014)
- Amendments to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting" (mandatory for year commencing on or after 1 January 2014)
- IFRIC Interpretation 21 Levies (mandatory for year commencing on or after 1 January 2014)

The directors do not expect that the adoption of the standards listed above will have a material impact on the Consolidated Financial Information of the Group in future periods.

3. Significant accounting policies

The accounting policies set out below have been applied consistently for all periods presented in this Consolidated Financial Information.

Basis of consolidation

The consolidated financial information incorporates the results of FAEL and its subsidiary, Focusrite Novation Inc. For the purposes of consolidation, subsidiaries are entities over which FAEL has the power to govern the financial and operating policies so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition.

When necessary, adjustments are made to the Consolidated Financial Information of subsidiaries to bring their accounting policies into line with those used by other members of the FAEL Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

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 FAEL Group'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 FAEL Group'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 FAEL Group's activities. Revenue is shown net of sales taxes, discounts and after eliminating intra-group sales.

The FAEL Group recognises revenue when all the following conditions are satisfied:

- the FAEL Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

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

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

Revenue is classified as follows:

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

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

Leasing
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the FAEL Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the FAEL Group's general policy on borrowing costs (see below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

In the event that lease incentives are received at the time the entity enters into an operating lease agreement, such incentives are recognised as a liability and recycled through profit and loss over the term of the lease agreement. The aggregate benefit of incentives is recognised in profit and loss as a reduction to rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign currencies
The individual financial statements of each subsidiary are presented in the currency of the primary economic environment in which it operates (its functional currency). Pounds Sterling is the predominant functional currency of the FAEL Group and presentation currency for the Consolidated Financial Information.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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.

For the purpose of presenting Consolidated Financial Information, the assets and liabilities of the FAEL Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

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 FAEL Group'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 FAEL Group'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 Consolidated 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 FAEL Group 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 FAEL Group intends to settle its current tax assets and liabilities on a net basis.

Tangible and intangible assets

Property, plant and equipment

The FAEL Group has held no land and buildings for the period covered by the Consolidated Financial Information.

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 years

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

The FAEL Group has no class of tangible fixed asset that has been revalued in 2014, 2013 or 2012. On transition to IFRS the net book values recorded at 1 September 2012 have been applied and these are based on historic cost or fair value recognised at the date of acquisition.

Internally-generated intangible assets – research and development expenditure

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 FAEL Group'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.

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives, with a presumption that this is no more than 3 years.

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 FAEL Group 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 FAEL Group 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 FAEL Group'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.

Financial instruments

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

Financial Assets

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

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

Effective interest method

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

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

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 FAEL Group 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 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 FAEL Group'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. Fair value is determined in the manner described in note 34.

Held-to-maturity investments
The FAEL Group holds no financial assets classified as held-to-maturity investments.

Available for sale financial assets
The FAEL Group holds no financial assets classified as available for sale.

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

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

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

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

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- 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 FAEL Group'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 and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the FAEL Group are recognised at the proceeds received, net of direct issue costs.

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 FAEL Group 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 FAEL Group'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. Fair value is determined in the manner described in note 34.

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

Derivative financial instruments

The FAEL Group 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. Further details of derivative financial instruments are disclosed in note 34.

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

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

Hedge accounting

Up to 31 August 2014 the FAEL Group has not adopted hedge accounting for the foreign currency forward contracts purchased to hedge against short term movements in cash flows of the underlying hedged item. The exposure has been short-term and involves relatively few but highly predictable transactions. Whilst the exposure to foreign currency risk remains relatively low the cost of implementing the required controls and administration processes to perform hedge accounting is judged to be uneconomic at present. Should these circumstances change the FAEL Group will review the adoption of hedge accounting.

Notes 23 and 34 set out details of the fair values of any derivative instruments used for hedging purposes.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the FAEL Group's accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the FAEL Group's accounting policies

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

Revenue recognition

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

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Recoverability of internally-generated intangible asset

Management reconsidered the recoverability of its internally-generated intangible asset for development costs which is included in the balance sheet at 31 August 2014 at £2,568,000 (2013: £2,156,000 and 2012: £1,750,000). These projects continue to progress in a very satisfactory manner, and customer reaction has reconfirmed management's previous estimates of anticipated revenues from the project.

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

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires an entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at 31 August 2014 was £419,000 (2013: £419,000 and 2012: £419,000). Further details are given in note 16.

Allowance for doubtful debts

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

Share option scheme

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

Further details regarding the Scheme are set out in note 32.

5. Revenue

An analysis of the FAEL Group's revenue is as follows:

	Year ended 31 August		
	2014	**2013**	**2012**
	£000	**£000**	**£000**
Continuing operations			
USA	14,307	13,803	9,502
Europe, Middle East and Africa	19,612	16,775	12,241
Rest of World	7,046	5,500	3,527
Consolidated revenue	40,965	36,078	25,270

6. Business segments

Products and services from which reportable segments derive their revenues

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

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

Segment revenues and results

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

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

The following is an analysis of the FAEL Group's revenue and results by reportable segment in 2013:

	Focusrite 2013 £000	Novation 2013 £000	Distrib-ution 2013 £000	Consol-idated 2013 £000
Revenue				
External sales	23,088	10,234	2,756	36,078
Result				
Segment result	10,578	5, 437	989	17,004
Central distribution costs and administrative expenses				(11,611)
Operating profit				5,393
Finance income				14
Finance costs				(168)
Profit before tax				5,239
Tax				(638)
Profit after tax				4,601

The following is an analysis of the FAEL Group's revenue and results by reportable segment in 2012:

	Focusrite 2012 £000	Novation 2012 £000	Distrib-ution 2012 £000	Consol-idated 2012 £000
Revenue				
External sales	14,562	7,789	2,919	25,270
Result				
Segment result	7,071	4,097	1,126	12,294
Central distribution costs and administrative expenses				(9,662)
Operating profit				2,632
Finance income				332
Finance costs				—
Profit before tax				2,964
Tax				(300)
Profit after tax				2,664

The accounting policies of the reportable segments are the same as the FAEL Group's accounting policies described in note 3. 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 FAEL Group's Chief Executive for the purpose of resource allocation and assessment of segment performance.

Central administration costs comprise principally the employment related costs and other overheads incurred by FAEL and its United States subsidiary, net of inter-company commission income. Also included within central administration costs is the charge relating to the share option scheme (note 32) of £12,000 for the year ended 31 August 2014 (2013: £34,000; 2012: £nil).

Segment net assets and other segment information

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

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

		31 August	
	2014 £000	2013 £000	2012 £000
Non-current assets			
USA	14	12	14
Europe, Middle East and Africa	3,714	2,906	2,556
Rest of World	280	371	273
Total non-current assets	4,008	3,289	2,843

Revenues from major products and services

The FAEL Group's revenues from its major products and services are disclosed in note 5.

Information about major customers

Included in revenues shown for 2014, 2013 and 2012 is £14.0 million, £13.6 million and £9.4 million respectively, attributed to the FAEL Group's largest distributor.

7. Profit for the year

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

	Continuing operations Year ended 31 August		
	2014 £000	2013 £000	2012 £000
Net foreign exchange losses/(gains)	86	(12)	(121)
Research and development costs	120	216	285
IPO related costs	550	—	—
Depreciation and impairment of property, plant and equipment (note 18)	423	506	414
Loss on disposal of property, plant and equipment	—	3	—
Amortisation of intangibles (note 17)	1,461	1,230	992
Operating lease rental expense (note 25)	130	124	133
Cost of inventories recognised as an expense	20,681	18,780	12,976
Staff costs	5,656	4,414	3,532
Impairment loss recognised on trade receivables	41	64	19
Change in fair value of financial instruments (note 34)	(127)	166	(198)
Share based payments charge to profit and loss (note 32)	12	34	—

8. Auditor's remuneration

	Continuing operations Year ended 31 August		
	2014 £000	2013 £000	2012 £000
Fees payable to the FAEL Group's auditors:			
Annual audit	19	18	18
Other services pursuant to taxation	5	5	6
Other non-audit services	219	—	—
	243	23	24

9. Finance income

	Continuing operations Year ended 31 August		
	2014 £000	2013 £000	2012 £000
Interest on loan to related party	53	—	—
Bank deposit interest	6	2	13
Exchange gain	—	12	122
Change in fair value of financial instrument	127	—	197
Finance income	186	14	332

10. Other gains and losses

	Continuing operations Year ended 31 August		
	2014 £000	2013 £000	2012 £000
Rent receivable	15	55	66
	15	55	66

11. Finance costs

	Continuing operations Year ended 31 August 2014 £000	2013 £000	2012 £000
Bank interest	—	2	—
Exchange loss	86	—	—
Change in fair value of financial instrument	—	166	—
Finance costs	86	168	—

Other financial expenses include bank charges arising on transactions executed and completed in the corresponding period.

12. Staff costs

	Continuing operations Year ended 31 August 2014 £000	2013 £000	2012 £000
Wages and salaries	4,758	3,822	3,080
Social security costs	545	494	348
Other pension costs	353	98	104
	5,656	4,414	3,532

In the year ended 31 August 2014 additional pension contributions of £170,000 were paid to Mr P Dudderidge. These are not expected to recur in future periods.

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

	2014 Number	2013 Number	2012 Number
Research and development	41	33	29
Sales and marketing	39	32	27
Operations	32	26	19
Administration and central	18	16	14
	130	107	89

13. Tax

	Year ended 31 August 2014 £000	2013 £000	2012 £000
Corporation tax charges:			
Current year	627	645	210
Deferred tax charges/(credits) (note 24)	136	(7)	90
	763	638	300

Corporation tax is calculated at 22.17% (2013: 23.58%, 2012: 25.17%) of the estimated taxable profit for the year. Taxation for the United States subsidiary is calculated at the rates prevailing in the respective jurisdiction.

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

	Year ended 31 August		
	2014	2013	2012
	£000	£000	£000
Profit before tax on continuing operations	5,810	5,239	2,964
Tax at the UK corporation tax rate of 22.17% (2013: 23.58%, 2012: 25.17%)	1,288	1,235	746
Tax effect of:			
Expenses that are not deductible in determining taxable profit	128	13	5
R&D tax credit	(633)	(567)	(430)
Overseas tax	22	(15)	(14)
Effect of deferred tax of changes in tax rates	(43)	(19)	(26)
Other reconciling items	1	(9)	19
Tax expense for the year	763	638	300

14. Dividends

The following equity dividends have been declared and paid.

	Year ended 31 August		
	2014	2013	2012
	£000	£000	£000
Dividend on ordinary shares – representing £81 per £1 Ordinary share (2013: £21 per share; 2012: £11 per share)	4,244	1,026	537

15. Earnings per share

From continuing operations

The calculation of the basic and diluted earnings per share is based on the following data:

Earnings

	Year ended 31 August		
	2014	2013	2012
	£000	£000	£000
Earnings for the purposes of basic earnings per share being net profit attributable to owners of the Company	5,047	4,596	2,663
Earnings for the purposes of diluted earnings per share	5,047	4,596	2,663

	Year ended 31 August		
	2014	2013	2012
	Number	Number	Number
	'000	'000	'000
Number of shares			
Weighted average number of ordinary shares for the purposes of basic earnings per share	49,208	48,837	48,837
Effect of dilutive potential ordinary shares:			
EMI share option scheme	8,143	11,915	9,686
Weighted average number of ordinary shares for the purposes of diluted earnings per share	57,351	60,752	58,523

Earnings per share

	Pence	Pence	Pence
Basic earnings per share	10.3	9.4	5.5
Diluted earnings per share	8.8	7.6	4.6

The number of shares used in the calculation of earnings per share above have been adjusted to reflect the 1,000 for 1 share split undertaken by FAEL on 17 September 2014.

16. Goodwill

	£000
Cost	
At 1 September 2011	419
At 1 September 2012	419
At 1 September 2013	419
At 31 August 2014	419

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

Carrying amount	
At 31 August 2012	419
At 31 August 2013	419
At 31 August 2014	419

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

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

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

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

17. Other intangible assets

	Intellectual property £000	Development costs £000	Total £000
Cost			
At 1 September 2011	100	2,459	2,559
Additions	60	1,329	1,389
At 1 September 2012	160	3,788	3,948
Additions	—	1,584	1,584
At 1 September 2013	160	5,372	5,532
Additions	22	1,865	1,887
At 31 August 2014	182	7,237	7,419
Amortisation			
At 1 September 2011	13	1,107	1,120
Charge for the year	61	931	992
At 1 September 2012	74	2,038	2,112
Charge for the year	52	1,178	1,230
At 1 September 2013	126	3,216	3,342
Charge for the year	8	1,453	1,461
At 31 August 2014	134	4,669	4,803
Carrying amount			
At 31 August 2014	48	2,568	2,616
At 31 August 2013	34	2,156	2,190
At 31 August 2012	86	1,750	1,836

The amortisation period for development costs incurred on the FAEL Group's product range is taken to be three years. Purchased intellectual property is amortised over two years.

18. Property, plant and equipment

	Plant, tooling equipment and machinery £000	Fixtures, fittings and leasehold improvements £000	Computer equipment £000	Total £000
Cost				
At 1 September 2011	1,351	362	494	2,207
Additions	259	26	104	389
Exchange differences	—	—	1	1
Disposals	—	—	(1)	(1)
At 1 September 2012	1,610	388	598	2,596
Additions	442	55	60	557
Exchange differences	—	1	1	2
Disposals	—	(2)	(1)	(3)
At 1 September 2013	2,052	442	658	3,152
Additions	217	458	108	783
Exchange differences	—	(2)	(3)	(5)
Disposals	—	—	(3)	(3)
At 31 August 2014	2,269	898	760	3,927
Accumulated depreciation and impairment				
At 1 September 2011	978	262	412	1,652
Charge for the year	256	62	96	414
Exchange differences	—	—	—	—
Eliminated on disposals	—	—	(1)	(1)
At 1 September 2012	1,234	324	507	2,065
Charge for the year	358	67	81	506
Exchange differences	—	1	—	1
Eliminated on disposals	—	—	—	—
At 1 September 2013	1,592	392	588	2,572
Charge for the year	319	28	76	423
Exchange differences	—	(2)	(2)	(4)
Eliminated on disposals	—	—	(3)	(3)
At 31 August 2014	1,911	418	659	2,988
Carrying amount				
At 31 August 2014	358	480	101	939
At 31 August 2013	460	50	70	580
At 31 August 2012	376	64	91	531

19. Subsidiaries

The FAEL Group's principal subsidiary undertakings for the period are listed below, including the name, country of incorporation, and proportion of ownership interest:

Name	Country of registration or incorporation	Principal activity	Class of shares	2014 %	2013 %	2012 %
Focusrite Novation Inc	United States	Marketing services	Ordinary	100	100	100

20. Inventories

	2014 £000	2013 £000	2012 £000
Raw materials	386	384	289
Finished goods	6,210	6,518	3,284
	6,596	6,902	3,573

No inventories have been pledged as security against borrowings (2013: £nil; 2012: £nil).

Stock days recorded against cost of sales amounted to 111 days in 2014 (2013: 118 days and 2012: 99 days).

21. Trade and other receivables

	2014 £000	2013 £000	2012 £000
Amount receivable for the sale of goods	6,018	6,347	4,412
Allowance for doubtful debts	(24)	(24)	—
	5,994	6,323	4,412
Other debtors	46	—	47
Prepayments	327	302	122
	6,367	6,625	4,581

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 2014 was 30 days (2013: 31 days and 2012: 31 days). The average days sales outstanding ("DSO") in 2014 was 48 days (2013: 59 days and 2012: 57 days).

The FAEL Group has not charged interest for late payment of invoices in any of the three years covered by this report.

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 FAEL Group 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 42% of the total balance of trade receivables net of allowances for doubtful debts on 31 August 2014 (2013: 49%; 2012: 54%). 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 (see below for aged analysis) which are past due at the year-end but against which the FAEL Group 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.

Ageing of not impaired receivables:

	2014 £000	2013 £000	2012 £000
Not overdue	4,632	4,989	3,422
Overdue between 0-30 days	1,277	1,078	738
Overdue between 31-60 days	72	26	180
Overdue between 61-90 days	3	108	72
Overdue between 91-120 days	4	97	—
Overdue more than 120 days	6	25	—
	5,994	**6,323**	**4,412**

Movement in the allowance for doubtful debts:

	2014 £000	2013 £000	2012 £000
Balance at the beginning of the period	24	—	—
Impairment losses recognised	41	64	19
Amounts written off during the year as uncollectible	(41)	(37)	(19)
Amounts recovered during the year	—	—	—
Impairment losses reversed	—	(3)	—
Balance at the end of the period	**24**	**24**	**—**

In determining the recoverability of a trade receivable the FAEL Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the relevant year-end. Aside from the major customer mentioned above, the concentration of credit risk is limited due to the customer base being large and diverse in terms of industry sector. The FAEL Group's exposure to credit risk for trade receivables is substantially covered by credit insurance, including amounts in relation to its largest customer. In addition, the FAEL Group maintains a close operational relationship with the key management of its major customer, so as to monitor any changes in the level of credit risk associated with that business.

The FAEL Group does not hold any collateral over these balances but is contractually entitled to recover equipment supplied under rental agreements in the event of default by rental customers.

Ageing of impaired trade receivables:

	2014 £000	2013 £000	2012 £000
Overdue up to 30 days	—	—	—
Overdue between 31-60 days	—	—	—
Overdue between 61-90 days	—	—	—
Overdue between 91-120 days	—	—	—
Overdue more than 120 days	24	24	—
	24	**24**	**—**

Trade receivables net of allowance for doubtful debts:

	2014 £000	2013 £000	2012 £000
Gross value of not impaired receivables	5,994	6,323	4,412
Gross value of impaired receivables	24	24	—
Allowance for doubtful debts	(24)	(24)	—
	5,994	**6,323**	**4,412**

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

22. Loans to related parties

	2014 £000	2013 £000	2012 £000
Secured term loan to Disruptive Limited (note 35)	—	1,094	—
	—	**1,094**	**—**

23. Other investments including derivatives

During 2014 and 2013 the FAEL Group entered into a number of foreign currency forward contracts to provide economic hedging for known cash flow transactions. The fair values of the contracts outstanding at the year end are summarised below. In each case the forward contracts were settled during the year with any realised gain or loss recognised in profit and loss.

	2014 £000	2013 £000	2012 £000
Fair value of outstanding forward contracts:			
Euro to US dollar	18	—	—
Euro to Pounds Sterling	100	(9)	157
	118	**(9)**	**157**

24. Deferred tax

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

	Accelerated tax depreciation £000	Other temporary differences £000	Unrelieved tax losses £000	Total £000
At 1 September 2011	311	—	—	311
Credit to profit or loss	90	—	—	90
At 1 September 2012	401	—	—	401
(Charge) to profit or loss	(7)	—	—	(7)
At 1 September 2013	394	—	—	394
Credit to profit or loss	136	—	—	136
As 31 August 2014	530	—	—	530

The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2014 £000	2013 £000	2012 £000
Deferred tax liabilities	564	494	458
Deferred tax assets	(34)	(100)	(57)
	530	394	401

25. Operating lease arrangements

	Minimum lease payments		
	2014 £000	2013 £000	2012 £000
Minimum lease payments under operating leases recognised as an expense during the year	130	124	133

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

	Present value of minimum lease payments		
	2014 £000	2013 £000	2012 £000
Within one year	166	167	169
In the second to fifth years inclusive	658	662	16
After five years	703	865	1
	1,527	1,694	186

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

26. Trade and other payables

	2014 £000	2013 £000	2012 £000
Trade payables	4,094	4,288	3,057
Accrued expenses	2,594	2,088	1,176
	6,688	6,376	4,233

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases was 59 days (2013: 72 days; 2012: 72 days). No interest costs have been incurred in relation to trade payables. The FAEL Group 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.

27. Share capital

	2014 Number	2013 Number	2012 Number
Issued and fully paid:			
Ordinary shares of £1 each	52,399	48,837	48,837

	2014 £	2013 £	2012 £
Issued and fully paid:			
Ordinary shares of £1 each	52,399	48,837	48,837

FAEL has one class of ordinary shares which carry no right to fixed income. On 25 July 2014 the Company issued 3,562 Ordinary shares for a total consideration of £233,326 including a share premium of £229,764.

28. Share premium reserve

	Share premium £000
Balance at 31 August 2014	332
Balance at 31 August 2013	102
Balance at 31 August 2012	102

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

29. Other reserves

Capital redemption reserve

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

	2014 £000	2013 £000	2012 £000
Balance at 1 September	1,116	1,116	1,116
Balance at 31 August	1,116	1,116	1,116

Translation reserve

	2014 £000	2013 £000	2012 £000
Balance at 1 September	(6)	(1)	—
Exchange differences on translating the net assets of foreign operations	—	(5)	(1)
Balance at 31 August	(6)	(6)	(1)

Exchange differences relating to the translation of the net assets of the FAEL Group's USA subsidiary from its functional currency into the parent's functional currency, are recognised directly in the translation reserve.

No gains or losses were transferred from equity into profit or loss during the period.

30. Retained earnings

	£000
Balance at 1 September 2011	5,163
Net profit for the year	2,664
Dividends	(537)
Balance at 1 September 2012	7,290
Net profit for the year	4,601
Share based payments credit	34
Dividends	(1,026)
Balance at 1 September 2013	10,899
Net profit for the year	5,047
Share based payments credit	12
Dividends	(4,244)
Balance at 31 August 2014	11,714

31. Notes to the cash flow statement

	2014 £000	2013 £000	2012 £000
Profit for the financial year	5,047	4,601	2,664
Adjustments for:			
Income tax expense (note 13)	763	638	301
Net interest (notes 9 and 11)	(100)	154	(332)
(Profit)/loss on disposal of property, plant and equipment	(100)	—	—
Amortisation of intangibles (note 17)	1,461	1,230	992
Depreciation of property, plant and equipment (note 18)	423	506	414
Share based payments charge (note 32)	12	34	—
Operating cash flows before movements in working capital	7,506	7,163	4,039
Decrease/(increase) in trade and other receivables	1,378	(3,142)	(1,280)
Decrease/(increase) in inventories	307	(3,329)	(841)
Increase in trade and other payables	466	2,015	534
Operating cash flows before interest and tax paid	9,657	2,707	2,452
Net interest received	59	—	13
Income taxes paid	(826)	(292)	(444)
Cash generated by operations	8,890	2,415	2,021
Net foreign exchange movements	(86)	6	121
Net cash from operating activities	8,804	2,421	2,142

Cash and cash equivalents

	2014 £000	2013 £000	2012 £000
Cash and bank balances	3,803	1,580	2,323
Bank overdrafts	—	—	—
	3,803	1,580	2,323

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to their fair value.

32. Share based payments

Equity-settled share option scheme

The FAEL Group has granted options under the 2012 EMI Scheme, the 2014 EMI Scheme and various standalone agreements (the "Options") to certain employees. The Options are share options over the parent company's equity instruments.

The Options are subject to non market-based vesting conditions only and must be exercised before the tenth anniversary of the date of the grant.

The weighted average share price at the date of exercise for Options exercised during the period ended 31 August 2014 was £103.80 (2013: £75.80; 2012: £75.80). For the Options outstanding at the end of the year, the weighted average remaining contractual life was 6.7 years (2013: 6.7 years; 2012: 8.0 years).

	2014 Number of Options	2014 Weighted average exercise price £	2013 Number of Options	2013 Weighted average exercise price £	2012 Number of Options	2012 Weighted average exercise price £
Outstanding at start of period	11,915	60.43	9,686	37.78	9,686	37.78
Granted during the period	—	—	3,099	—	—	—
Forfeited during the period	(210)	—	(870)	—	—	—
Exercised during the period	(3,562)	65.50	—	—	—	—
Outstanding at end of period	8,143	58.21	11,915	60.43	9,686	37.78
Exercisable at end of period	8,143	58.21	11,915	60.43	9,686	37.78

	2014 £000	2013 £000	2012 £000
Expense arising from share-based payment transactions	12	34	—

The estimated fair value of the share options was calculated by applying a Black-Scholes model. The model inputs were:

	2014	2013	2012
Share price at date of grant	£103.00	£103.00	£75.80
Exercise price	£103.00	£103.00	£75.80
Expected volatility	51.9%	51.9%	49.2%
Dividend yield	9%	9%	14%
Contractual life of option	6.7 years	6.7 years	8.0 years
Risk free interest rate	2.06%	2.06%	3.3%

33. Retirement benefit schemes

Defined contribution schemes

The FAEL Group 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 FAEL Group as the assets of these arrangements are held and managed by third parties entirely separate from the FAEL Group.

The pension charge for the period represents contributions payable to the fund and amounted to £353,000 for the year ended 31 August 2014 (2013: £98,000; 2012 £104,000).

34. Financial Instruments

Capital risk management

The FAEL Group manages its capital to ensure entities within the FAEL Group are able to continue as going concerns while maximising the return to stakeholders. The FAEL Group's overall strategy has evolved in the last four years in response to organic growth opportunities.

The capital structure of the FAEL Group consists of cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 27 to 30.

The FAEL Group is not subject to any externally imposed capital requirements. Equity includes all capital and reserves of the FAEL Group that are managed as capital.

Categories of financial instruments

	2014 £000	2013 £000	2012 £000
Financial assets			
Cash and cash equivalents	3,803	1,580	2,323
Forward exchange contracts	118	—	157
Loans and receivables (note 35)	—	1,094	—
	3,921	2,674	2,480
Financial liabilities			
Fair value through profit and loss (FVTPL)			
Forward exchange contracts	—	9	—
Amortised cost			
Trade payables	4,094	4,288	3,057
	4,094	4,288	3,057

Financial risk management objectives

The FAEL Group's Finance function is responsible for all aspects of corporate treasury. It co-ordinates access to financial markets, monitors and manages the financial risks relating to the operations of the FAEL Group through internal reports which analyse exposures by degree and magnitude. The risks reviewed include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The FAEL Group seeks to minimise the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the FAEL Group's policies approved by the board of directors, which provides guidance to the finance function in addressing all risks, including foreign exchange risk, credit risk and the appropriate use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. The FAEL Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The FAEL Group's bankers are party to a debenture which provides for security over the whole of the company's assets and undertaking. This debenture is in place to support the provision of forward contracts and a duty deferment facility.

Market risk

The FAEL Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (see below). The FAEL Group enters into a variety of derivative financial instruments to manage its exposure to foreign currency risk. Currently the exposure to short term foreign exchange rate risks is mitigated through the purchase of forward foreign exchange contracts to hedge the exchange rate risk arising on trading with overseas customers.

Foreign currency risk management

The FAEL Group undertakes transactions denominated in foreign currencies; consequently exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters, utilising forward foreign exchange contracts.

The carrying amounts of the FAEL Group's foreign currency denominated monetary assets and monetary liabilities at the relevant period end dates are as follows:

	Liabilities			Assets		
	2014	2013	2012	2014	2013	2012
	£000	£000	£000	£000	£000	£000
US dollars	3,745	3,842	2,282	3,430	3,958	2,300
Euro	22	8	152	1,322	1,054	400
Pounds Sterling	3,353	2,986	2,031	5,209	3,985	4,241
	7,120	6,836	4,465	9,961	8,997	6,941

Foreign currency sensitivity analysis

The FAEL Group is mainly exposed to the Euro and US dollar.

The following table details the FAEL Group's sensitivity to a 10 per cent increase and decrease in the pound sterling against the relevant foreign currencies. 10 per cent is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of a reasonably possible movement in foreign exchange rates over the medium term (3-12 months). The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

A negative number below indicates a decline in profits and other equity where the pound sterling strengthens 10% against the relevant currency. For a 10% weakening of the pound sterling against the relevant currency, there would be a comparable impact on the profit and other equity, and the balances below would be positive.

	Euro impact			US dollar impact		
	2014	2013	2012	2014	2013	2012
	£000	£000	£000	£000	£000	£000
Profit or loss	130	105	25(i)	(31)	12	2(ii)

(i) This is mainly attributable to the exposure outstanding on Euro net payables and receivables at the balance sheet date.

(ii) This is mainly attributable to the exposure to US dollar net payables and receivables at the balance sheet date.

In management's opinion, the sensitivity analysis is representative of the inherent foreign exchange risk through the year.

Forward foreign exchange contracts

It is the policy of the FAEL Group to enter into forward foreign exchange contracts to cover specific foreign currency payments and receipts with the aim that approximately 75% of the foreign exchange exposure is covered. Basis adjustments are made to the carrying amounts of non-financial hedged items when the anticipated sale or purchase transaction takes place.

Interest rate risk management

The FAEL Group is not currently exposed to interest rate risk because it does not have any external borrowings.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the FAEL Group. The FAEL Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The FAEL Group makes appropriate enquiries of the counter party and independent third parties to determine credit worthiness. Use of other publicly available financial information and the FAEL Group's own trading records is made to rate its major customers. The FAEL Group's exposure and the credit worthiness of its counterparties are continuously monitored and the aggregate value of transactions is spread amongst approved counterparties. Credit exposure is also controlled by counterparty limits that are reviewed and approved by FAEL Group management continuously.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The FAEL Group does not have any significant credit risk exposure to any single counterparty or group of counterparties having similar characteristics. The FAEL Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk relating to any single counterparty did not exceed 35 per cent of gross monetary assets at any time during 2014.

The carrying amount recorded for financial assets in the Consolidated Financial Information is net of impairment losses and represents the FAEL Group's maximum exposure to credit risk. No guarantees have been given in respect to third parties. In addition for contracted rental agreements deposits or advances may be held to mitigate risk. The FAEL Group also holds legal recourse and can exercise our right to recover rental equipment from non-performing customers.

Liquidity risk management

Liquidity risk is the risk that the FAEL Group will encounter difficulty in meeting obligations associated with financial liabilities. To counter this risk, the FAEL Group operates with a high level of cash and no bank debt. In addition, it benefits from strong cash flow from its normal trading activities.

The following table details the FAEL Group's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary to understand the FAEL Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

	Weighted average effective interest rate %	Less than 1 month £000	1-3 months £000	3 months to 1 year £000	1-5 years £000	5+ years £000	Total £000
2012							
Non-interest bearing		1,320	—	—	—	—	1,320
Variable interest rate instruments	1.7%	1,003	—	—	—	—	1,003
		2,323	—	—	—	—	2,323
2013							
Non-interest bearing		1,580	—	—	—	—	1,580
Variable interest rate instruments	0.4%	—	—	—	—	—	—
Loans to related parties	2.9%	—	—	1,094	—	—	1,094
		1,580	—	1,094	—	—	2,674
2014							
Non-interest bearing		2,887	—	—	—	—	2,887
Variable interest rate instruments	1.4%	916	—	—	—	—	916
		3,803	—	—	—	—	3,803

The maturity of non-derivative financial liabilities, comprising trade payables and other creditors, is less than 3 months for each of the three financial period ends.

The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the relevant year-ends presented above.

Fair value of financial instruments

Fair value of financial instruments carried at amortised cost

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Consolidated Financial Information approximate their fair values.

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows.

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value. The Grouping into Levels 1 to 3 is based on the degree to which their fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (*i.e.* as prices) or indirectly (*i.e.* derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The financial instruments held by the FAEL Group that are measured at fair value all relate to financial assets/(liabilities) measured at fair value through profit and loss (FVTPL) using methods associated with Level 2.

		2012		
	Level 1 £000	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial assets/(liabilities) at FVTPL				
Financial assets designated at FVTPL	—	118	—	118
Total	—	118	—	118

		2013		
	Level 1 £000	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial assets/(liabilities) at FVTPL				
Financial assets/(liabilities) designated at FVTPL	—	(9)	—	(9)
Total	—	(9)	—	(9)

		2014		
	Level 1 £000	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial assets/(liabilities) at FVTPL				
Financial assets designated at FVTPL	—	157	—	157
Total	—	157	—	157

35. Related party transactions

Balances and transactions between FAEL and its subsidiary, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the FAEL Group and other related parties are disclosed below.

Remuneration of key management personnel

The key management personnel are the directors of the Company and the remuneration that they have received during the year is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures.

	2014 £000	2013 £000	2012 £000
Short-term employee benefits	1,670	1,364	1,013
Share based payments	12	34	—
Pension contributions	9	6	4
	1,691	1,404	1,017
Aggregate emoluments of the highest paid director	340	185	168

Transactions involving directors and key management personnel

No advances, credits or guarantees have been entered into with any of the Directors of the Company.

Loans to related parties

On 31 October 2012 the Company made a one year secured term loan to Disruptive Limited. Phil Dudderidge, a director and shareholder of the Company is also a shareholder in Disruptive Group Holdings Limited, the parent company of Disruptive Limited. The loan principal was £1.5 million and attracted interest at a fixed rate of 8% per annum, which is considered by management to be determined on an arm's length basis.

The amount outstanding at 31 August 2014 amounted to £nil (2013: £1,094,000) following the repayment of the loan on 29 August 2014 which included accrued interest of £52,144.

On 25 July 2014, the Company made an unsecured loan of £24,000 to Dave Froker, a director of the Company. Interest is charged at 1.0% above bank base rate and repayment is dependent on the fulfilment of a number of terms, but at the latest by the date of finalisation of the Company accounts for the year ended 31 August 2015. The principal terms of the loan are considered by management to be determined on an arms' length basis. The loan, together with accrued interest thereon, was repaid subsequent to 31 August 2014.

36. Explanation of transition to Adopted IFRSs

For all periods up to and including the year ended 31 August 2014, the FAEL Group prepared its financial statements in accordance with United Kingdom generally accepted accounting practice (UK GAAP). These financial statements, as stated in note 1, are the Group's first consolidated financial statements prepared in accordance with Adopted IFRSs.

The accounting policies set out in notes 1 to 3 have been applied in preparing the financial statements for the year ended 31 August 2014, the comparative information presented in these financial statements for the year ended 31 August 2013 and 31 August 2012 and in the preparation of an opening IFRS balance sheet at 1 September 2011 (the Group's date of transition).

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

Reconciliation of equity

		31 August 2011			31 August 2012		
	Note	UK GAAP £000	Effect of transition to Adopted IFRSs £000	Adopted IFRSs £000	UK GAAP £000	Effect of transition to Adopted IFRSs £000	Adopted IFRSs £000
Non-current assets							
Goodwill	a	419	—	419	391	28	419
Other intangible assets	b	87	1,352	1,439	86	1,750	1,836
Property, plant and equipment		555	—	555	531	—	531
Deferred tax assets	d	—	11	11	57	—	57
		1,061	1,363	2,424	1,065	1,778	2,843
Current assets							
Inventories		2,732	—	2,732	3,573	—	3,573
Other investments including derivatives	c	—	—	—	—	157	157
Trade and other receivables		3,335	—	3,335	4,583	—	4,583
Cash and cash equivalents		2,493	—	2,493	2,323	—	2,323
		8,560	—	8,560	10,479	157	10,636
Total assets		9,621	1,363	10,984	11,544	1,935	13,479
Current liabilities							
Trade and other payables		(3,719)	—	(3,719)	(4,233)	—	(4,233)
Current tax liability		(445)	—	(445)	(232)	—	(232)
Derivative financial instruments	c	—	(41)	(41)	—	—	—
		(4,164)	(41)	(4,205)	(4,465)	—	(4,465)
Non-current liabilities							
Deferred tax liability		—	(352)	(352)	—	(458)	(458)
Total liabilities	c	(4,164)	(393)	(4,557)	(4,465)	(458)	(4,923)
Net assets		5,457	970	6,427	7,079	1,477	8,556
Equity attributable to equity holders of the parent							
Share capital		49	—	49	49	—	49
Share premium		99	—	99	102	—	102
Capital redemption reserve		1,116	—	1,116	1,116	—	1,116
Translation reserve		—	—	—	(1)	—	(1)
Retained earnings		4,193	970	5,163	5,813	1,477	7,290
Shareholders' funds		5,457	970	6,427	7,079	1,477	8,556
Minority interests		—	—	—	—	—	—
Total capital employed		5,457	970	6,427	7,079	1,477	8,556

	Note	31 August 2013 UK GAAP £000	31 August 2013 Effect of transition to Adopted IFRSs £000	31 August 2013 Adopted IFRSs £000	31 August 2014 UK GAAP £000	31 August 2014 Effect of transition to Adopted IFRSs £000	31 August 2014 Adopted IFRSs £000
Non-current assets							
Goodwill	a	363	56	419	335	84	419
Other intangible assets	b	34	2,156	2,190	48	2,568	2,616
Property, plant and equipment		580	—	580	939	—	939
Deferred tax assets	d	100	—	100	34	—	34
		1,077	2,212	3,289	1,356	2,652	4,008
Current assets							
Inventories		6,902	—	6,902	6,596	—	6,596
Other investments including derivatives	c	—	—	—	—	118	118
Trade and other receivables		7,719	—	7,719	6,367	—	6,367
Cash and cash equivalents		1,580	—	1,580	3,803	—	3,803
		16,201	—	16,201	16,766	118	16,884
Total assets		17,278	2,212	19,490	18,122	2,770	20,892
Current liabilities							
Trade and other payables		(6,376)	—	(6,376)	(6,688)	—	(6,688)
Current tax liability		(451)	—	(451)	(432)	—	(432)
Derivative financial instruments	c	—	(9)	(9)	—	—	—
		(6,827)	(9)	(6,836)	(7,120)	—	(7,120)
Non-current liabilities							
Deferred tax liability		—	(494)	(494)	—	(564)	(564)
Total liabilities	c	(6,827)	(503)	(7,330)	(7,120)	(564)	(7,684)
Net assets		10,451	1,709	12,160	11,002	2,206	13,208
Equity attributable to equity holders of the parent							
Share capital		49	—	49	52	—	52
Share premium		102	—	102	1,116	—	1,116
Capital redemption reserve		1,116	—	1,116	332	—	332
Translation reserve		(6)	—	(6)	(6)	—	(6)
Retained earnings		9,190	1,709	10,899	9,508	2,206	11,714
Shareholders' funds		10,451	1,709	12,160	11,002	2,206	13,208
Minority interests		—	—	—	—	—	—
Total capital employed		10,451	1,709	12,160	11,002	2,206	13,208

Notes to the reconciliation of equity

a) ***Goodwill***

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

b) ***Intangible assets – other***

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

c) ***Other investments including derivatives***

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

d) ***Deferred taxation***

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

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

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

Reconciliation of profit for years ended 31 August 2012, 31 August 2013 and 31 August 2014

			2012	
	Note	**UK GAAP £000**	**Effect of transition to Adopted IFRSs £000**	**Adopted IFRSs £000**
Revenue		25,270	—	25,270
Cost of sales		(15,575)	—	(15,575)
Gross profit		9,695	—	9,695
Other operating income		66	—	66
Administrative expenses	a,b	(7,555)	426	(7,129)
Operating profit		2,206	426	2,632
Financial income		134	198	332
Financial expenses		—	—	—
Net financing income		134	198	332
Profit before tax		2,340	624	2,964
Taxation		(184)	(116)	(300)
Profit for the year		2,156	508	2,664

	Note	UK GAAP £000	2013 Effect of transition to Adopted IFRSs £000	Adopted IFRSs £000
Revenue		36,078	—	36,078
Cost of sales		(21,795)	—	(21,795)
Gross profit		14,283	—	14,283
Other operating income		55	—	55
Administrative expenses	a,b	(9,378)	433	(8,945)
Operating profit		4,960	433	5,393
Financial income		14	—	14
Financial expenses	c	(2)	(166)	(168)
Net financing income		12	(166)	(154)
Profit before tax		4,972	267	5,239
Taxation		(602)	(36)	(638)
Profit for the year		4,370	231	4,601

	Note	UK GAAP £000	2014 Effect of transition to Adopted IFRSs £000	Adopted IFRSs £000
Revenue		40,965	—	40,965
Cost of sales		(25,068)	—	(25,068)
Gross profit		15,897	—	15,897
Other operating income		15	—	15
Administrative expenses	a,b	(10,642)	440	(10,202)
Operating profit		5,270	440	5,710
Financial income	c	59	127	186
Financial expenses	c	(86)	—	(86)
Net financing income		(27)	127	100
Profit before tax		5,243	567	5,810
Taxation		(693)	(70)	(763)
Profit for the year		4,550	497	5,047

Notes to the reconciliation of profit

a) ***Administrative expenses – amortisation costs***
Amortisation is charged on goodwill under UK GAAP. This has been reversed to arrive at the balance shown under IFRS.

b) ***Administrative expenses – development costs***
Development costs expensed under UK GAAP for which relevant IFRS criteria are met, are capitalised in arriving at the IFRS balance sheet figures.

c) ***Financial expenses***
Forward currency contracts which are not recognised under UK GAAP have been recognised at fair value in the IFRS balance sheet.

Explanation of material adjustments to the cash flow statement

The transition from UK GAAP to IFRS has no effect upon the reported cash flows generated by the FAEL Group. The IFRS cash flow statement is presented in a different format from that required under UK GAAP with cash flows split into three categories of activities – operating activities, investing activities and financing activities. The reconciling items between the UK GAAP presentation and the IFRS presentation have no impact on the cash flows generated.

In preparing the cash flow statement under IFRS, cash and cash equivalents include cash at bank and in hand, highly liquid interest bearing securities with original maturities of three months or less, and bank overdrafts. Under UK GAAP highly liquid interest bearing securities were not classified as cash equivalents.

PART IV

ADDITIONAL INFORMATION

1. Focusrite Plc and its subsidiaries

1.1 Focusrite Plc was incorporated and registered in England and Wales under the Companies Act 2006 (as amended) (the "Act") on 14 November 2014 under the name of Focusrite Plc with registered number is 9312676 as a public limited company with limited liability under the Act. The principal legislation under which Focusrite Plc operates is the Act.

1.2 Focusrite Plc is the holding company of the following wholly owned trading subsidiaries:

Name	**Country of incorporation**	**Shares directly held by**	**Proportion of shares held by direct shareholding company**
FAEL	England	Focusrite Plc	100%
Focusrite Novation Inc.	Delaware, USA	FAEL	100%

1.3 Focusrite Plc is domiciled in the United Kingdom. The registered office and principle place of business of Focusrite Plc is at Windsor House, Turnpike Road, High Wycombe, Buckinghamshire, HP12 3FX and the telephone number of the registered office is +44 1494 462246.

1.4 The ISIN for the Ordinary Shares is GB00BSBMW716.

1.5 The liability of the members of Focusrite Plc is limited.

1.6 Focusrite Plc's website address, at which the information required by Rule 26 of the AIM Rules can be found, is www.focusriteplc.com.

2. Share capital

2.1 The Ordinary Shares have been created pursuant to the Act. Focusrite Plc was incorporated with an issued share capital of £0.002 represented by two Ordinary Shares with a nominal value of £0.001 each, which were issued fully paid to subscribers Phil Dudderidge and Jennifer Dudderidge. The following alterations in the issued share capital of Focusrite Plc have taken place since incorporation:

(i) On 4 December 2014, pursuant to a Share Exchange Agreement (details of which are set out in paragraph 8.4), Focusrite Plc issued (credited as fully paid):

a. 22,499,999 Ordinary Shares to Phil Dudderidge;

b. 22,499,999 Ordinary Shares to Jennifer Dudderidge;

c. 5,676,000 Ordinary Shares to the EBT;

d. 1,202,000 Ordinary Shares to Dave Froker;

e. 957,000 Ordinary Shares to Michael Johnson;

f. 680,000 Ordinary Shares to Pauline Cornwell;

g. 680,000 Ordinary Shares to Robert Jenkins;

h. 500,000 Ordinary Shares to Helen Jenkins;

i. 500,000 Ordinary Shares to Christopher Gooddie;

j. 480,000 Ordinary Shares to Timothy Dingley;

k. 480,000 Ordinary Shares to Damian Hawley;

l. 480,000 Ordinary Shares to Simon Jones;

m. 480,000 Ordinary Shares to Giles Orford;

n. 480,000 Ordinary Shares to Phillip Wagner; and

o. 480,000 Ordinary Shares to Mike Warriner;

as consideration for the exchange of shares in the capital of FAEL, which were transferred by the relevant transferor to Focusrite Plc under the terms of the Share Exchange Agreement.

2.2 On 4 December 2014, in substitution for any previous authorities, the Directors were:

(i) authorised pursuant to section 551 of the Act to allot 58,074,998 Ordinary Shares, to be allotted in accordance with the Share Exchange Agreement, (details of which are set out in paragraph 2.1 above and in paragraph 8.4 below) and all such shares have been allotted;

(ii) generally and unconditionally authorised pursuant to section 551 of the Act to exercise all the powers of Focusrite Plc to allot shares in Focusrite Plc or to grant rights to subscribe for, or convert any securities into, shares in Focusrite Plc (the ''Rights'') up to a further maximum nominal amount (within the meaning of section 551(3) and (6) of the Act) of £19,358, provided that such authority shall expire (unless previously revoked, varied or extended by Focusrite Plc in general meeting) on the conclusion of the annual general meeting of Focusrite Plc to be held in 2015; and

(iii) in accordance with section 570 of the Act empowered (in substitution for all existing powers) to allot equity securities (as defined in section 560 of the Act)) for cash pursuant to the authority granted by the resolution set out in 2.2.1 above, as if section 561(1) of the Act did not apply to such allotment, provided that such power shall be limited to the allotment of equity securities for cash up to a maximum nominal amount of £5,807, and shall expire (unless previously revoked, varied or extended by Focusrite Plc in general meeting) on the conclusion of the annual general meeting of Focusrite Plc to be held in 2015.

2.3 Focusrite Plc has no other continuing authorities to allot and issue equity securities and accordingly would need to obtain the approval of Shareholders in general meeting to do so.

2.4 Each Ordinary Share in Focusrite Plc is fully paid and is entitled on a *pari passu* basis with all other issued Ordinary Shares and will share in any surplus on a liquidation of Focusrite Plc.

2.5 The Ordinary Shares have no redemption or conversion provisions.

2.6 Focusrite Plc has no authorised share capital and the issued share capital of Focusrite Plc as at the date of this document and following completion of the Placing and Admission is set out below:

		Issued and fully paid (£)	**Number**
(i)	Ordinary Shares	58,075	58,075,000

2.7 As at the date of this document share options will have been granted over 2,297,000 unissued Ordinary Shares (being the options held by Directors detailed in paragraph 4.5 below) and share options have been granted over 5,085,097 issued Ordinary Shares under the share option schemes, further details of which are set out in paragraph 4 of Part VI of this document.

2.8 The EBT holds 5,676,000 Ordinary Shares with a nominal value of £5,676, further details of which are set out in paragraph 4.2 of Part VI of this document.

2.9 Save as disclosed in paragraphs 2.2, 2.7 and 2.8 above and paragraph 4.5 below, no share or loan capital of the Group is proposed to be issued or is under option or is agreed to be put under option, nor does the Group hold any of its shares in treasury.

2.10 There are no convertible securities, exchangeable securities or securities with warrants in Focusrite Plc.

2.11 The Placing will not result in any dilution of the existing share capital of Focusrite Plc.

2.12 There are no shares in Focusrite Plc which do not represent capital.

2.13 There are no acquisition rights or obligations over authorised but unissued capital, or any undertaking to increase the capital of Focusrite Plc.

2.14 There have been no takeover bids by third parties in respect of Focusrite Plc's shares which have occurred during the last financial year or the current financial year.

2.15 The Ordinary Shares are in registered form and subject to the provisions of the CREST Regulations. The Board may permit the holding of any class of shares in uncertificated form and title to such shares may be transferred by means of a relevant systems (defined in the CREST Regulations). The Registrar is in charge of monitoring Focusrite Plc's register of members. No temporary documents of title will be issued.

No shares in Focusrite Plc are held by or on behalf of Focusrite Plc itself or by a subsidiary of Focusrite Plc.

2.16 The currency of the issue is pounds sterling.

3. Constitutional documents and other relevant laws and regulation

Articles of Association

The Articles of Association of Focusrite Plc, adopted pursuant to a special resolution passed on 5 December 2014 contain, *inter alia*, provisions to the following effect:

3.1.1 *Objects*

There are no express objects or restrictions on objects in Focusrite Plc's Articles, with the effect that the objects of Focusrite Plc are unrestricted in accordance with Section 31 of the Act.

3.1.2 *Voting rights*

Subject to paragraph 3.1.7 below, and to any special rights or restrictions as to voting upon which any shares may for the time being be held, on a show of hands every member who (being an individual) is present in person or (being a corporation) is present by its duly appointed representative shall have one vote and on a poll every member present in person or by representative or proxy shall have one vote for every Ordinary Share held by him. A proxy need not be a member of Focusrite Plc. No member is entitled to vote at a general meeting either personally or by proxy if he or any person appearing to be interested in shares held by him has been duly served with a notice under section 793 if the Act and is in default for the prescribed period in supplying to Focusrite Plc the information required thereby or, unless the directors of Focusrite Plc determine otherwise, if any calls in respect of shares held by him have not been paid.

3.1.3 *Variation of rights*

Whenever the share capital of Focusrite Plc is divided into different classes of shares the special rights attached to any class may be varied or abrogated either with the consent in writing of the holders of three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class and may be so varied and abrogated while Focusrite Plc is a going concern or during or in contemplation of a winding up. To every such separate general meeting (except an adjourned meeting), the quorum shall be two persons at least holding or representing by proxy one-third in nominal value of the issued shares of that class and such meetings will follow the same principles as general meetings. These conditions are not more significant than required by law.

3.1.4 *Alteration of capital*

Focusrite Plc may, subject to complying with the Act (including any requirement to pass a shareholder resolution or resolutions) consolidate and divide all or any of its share capital into shares of a larger nominal value, sub-divide all or any of its shares into shares of a smaller nominal value, cancel any shares not taken, or agreed to be taken, by any person and diminish the amount of its capital by the amount of the shares so cancelled. Focusrite Plc may, subject to any conditions, authorities and consents required by law, reduce or cancel its share capital or any capital redemption reserve or share premium account.

Subject to and in accordance with the provisions of the Act, Focusrite Plc may purchase its own shares (including any redeemable shares) with and subject to all prior authorities of Focusrite Plc in general meeting as specified under the Act provided that Focusrite Plc may not purchase any of its shares if as a result of the purchase of the shares there would no longer be any member holding shares in Focusrite Plc other than redeemable shares.

These conditions are not more stringent than required by law.

3.1.5 *Transfer of shares*

A member may transfer all or any of his shares (1) in the case of certificated shares by transfer in writing in any usual or common form or in any other form acceptable to the Directors and may be under hand only and (2) in the case of uncertificated shares, in the manner provided for in the rules and procedures of the operator of the relevant system and in accordance with and subject to the CREST Regulations. The instrument of transfer of a certificated share shall be signed by or on behalf of the transferor and, if the share is not fully paid, by or on behalf of the transferee. Subject to the below, the Articles contain no restrictions on the free transferability of fully paid shares provided that the transfer is in respect of only one class of share and is accompanied by the share certificate and any other evidence of title required by the Directors and that the provisions in the Articles relating to the deposit of instruments for transfer have been complied with.

Focusrite Plc will not close the register of members in respect of a share, class of share, renounceable right of allotment of a share or other security (title to units of which is permitted to be transferred by computer-based systems and procedures in accordance with the CREST Regulations) without the consent of the operator of the computer-based system and/or procedure. The registration of transfers may be suspended at such times and for such periods as the Directors may determine either generally or in respect of any class of shares.

Subject to the requirements of the UK Listing Authority and/or the London Stock Exchange, as appropriate, Focusrite Plc shall register a transfer of title to any uncertificated share or any renounceable right to allotment of a share held in uncertificated form in accordance with the CREST Regulations but so that the Directors may refuse to register such transfer in any circumstance permitted or required by the CREST Regulations.

The Directors may decline to register a transfer of a share if the share is not fully paid, the transfer is to a minor or an entity which is not a legal or natural person or the share is to be held jointly by four or more persons.

The Directors may also decline to register a transfer of shares representing 0.25% or more in nominal value of the issued shares of their class after there has been a failure to comply with any notice under section 793 of the Act requiring the disclosure of information relating to interests in the shares concerned unless the shareholder has not, and proves that no other person has, failed to supply the information. Such refusal may continue until the failure has been remedied, but the Directors shall not decline to register:

a) a transfer pursuant to acceptance of a takeover offer for Focusrite Plc (within the meaning of section 974 of the Act); or

b) a transfer in consequence of a sale made through a recognised investment exchange (as defined in FSMA) or other recognised market; or

c) a transfer which is shown to the satisfaction of the Directors to be made in consequence of a sale of the whole of the beneficial interest in the shares to a person who is unconnected with the member and with any other person appearing to be interested in the shares.

3.1.6 *Dividends*

a) Subject to the Act or any other statutes in force, Focusrite Plc may by ordinary resolution in general meeting declare dividends provided that no dividend shall be paid otherwise than out of profits available for the purpose and no dividend shall exceed the amount recommended by the Directors. The Directors may from time to time declare and pay interim dividends on shares of any class of such amounts and on such dates in respect of such periods as appear to the Directors to be justified. All divided payments shall be non-cumulative.

b) Subject to the rights of any persons, if any, holding shares with special dividend rights, and subject to paragraph 3.1.7 below, all dividends shall be apportioned and paid *pro rata* according to the amounts paid or credited as paid on the shares during any portion or portions of the period in respect of which the dividend is paid. No amount paid or credited as paid in advance of calls shall be regarded as paid on shares for this purpose.

c) All dividends unclaimed for a period of 12 years from the date on which such dividend was declared or became due for payment shall be forfeited and shall revert to Focusrite Plc.

d) There is no fixed date on which an entitlement to dividend arises.

e) There are no dividend restrictions attaching to the Ordinary Shares, provided they are fully paid up. Payments of dividends may be made by any method the directors consider appropriate and on a cash dividend there are no special arrangements for non-resident shareholders. The Directors may make such arrangements as they consider expedient in connection with a dividend payment in shares to deal with any legal or other difficulties that may arise in any territory in which non-resident shareholders are present.

3.1.7 *Suspension of rights*

If a member or any other person appearing to be interested in shares of Focusrite Plc fails after the date of service of a notice to comply with the statutory disclosure requirements (set out in Part 22 of the Act) then:

a) if the shares are held in certificated form from the time of such failure until not more than 7 days after the earlier of (a) receipt by Focusrite Plc of notice that there has been a transfer of the shares by an arm's length sale and (b) due compliance, to the satisfaction of Focusrite Plc, with the statutory disclosure requirements (if the Directors so resolve) such member shall not be entitled to vote or to exercise any right conferred by membership at meetings of Focusrite Plc in respect of the shares which are the subject of such notice. Where the holding represents more than 0.25% of the issued shares of that class, the payment of dividends may be withheld, and such member shall not be entitled to transfer such shares otherwise than by an arm's length sale; and

b) if the shares are held in uncertificated form, the Directors may serve upon the registered holder of such shares a notice requiring the holder to convert his holding of uncertificated shares into certificated form within such period as is specified in the notice and require the holder to continue to hold such shares in certificated form for so long as such failure continues. If the holder shall fail to convert his holding within the specified time, the Directors are empowered to authorise some person to take all such steps and issue such instructions as may be necessary in the name of the holder of such shares to effect the conversion of such shares to certificated form. Such steps shall be as effective as if they had been taken by the registered holder of the relevant uncertificated shares. Once such conversion to certificated form has been effected, the above rules in relation to shares in certificated form shall apply.

3.1.8 *Return of capital*

Subject to any preferred, deferred or other special rights, or subject to such conditions or restrictions to which any shares in the capital of Focusrite Plc may be issued, on a winding up or other return of capital, the holders of Ordinary Shares are entitled to share in any surplus assets *pro rata* to the amount paid up on their Ordinary Shares. A liquidator may with such sanctions as are required by the Act, divide amongst the members in specie or in kind the whole or any part of the assets of Focusrite Plc (whether or not the assets shall consist of property of one kind or shall consist of property of different kinds), those assets to be set at such value as he deems fair. A liquidator may also vest the whole or any part of the assets of Focusrite Plc in trustees on trusts for the benefit of the members as the liquidator shall think fit.

3.1.9 *Pre-emption rights*

There are no rights of pre-emption under the Articles in respect of transfers of issued Ordinary Shares.

In certain circumstances, Shareholders may have statutory pre-emption rights under the Act in respect of the allotment of new shares in Focusrite Plc. These statutory pre-emption rights would require Focusrite Plc to offer new shares for allotment to existing Shareholders on a *pro rata* basis before allotting them to other persons. In such circumstances, the procedure for the exercise of such statutory pre-emption rights would be set out in the documentation by which such shares would be offered to Focusrite Plc's shareholders.

3.1.10 *General meetings*

An annual general meeting of Focusrite Plc shall be held in each year in addition to any other meetings which may be held in that year and at such time and place as may be determined by the Directors, but so not more than fifteen months shall elapse between the holding of any two successive annual general meetings.

The Directors may convene a general meeting whenever they think fit. General meetings shall also been convened on a requisition of the members of Focusrite Plc as provided for by the Act or, if the Directors fail to convene a general meeting within twenty one days from the date of the deposit of the requisition, a meeting may be convened by such requisitionists as provided by the Act.

Twenty one clear days' notice in respect of an annual general meeting and every general meeting at which it is proposed to pass a resolution requiring special notice and fourteen clear days' notice in respect of every other annual or general meeting shall be given to all members (other than those who, under the provisions of the Articles or otherwise, are not entitled to receive notices from Plc) and to the Directors and the auditors for the time being of Focusrite Plc, but the accidental omission to give such notice to, or the non-receipt of such notice by, any member or Director or the auditors shall not invalidate any resolution passed or any proceeding at such meeting.

Every notice shall specify the place, the day and the hour of the meeting and in the case of special business, the nature of such business and shall also state with reasonable prominence that a member entitled to attend and vote at the meeting, may appoint a proxy to attend and vote on a poll thereat instead of him and that the proxy need not also be a member. In the case of a meeting convened for passing a special or extraordinary resolution the notice shall also specify the intention to propose the resolution as a special or extraordinary resolution as the case may be.

For the purpose of determining which persons are entitled to attend and vote at any general meeting and how many votes such persons may cast, Focusrite Plc may specify in the relevant notice of general meeting a time, not more than forty eight hours before the time fixed for the meeting, by which a person must be entered on the register of members inorder to have the right to attend and vote at the meeting.

No business shall be transacted unless the requisite quorum is present when the meeting proceeds to business. Two members present in person or by proxy shall be a quorum for all purposes. If within fifteen minutes (or such longer interval as the chairman thinks fit) from the time appointed for the general meeting a quorum is not present, if convened on the requisition of the members the meeting shall be dissolved. In any other case the meeting shall be adjourned to such other day (being not less than seven days thereafter) and such time and place as may have been specified for the purpose in the notice convening the meeting or (if not so specified) as the chairman of the meeting may determine (being not less than seven days thereafter) and such title and place as may have been specified for the purpose in the notice converting the meeting or (if not so specified) as the chairman of the meeting may determine (being not less than seven days' notice). No business shall be transacted at any adjourned meeting other than the business which might have been transacted at the meeting from which the adjournment took place.

3.1.11 *Directors*

The business and affairs of Focusrite Plc shall be managed by the Directors. The Directors may exercise all such powers of Focusrite Plc as are not by any statute or by the Articles required to be exercised by Focusrite Plc in general meeting, and for such purposes the Directors may establish any committee for managing any of the affairs of Focusrite Plc, either in the United Kingdom or elsewhere, and may appoint any persons to be members of such committee or any managers or agents.

Directors may be appointed by an ordinary resolution of Focusrite Plc in general meeting or by the Board. Each of the Directors is entitled to receive, by way of ordinary remuneration for his services in each year, such sum as the Board may decide. The Directors are also entitled to be repaid all reasonable travel, hotel and other expenses properly incurred by them in connection with the performance of their duties as Directors. The Board may also grant additional special remuneration to any Director who, being called upon, performs any special duties outside his ordinary duties as a Director. At each annual general meeting, any

Director appointed by the Board since the last annual general meeting, one third of the Directors who are subject to retirement by rotation and any director who agrees to do so must retire by rotation. A Director who retires, if willing to act, may be reappointed.

Subject to the Articles, the Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. The quorum necessary for the transaction of the business is two unless otherwise resolved by the Directors. A meeting of the Directors at which a quorum is present shall be competent to exercise all powers and discretions for the time being exercisable by the Directors.

Save as mentioned below, a Director shall not vote in respect of any contract or arrangement or other proposal in which he has, directly or indirectly, any material interest (otherwise than by virtue of his interest in shares or debentures or other securities of Focusrite Plc) or in relation to which he has a duty which conflicts or may conflict with the interests of Focusrite Plc. A Director shall not be counted in the quorum at any meeting in relation to any resolution in which he is debarred from voting. A Director must declare the nature and extent of his interest in any such contract or arrangement or other proposal.

3.1.12 *Directors' permitted interest*

A Director is permitted to enter into contracts or arrangements with Focusrite Plc and persons in which Focusrite Plc is otherwise interested; hold any office or place of profit (except that of auditor) with and be a director, officer or employee of (or party to any contract or arrangement with) any body corporate promoted by Focusrite Plc or in which Focusrite Plc is otherwise interested. The Director will not be accountable to Focusrite Plc or the members for any remuneration, profit or other benefit he derives from such interest and no such transaction is be liable to be avoided. However, a Director must declare the nature and extent of any direct or indirect interest in a transaction or arrangement with Focusrite Plc.

Subject to the Act, a Director shall (in the absence some other material interest than is indicated below), be entitled to vote (and be counted in the quorum) in respect of any resolution concerning any of the following matters, namely:

a) the giving to him of any guarantee, security or indemnity in respect of money lent or obligation incurred by him at the request of or for the benefit of Focusrite Plc or any of its subsidiaries;

b) giving to a third party any guarantee, security or indemnity in respect of a debt or obligation of Focusrite Plc or any of its subsidiaries for which he himself has assumed responsibility in whole or in part either alone or jointly with others, under a guarantee or indemnity or by the giving of security;

c) where Focusrite Plc or any of its subsidiaries is offering securities in which offer the director is or may be entitled to participate as the holder of securities or in the underwriting or sub-underwriting in which the Director is to participate;

d) relating to another company in which he and any persons connected with him do not to his knowledge hold an interest in shares representing one per cent. or more of either any class of the equity share capital, or the voting rights in such company;

e) relating to an arrangement for the benefit of the employees of Focusrite Plc or any of its subsidiaries which does not award him any privilege or benefit not generally awarded to the employees to whom such arrangement relates; or

f) concerning insurance which Focusrite Plc proposes to maintain or purchase for the benefit of Directors of the benefit of persons including Directors.

3.1.13 *Directors' conflicts of interest*

Each Director must also declare any situation in which he has or can have a direct (or indirect) interest which conflicts (or may conflict) with the interests of the Group which, if not authorised or ratified would amount to a breach of section 175 of the Act (a ''conflict''). Authorisation of a Directors' conflict may be given by the Board, not counting the Director concerned or any other Director interested in that matter in the quorum and not counting their vote(s). The authorisation may be subject to such terms and for such duration or impose such limits or conditions as the authorisation specifies and may be terminated or varied by the Board at any time. Unless otherwise provided by the authorisation, the Director is authorised (without breaching his duties to Focusrite Plc) not to disclose any information to Plc which he has obtained otherwise than as a Director of Focusrite Plc; and to absent himself from Board meetings and discussions relating to the conflict. The Director will not be accountable to Focusrite Plc or the members for any remuneration, profit or other benefit he derives from an interest so authorised.

3.1.14 *Borrowing Powers*

Subject to the provisions of the Act, the Board may exercise all the powers of Focusrite Plc to borrow money, and to mortgage or charge its undertaking, property and uncalled capital, and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of Focusrite Plc or of any third party.

The Directors shall restrict the borrowings of Focusrite Plc and, in so far as it is able, its subsidiary undertakings, so as to procure that the aggregate amount for the time being borrowed by the Group (exclusive of intra-Group borrowings) shall not at any time without an ordinary resolution of Focusrite Plc exceed a sum equal to the greater of £15,000,000 or two and a half times the EBITDA of Focusrite Plc as calculated from the latest audited accounts of Focusrite Plc after such adjustments as are set out in the Articles.

3.1.15 *Lien, calls and forfeiture*

Focusrite Plc shall have a first and paramount lien on every share (not being a fully paid share) for all moneys (whether presently payable or not) called or payable in respect of such share. The Board may either generally or in any particular case declare any share to be wholly or in part exempt from such lien. Focusrite Plc may sell any share on which it has a lien, if the sum payable is due and is not paid within 14 days after notice has been given to the shareholder or the person entitled thereto by reason of death or bankruptcy.

The Board may make calls on the members in respect of any moneys unpaid on their shares (whether in respect of the nominal value or premium), subject to the terms of issue of such shares. Each member shall, subject to receiving at least fourteen days' notice specifying the time and place of payment, pay to Focusrite Plc at the time or times and place so specified the amount called on his shares In the case of non-payment, the Board may serve on the relevant member a notice requiring payment together with any interest which may have accrued and associated expenses incurred by Focusrite Plc. The notice shall name a further day, not being less than seven days from the date of service of the notice, on or before which the payment is required to be made. If the requirements of such further notice are not complied with, any share in respect of which such further notice has been given, may at any time before payment has been made, be forfeited by the Board. The forfeiture shall include all dividends declared in respect of such forfeited share and not actually paid before forfeiture.

3.1.16 *Miscellaneous*

Focusrite Plc may issue redeemable shares and Focusrite Plc may by special resolution determine the terms, conditions and manner of redemption of such shares, provided it does so before the shares are issued.

Unless otherwise determined by Focusrite Plc by ordinary resolution, there shall be paid to the Directors such sum as the Board may from time to time determine (not exceeding £250,000 per annum or such sum as Focusrite Plc in general meeting shall from time to time determine) such sum shall be divided among the Directors in such manner and proportion as they may agree or in default of such determination, equally.

Subject to the provisions of the Act every Director, secretary or other officer of Focusrite Plc (other than an auditor) is entitled to be indemnified against all costs, charges, losses, damages and liabilities incurred by him in the actual purported exercise or discharge of his/her duties or exercise of his/her powers or otherwise in relation to them.

Unless and until otherwise determined by ordinary resolution of Focusrite Plc, the number of Directors shall be not less than two nor more than eight. There is no age limit nor any share qualification for Directors.

The Articles contain no conversion or redemption provisions in relation to the securities.

The Articles contain no other class of existing shares.

The Articles contain no provisions which would have an effect of delaying, deferring or preventing a change of control of Focusrite Plc.

3.2 Other relevant laws and regulations

3.2.1 *Disclosure of interests in shares*

A shareholder in a public company incorporated in the UK whose shares are admitted to trading on AIM is required pursuant to rule 5 of the Disclosure and Transparency Rules to notify Focusrite Plc of the percentage of his voting rights if the percentage of voting rights which he holds as a shareholder or through his direct or indirect holding of financial instruments reaches, exceeds or falls below certain thresholds.

Pursuant to Part 22 of the Act and the Articles, Focusrite Plc is empowered by notice in writing to require any person whom Focusrite Plc knows, or has reasonable cause to believe to be or, at any time during the three years immediately preceding the date on which the notice is issued, interested in Focusrite Plc's shares, within a reasonable time to disclose to Focusrite Plc particulars of any interests, rights, agreements or arrangements affecting any of the shares held by that person or in which such other person as aforesaid is interested.

3.2.2 *Takeovers*

The Takeover Code applies to Focusrite Plc. The Panel has statutory powers to enforce the Takeover Code in respect of companies whose shares are admitted to trading on AIM.

Under Rule 9 of the City Code, a person who acquires, whether by a single transaction or by a series of transactions over a period of time, shares which (taken with shares held or acquired or acquired by persons acting in concert with him) carry 30% or more of the voting rights of a company, such person is normally required to make a cash offer for all the outstanding shares of that company at not less than the highest price paid by him or them or any persons acting in concert during the offer period and in the 12 months prior to its commencement. This requirement would also be triggered by an acquisition of shares by a person holding (together with its concert parties) shares carrying between 30 and 50% of the voting rights in Focusrite Plc if the effect of such acquisition were to increase that person's percentage of the voting rights.

The Major Shareholder will, following Admission, hold more than 50% of Focusrite Plc's voting share capital and as a result the Major Shareholder (together with those deemed to be in concert with him) will be able to increase their aggregate interest in shares without incurring any obligation under Rule 9 to make a general offer. Focusrite Plc is subject to the requirements of the Disclosure and Transparency Rules and therefore the Major Shareholder (together with his concert party) are required to notify Focusrite Plc if their shareholdings exceed or fall below certain thresholds.

Further, pursuant to sections 979 to 982 of the Act, where the offeror has by way of a takeover offer as defined in section 974 of the Act acquired or unconditionally contracted to acquire not less than 90 per cent. in value of the shares to which an offer relates and where the shares to which the offer relates represent not less than 90 per cent. of the voting rights in Focusrite Plc to which the offer relates, the offeror may give a compulsory acquisition notice, to the holder of any shares to which the offer relates which the offeror has not acquired or unconditionally contracted to acquire, and which he wishes to acquire and is entitled to so acquire, to acquire those shares on the same terms as the general offer.

Pursuant to sections 983 to 985 of the Act, where an offeror makes a takeover offer as defined by section 974 of the Act and, by virtue of acceptances of the offer and any other acquisitions holds not less than 90% of the shares in the target (or if the offer relates to a class of shares 90% of the shares in that class) and which carry not less than 90% of the voting rights in the target then a minority shareholder may require the offeror to acquire his shares in the target.

3.3 Save as set out in paragraphs 5.2, 6.1 and 6.5 below, Focusrite Plc is not aware of any person who directly or indirectly, jointly or severally, exercises or could exercise control over Focusrite Plc nor is it aware of any arrangements, the operation of which may at a subsequent date result in a change of control of Focusrite Plc.

4. Share options

4.1 The Group operates three option schemes, the 2012 EMI Scheme, the 2014 EMI Scheme and an unapproved option scheme ("Share Option Schemes"). Prior to Focusrite Plc's incorporation, FAEL operated the Share Option Schemes and granted options over its share capital ("Old Options"). Following Admission, it is intended that the Old Options will be rolled over into options over shares in Focusrite Plc and Focusrite Plc will take over the operation of the Share Option Schemes.

In the event that any holder of Old Options does not agree to receive options over shares in Focusrite Plc in replacement for such options, that options holder's Old Options shall lapse on the expiry of the period for accepting the replacement options over shares in Focusrite Plc.

Following Admission the total number of Ordinary Shares under option in Focusrite Plc will be 7,382,097, of which 5,085,097 will be non-dilutive Ordinary Shares that have already been issued to the EBT. The remaining number of options will be held by the Directors and would if exercised result in the issue of 2,297,000 Ordinary Shares, which would be a dilution of 3.96% of the Issued Share Capital. The options to be held by the Directors are subject to performance related vesting conditions.

The EBT holds 5,676,000 Ordinary Shares (representing 9.77% of the Issued Share Capital), in respect of non-dilutive options for employees, of which options in respect of 5,085,097 have been granted over such shares held by the EBT. The Ordinary Shares held by the EBT were issued to it in consideration of shares it previously held in the share capital of FAEL, which it transferred to Focusrite Plc pursuant to the Share Exchange Agreement. The shares that the EBT previously held in FAEL were gifted to the EBT in order to allow it to satisfy the options previously granted by FAEL, under the 2014 EMI Scheme.

The maximum number of Ordinary Shares to be made available under the Share Option Schemes or any other option plan that will be dilutive, (including the 2,297,000 Ordinary Shares in respect of which options have been granted to the Directors prior to Admission), will not exceed 10% of Focusrite Plc's Issued Share Capital over any rolling ten year period.

4.2 2012 EMI Scheme

The Group does not intend to grant any further options under the 2012 EMI Scheme. The 2012 EMI Scheme was intended to qualify as an enterprise management incentive or "EMI" arrangement pursuant to Schedule 5 to the Income Tax (Earnings and Pensions) Act 2003 ("Schedule 5"). The principal provisions of the 2012 EMI Scheme are summarised below.

Eligibility

Focusrite Plc or any other person authorised by the Board may (at any time) grant options to acquire ordinary shares in Focusrite Plc to employees of a Group Company or to non-employees. Options that are "Qualifying Options" ("EMI Options") within the meaning of Schedule 5 may only be granted to an individual ("Eligible Individual") who spends an average of at least the Statutory Minimum Time (currently 25 hours per week or if less 75% of their working time) on the business of all the Group Companies. An EMI Option may only be granted if all of the relevant conditions of Schedule 5 are satisfied immediately prior to the grant of that EMI Option.

Where an option is granted to any person who is not an Eligible Individual, such option shall be granted as a non-tax advantaged option ("Unapproved Option").

Exercise price

The exercise price in relation to an option granted under the 2012 EMI Scheme shall be determined by the Board and shall either be specified at the date of grant of such option or be determined at a later date by reference to a formula that may be specified at such date of grant.

Performance Conditions

The right to exercise an option granted pursuant to the 2012 EMI Scheme may be conditional on the satisfaction of performance conditions and/or certain dates may be specified before which an option or part thereof may not be exercised.

Exercise of Options

An option granted pursuant to the 2012 EMI Scheme may not be exercised unless it is exercisable in accordance with any conditions or time limits imposed in accordance with the rules of the 2012 EMI Scheme. An option granted pursuant to the 2012 EMI Scheme becomes exercisable (to the extent that it has not lapsed and has not previously been exercised) to the extent and on the date(s) or event(s) specified in the relevant option agreement granting such option.

Any option granted pursuant to the 2012 EMI Scheme may not be exercised later than the day before the tenth anniversary of the date of grant of such option.

Limits

The total market value of shares that may be acquired by an Eligible Individual on the exercise of EMI Options granted to him may not exceed the limit specified in paragraph 5 of Schedule 5 (currently £250,000). As stated above, the Board does not intend to grant any more EMI options under the 2012 EMI Scheme.

The total market value of shares which can be acquired on the exercise of all EMI Options granted under the 2012 EMI Scheme must not exceed the limit specified in paragraph 7 of Schedule 5 (currently £3,000,000).

Lapse

An option granted under the 2012 EMI Scheme shall lapse in a number of circumstances, including (i) the option holder ceasing to hold employment or office with any Group Company for any reason, unless the Board determines, in its absolute discretion, that the circumstances of the cessation make it appropriate for such option not to lapse at such time; (ii) subject to the rules of the 2012 EMI Scheme, six months after the completion of certain corporate events (including the admission of the ordinary share capital of Focusrite Plc to trading on AIM), unless the Board determines otherwise in writing; and (iii) on the tenth anniversary of the date of grant of the option.

Corporate events

The Board may (but shall not be obliged to) give an option holder prior notice of certain proposed corporate events, including the admission of the ordinary share capital of Focusrite Plc to trading on AIM. In these circumstances, an option holder may conditionally exercise his option (to the extent it is exercisable, has not lapsed and has not previously been exercised) and such exercise shall become unconditional in the circumstances set out in the rules of the 2012 EMI Scheme.

Variation of share capital

In the event of a capitalisation, rights issue, consolidation, subdivision, reduction or other variation of the share capital of Focusrite Plc, the number of shares comprised in an option and the exercise price of such option may vary in such manner as the Board and Focusrite Plc (or other grantor) shall determine and the auditors of Focusrite Plc shall confirm as fair and reasonable.

Amendments to the 2012 EMI Scheme

The Board may amend the rules of the 2012 EMI Scheme with effect from a current, future or past date without the approval of option holders but the amendment of any option granted under the 2012 EMI Scheme by a grantor other than Focusrite Plc shall require the consent of such grantor.

Non-transferability

An option granted under the 2012 EMI Scheme is personal to the individual to whom it is granted and is not capable of being transferred, assigned, charged or otherwise alienated.

4.3 2014 EMI Scheme

The 2014 EMI Scheme rules are broadly similar to the rules of the 2012 EMI Scheme. The 2014 EMI Scheme is intended to qualify as an EMI arrangement pursuant to Schedule 5. The principal provisions of the 2014 EMI Scheme are summarised below.

Eligibility

Options to acquire ordinary shares in the capital of Focusrite Plc may be granted under the 2014 EMI Scheme to Eligible Employees (executive directors or employees of Focusrite Plc or a qualifying subsidiary thereof who meet the working time requirements set out in Schedule 5).

Options may be granted at any time before the date the 2014 EMI Scheme terminates but where the shares over which an option is granted are listed on a stock exchange, certain dealing restrictions may apply.

Options under the 2014 EMI Scheme may only be granted as EMI Options if Focusrite Plc satisfies all of the requirements set out in Schedule 5 on the date of grant of such option.

Exercise price

The exercise price in relation to an option granted under the 2014 EMI Scheme may not be less than the nominal value of the relevant shares over which such option is granted.

Performance Conditions

The right to exercise an option granted pursuant to the 2014 EMI Scheme may be conditional on the satisfaction of performance conditions and such performance conditions must be objective and determined by the Committee (as defined in the 2014 EMI Scheme) on or before the date of grant of the option.

Exercise of Options

Subject to the rules of the 2014 EMI Scheme, an option may be exercised by an option holder on the earlier of a number of events, including (i) the dates set out in the letter of notification of a grant of option; (ii) the option holder becoming a Good Leaver (as defined in the 2014 EMI Scheme); and (iii) upon certain corporate events.

Limits

The number of shares that may be allocated under the 2014 EMI Scheme on any day cannot when aggregated to the number of shares which have been allocated in the previous 10 years under the 2014 EMI Scheme and any other employee's share scheme adopted by Focusrite Plc exceed that number of shares that represents 10% of the ordinary issued share capital of Focusrite Plc in issue immediately prior to that day.

No option holder may hold subsisting options over shares with a total value greater than the limit specified in paragraph 5 of Schedule 5.

The grant of options as EMI Options shall be limited so that the aggregate market value of shares in Focusrite Plc that may be acquired under subsisting EMI Options does not exceed the limit specified in paragraph 7 of Schedule 5.

Lapse

An option granted under the 2014 EMI Scheme shall lapse on the earliest of a number of dates, including (i) if the option holder becomes a Good Leaver, the date falling 90 days after the date of cessation of employment; (ii) the date falling one year after the death of an option holder; and (iii) the tenth anniversary of the date of grant of the option or such earlier date specified in the letter granting the option.

Corporate events

Where the Remuneration Committee (the "Committee") considers it likely that certain corporate events set out in the rules of the 2014 EMI Scheme will occur, the Committee may request that option holders give a notice to exercise their options in advance of such events.

Variation of share capital

In the event of a variation of the share capital of Focusrite Plc, including any capitalisation, rights issue, consolidation, subdivision or reduction of capital, the Grantor (as defined in the 2014 EMI Scheme) may make such adjustment to the number of shares that are subject to an option or the exercise price of such option as the Committee reasonably considers appropriate.

Amendments to the Share Option Scheme

The Board may amend the rules of the 2014 EMI Scheme as it sees fit other than where such amendment may have a material adverse effect on an option holder with a subsisting option.

Non-transferability

An option granted under the 2014 EMI Scheme may not be transferred, assigned or charged.

Termination

The 2014 EMI Scheme shall terminate on the tenth anniversary of the date of its adoption but the Committee may resolve to terminate it on an earlier date.

4.4 Employee Benefit Trust

Pursuant to a trust deed dated 21 November 2014 and made between FAEL and Elian Employee Benefit Trustee Limited, the Group established the EBT. The EBT is a discretionary trust which is structured so as to constitute a trust for the benefit of employees and former employees of the Group, their spouses, widows/widowers, minor children and minor step children of such employees and former employees.

Under the trust deed relating to the EBT, the trustee of the EBT has the power to waive dividends and it is intended that this power will be exercised. The trustee of the EBT has the right to vote in respect of any shares it holds, including Ordinary Shares.

It is intended that the EBT will be funded by Focusrite Plc to purchase Ordinary Shares from time to time in the market, in order to facilitate the operation of any employee share scheme established by Focusrite Plc. On 21 November 2014 FAEL gifted the EBT an amount equal to the nominal value of 5,676,000 ordinary shares in FAEL, to enable the EBT to subscribe for an equivalent number of shares, in FAEL for the purpose of satisfying options granted under the 2014 EMI Scheme.

Pursuant to the Share Exchange Agreement, on 4 December 2014 the EBT transfered to Focusrite Plc the 5,676,000 ordinary shares it held in FAEL, in consideration of the issue to the EBT of 5,676,000 Ordinary Shares in Focusrite Plc.

4.5 As at the date of this document there are 7,382,097 options (representing in aggregate 12.71% of the Issued Share Capital), which are outstanding as set out below, of which 5,085,097 of such options (representing 8.76% of the Issued Share Capital) would be satisfied by the EBT, details of which are set out in paragraph 4.4:

Optionholder	Share Option Scheme	Number of Ordinary Shares under option	Option Price	Exercise Period
Dave Froker	2012 EMI Scheme(1)	1,004,000	£0.103	Admission to 10 September 2022
Dave Froker	Unapproved Option Agreement(1)	893,000	£0.103	Admission to 10 September 2022
Jeremy Wilson	2014 EMI Scheme(2)	400,000	£0.146	18 September 2017 to 18 September 2024
Other employees of the Group	2014 EMI Scheme	5,085,097(3)	£0.146	18 September 2015 to 18 September 2024

Notes

(1) The terms of the options granted to Dave Froker under the 2012 EMI Scheme and the unapproved option agreement are on substantially the same terms that apply to other options granted under the 2012 EMI Scheme, but also include performance conditions based upon achieving certain EBITDA and revenue thresholds.

(2) The terms of the options granted under the 2014 EMI Scheme to Jeremy Wilson include performance conditions based on the achievement of targets relating to compound average growth rates in earnings per share.

(3) The EBT holds 5,676,000 Ordinary Shares which Focusrite Plc intends to use (in part) to satisfy these options.

5. Selling Shareholders

5.1 Subject to Admission occurring, the Shareholders set out at paragraph 5 below (the "Selling Shareholders") are selling 17,806,984 Ordinary Shares in aggregate pursuant to the Placing.

5.2 The following table sets out the interests of each Selling Shareholder and their Connected Persons as at the date of this document and as they are expected to be immediately following Admission and Placing:

	As at the date of this document		**To be sold pursuant to the Placing**		**Immediately following Admission and Placing**	
	Ordinary shares	**% of the Issued Share Capital**	**Ordinary shares**	**% of holding**	**Ordinary shares**	**% of the Issued Share Capital**
Phil Dudderidge	45,000,000(1)	77.49%	14,751,000(2)	32.78%	30,249,000(3)	52.09%
Robert Jenkins	1,180,000(4)	2.03%	294,984(5)	25.00%	885,016(6)	1.52%
Michael Johnson	957,000	1.65%	957,000	100.00%	—	—
Pauline Cornwell	680,000	1.17%	680,000	100.00%	—	—
Christopher Gooddie	500,000	0.86%	500,000	100.00%	—	—
Giles Orford	480,000	0.83%	48,000	10.00%	432,000	0.74%
Timothy Dingley	480,000	0.83%	96,000	20.00%	384,000	0.66%
Damian Hawley	480,000	0.83%	120,000	25.00%	360,000	0.62%
Simon Jones	480,000	0.83%	120,000	25.00%	360,000	0.62%
Phillip Wagner	480,000	0.83%	120,000	25.00%	360,000	0.62%
Mike Warriner	480,000	0.83%	120,000	25.00%	360,000	0.62%

Notes:

(1) Of these Ordinary Shares, (a) 22,500,000 (representing 38.74% of Ordinary Shares) are held by Phil Dudderidge directly; and (b) 22,500,000 (representing 38.74% of Ordinary Shares) are held by Jennifer Dudderidge, Phil Dudderidge's wife.

(2) Of these Ordinary Shares, (a) 6,617,616 (representing 29.41% of holding) are to be sold pursuant to the Placing by Phil Dudderidge directly; and (b) 8,133,384 (representing 36.15% of holding) are to be sold pursuant to the Placing by Jennifer Dudderidge, Phil Dudderidge's wife.

(3) Of these Ordinary Shares, (a) 15,882,384 (representing 27.35% of Ordinary Shares) are held by Phil Dudderidge directly; and (b) 14,366,616 (representing 24.74% of Ordinary Shares) are held by Jennifer Dudderidge, Phil Dudderidge's wife.

(4) Of these Ordinary Shares, (a) 680,000 (representing 1.17% of Ordinary Shares) are held by Robert Jenkins directly; and (b) 500,000 (representing 0.86% of Ordinary Shares) are held by Helen Jenkins, Robert Jenkins' wife.

(5) Of these Ordinary Shares, 294,984 (representing 43.38% of his holding) are to be sold pursuant to the Placing by Robert Jenkins directly.

(6) Of these Ordinary Shares, (a) 385,016 (representing 0.66% of Ordinary Shares) are held by Robert Jenkins directly; and (b) 500,000 (representing 0.86% of Ordinary Shares) are held by Helen Jenkins, Robert Jenkins' wife.

5.3 For the purposes of the Placing, the business address of Phil Dudderidge, Robert Jenkins, Pauline Cornwell, Giles Orford, Timothy Dingley, Damian Hawley, Simon Jones, Phillip Wagner and Mike Warriner is the registered office of the Group, which is Windsor House, Turnpike Road, High Wycombe, Buckinghamshire, HP12 3FX, the business address of Christopher Gooddie is 33 Ripplevale Grove, London, N1 1HS and the business address of Michael Johnson is 20 Cross Street, London, N1 2BG.

6. Directors' and other interests

6.1 The interests of the Directors (including the interests of their families (as defined in the AIM Rules) and the interests of any persons connected with them within the meaning of sections 252 to 255 and 820 to 825 of the Act), all of which are beneficial, in the Issued Share Capital and the existence of which is known or could, with reasonable diligence, be ascertained by the Director as at the date of this document and as they are expected to be immediately following Admission and Placing:

Name	**As at the date of this document**		**Immediately following Admission and Placing**	
	Ordinary Shares	**% of Issued Share Capital**	**Ordinary Shares**	**% of Issued Share Capital**
Phil Dudderidge	45,000,000(1)	77.49%	30,249,000(2)	52.09%
Dave Froker	1,202,000	2.07%	1,202,000	2.07%
Jeremy Wilson	—	—	31,746	0.05%
David Bezem	—	—	7,937	0.01%
Paul Dean	—	—	7,937	0.01%

Notes:

(1) Of these Ordinary Shares, (a) 22,500,000 (representing 38.74% of Ordinary Shares) are held by Phil Dudderidge directly; and (b) 22,500,000 (representing 38.74% of Ordinary Shares) are held by Jennifer Dudderidge, Phil Dudderidge's wife.

(2) Of these Ordinary Shares, (a) 15,882,384 (representing 27.35% of Ordinary Shares) are held by Phil Dudderidge directly; and (b) 14,366,616 (representing 24.74% of Ordinary Shares) are held by Jennifer Dudderidge, Phil Dudderidge's wife.

6.2 Save as disclosed in paragraphs 4.5 and 6.1 above, none of the Directors has any interests in the share capital or loan capital of Focusrite Plc or any of its subsidiaries nor does any person connected with the Directors (within the meaning of sections 252 to 255 and 820 to 825 of the Act) have any such interests, whether beneficial or non-beneficial.

6.3 In addition to their directorships in Focusrite Plc, the Directors have held the following directorships and/or been a partner in the following partnerships within the five years prior to the date of this document:

(i) Phil Dudderidge

Current Directorships/Partnerships	**Past Directorships/Partnerships**
Disruptive Hong Kong Limited	Disruptive Group Holdings Limited
Focusrite Audio Engineering Limited	
Focusrite Novation Inc.	

(ii) Dave Froker

Current Directorships/Partnerships	**Past Directorships/Partnerships**
Focusrite Audio Engineering Limited	None

(iii) Jeremy Wilson

Current Directorships/Partnerships	**Past Directorships/Partnerships**
Crikey Bikey Ltd	Bak2 Group Limited
Focusrite Audio Engineering Limited	Fonebak Limited
Summerisle Finance Ltd	Regenersis (ADP) Limited
	Regenersis (AIDL) Ltd
	Regenersis (CREST) Limited
	Regenersis Distribution Ltd
	Regenersis (Germany) Ltd
	Regenerisis (Glasgow) Limited
	Regenersis (Glenrothes) Ltd
	Regenersis GMBH
	Regenersis (Group) Ltd
	Regenersis (Huntingdon) Ltd
	Regenersis (ICS) Limited
	Regenersis (IG) Ltd
	Regenersis Istanbul Teknoloji Dansimanligi

Current Directorships/Partnerships	Past Directorships/Partnerships
	Limited Sirketi Regenersis (Nottingham) Limited Regenersis Plc Regenersis Recommerce Limited Regenersis Rus Regenersis (Sommerda) GMBH Regenersis (South Africa) Proprietary Ltd Regenersis (Sweden) Limited Regenersis (Warsaw) Sp Z.oo Regenersis (UK) Limited

(iv) David Bezem

Current Directorships/Partnerships	Past Directorships/Partnerships
Balbourne Wind Fund No. 1 Limited Partnership Harvey Nash Group Plc Harvey Nash Group EBT Limited LMT Chamber Ensemble Limited WW Initial Investors LLP	None

(v) Paul Dean

Current Directorships/Partnerships	Past Directorships/Partnerships
Deanedge Limited Polypipe Group Plc Porvair Plc Volunteer Reading Help VRH Trading Limited	Aardvark Electronic Components Limited AEP Networks Asia Pacific SDN BHD (Malaysia) AEP Networks Australia Pty. Ltd (Australia) AEP Networks Inc (USA) AEP Networks Limited AEP Networks Limited (Ireland) Atkins & Partners Limited Audiosoft Limited BCF Designs Limited Blue Sky Group Foundation Blue Sky Group (International) Limited Blue Sky Strategy Consulting Limited Datel Defence Limited Delta Weed Group Limited DF Group Limited Extec Integrated Systems Limited Ferranti Air Systems Limited Giga Communications Limited Giga Composites Ltd Graytronics Limited Incert Recruitment Limited Polyflex Aerospace Limited Power Magnetics and Electronic Systems (Asia) Pte Ltd Power Magnetics and Electronic Systems Limited Radamec Defence Systems Limited Rio Tinto Diamonds Limited Safe Marine Limited SML Technologies Limited Transmag Power Transformers Limited UE Dormant One Ultra Electronics AEP Payments Limited Ultra Electronics AEP Technology Limited Ultra Electronics Airport Systems Ireland Ultra Electronics Airport Systems (South Africa) (Proprietary) Limited

Current Directorships/Partnerships	Past Directorships/Partnerships
	Ultra Electronics Card Systems Inc Ultra Electronics Canada Inc Ultra Electronic Enterprises (USA) LLC Ultra Electronics (Gibraltar) Ultra Electronics Holdings PLC Ultra Electronics Jersey Unlimited Ultra Electronics Limited Ultra Electronics Maritime Systems Inc Ultra Electronics TCS INC Ultra Electronics Technology (Beijing) Co Ltd Vados Systems Limited Weed Instrument Company Inc

6.4 No Director:

6.4.1 has any unspent convictions in relation to indictable offences; or

6.4.2 has been bankrupt or the subject of an individual voluntary arrangement, or has had a receiver appointed to any asset of such director; or

6.4.3 has been a director of any company which, while he or she was a director or within 12 months after he or she ceased to be a director, had a receiver appointed or went into compulsory liquidation, creditors voluntary liquidation, administration or company voluntary arrangement, or made any composition or arrangement with its credits generally or with any class of its creditors; or

6.4.4 has been a partner of any partnership which, while he or she was a partner or within 12 months after he or she ceased to be a partner, went into compulsory liquidation, administration or partnership voluntary arrangement, or had a receiver appointed to any partnership asset; or

6.4.5 has had any public criticism by statutory or regulatory authorities (including recognised professional bodies); or

6.4.6 has been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

6.5 Save as disclosed in sub-paragraph 5.2 and 6.1 above and this sub-paragraph 6.5, Focusrite Plc is not aware of any person who, directly or indirectly had an interest in 3%. or more of the voting rights of Focusrite Plc which is notifiable to Focusrite Plc under the Disclosure and Transparency Rules as at the date of this document and immediately following Admission and Placing other than the following:

	As at the date of this document		Immediately following Admission and Placing	
	Number of Ordinary Shares	**% of Issued Share Capital**	**Number of Ordinary Shares**	**% of Issued Share Capital**
EBT	5,676,000	9.77%	5,676,000	9.77%
Schroder Investment Management Limited	—	—	4,682,500	8.06%
Investec Asset Management Limited	—	—	2,381,000	4.10%
Highclere International Investors LLP	—	—	2,257,662	3.89%
Polar Capital Partners Limited	—	—	2,241,752	3.86%

6.6 The voting rights of the holders of Ordinary Shares set out in paragraphs 5.1, 6.1 and 6.5 do not differ from the voting rights held by other holders of Ordinary Shares.

6.7 There are no outstanding loans granted or guarantees provided by Focusrite Plc to or for the benefit of any of the Directors, nor are there any outstanding loans or guarantees provided by the Directors to or for the benefit of Focusrite Plc.

6.8 Save as disclosed in paragraphs 6.1 and 10, no Director has any interest, whether direct or indirect, in any transaction which is or was unusual in its nature or conditions or significant to the business of the Group taken as a whole and which was effected by the Group during the current or immediately preceding financial year, or during any earlier financial year and which remains in any respect outstanding or unperformed.

6.9 None of the Directors nor any member of a Director's family is dealing in any related financial product (as defined in the AIM Rules) whose value in whole or in part is determined directly or indirectly by reference to the price of the Ordinary Shares, including a contract for differences or a fixed odds bet.

7. Directors' service agreements and terms of office

7.1 Dave Froker has entered into a service agreement with Focusrite Plc as its chief executive officer dated 4 December 2014 subject to termination upon six months' notice by either party. Focusrite Plc can terminate Dave Froker's employment immediately and at its discretion make a payment in lieu of notice. The agreement provides for an annual salary of £154,000, the award of a discretionary bonus, pension contributions, membership of a private medical scheme, permanent health insurance and life assurance cover.

7.2 Jeremy Wilson has entered into a service agreement with Focusrite Plc as its finance director dated 5 December 2014 subject to termination upon six months' notice by either party. Focusrite Plc can terminate Jeremy Wilson's employment immediately and at its discretion make a payment in lieu of notice. The agreement provides for an annual salary of £165,000, the award of a listing bonus and a performance bonus, pension contributions, membership of a private medical scheme, permanent health insurance and life assurance cover.

7.3 Phil Dudderidge has entered into a service agreement with Focusrite Plc as its executive chairman dated 5 December 2014 subject to termination upon six months' notice by either party. Focusrite Plc can terminate Phil Dudderidge's employment immediately and at its discretion make a payment in lieu of notice. The agreement provides for an annual salary of £168,000, the award of a discretionary bonus, pension contributions, membership of a private medical scheme, permanent health insurance and life assurance cover.

7.4 Focusrite Plc can terminate the employment of Dave Froker, Jeremy Wilson and Phil Dudderidge immediately and at its discretion make a payment in lieu of notice. The agreements contains post-termination restrictive covenants restricting Dave Froker, Jeremy Wilson and Phil Dudderidge's ability to compete and solicit the Group's customers, prospective customers, introducers of business and senior employees for a period of 12 months post termination. These periods are reduced by any time the executives are placed on gardening leave. Usual confidentiality and intellectual property protections are included.

7.5 The services of David Bezem and Paul Dean as non-executive directors are provided under the terms of letters of appointment between them and Focusrite Plc dated 5 December 2014 subject to termination upon at least six months' notice, at an initial fee of £30,000 per annum each. Paul Dean will be paid a further fee of £5,000 for the role of chairman of the audit committee, to be paid in monthly instalments in arrears. David Bezem will be paid a further fee of £5,000 for the role of chairman of the remuneration committee, to be paid in monthly instalments in arrears.

7.6 Save as disclosed in paragraphs 7.1 to 7.5 above, there are no service contracts in place between Focusrite Plc and any subsidiary and any member of the administrative, management or supervisory bodies which provide benefits on termination of employment.

7.7 Save as set out in paragraphs 7.1 to 7.5, above, there are no service agreements in existence between any of the Directors and Focusrite Plc or the Group providing for benefits upon termination of employment.

7.8 Details of the length of time in which the Directors who are currently in office and the period of their term of office are set out below:

Name	Focusrite Audio Engineering Limited Commencement of period of office	Focusrite Plc Commencement of period of office
Phil Dudderidge	17 March 1989	14 November 2014
Dave Froker	27 March 2012	14 November 2014
Jeremy Wilson	12 November 2014	5 December 2014
David Bezem	—	5 December 2014
Paul Dean	—	5 December 2014

8. Material contracts

The contracts set out below (together with the related party transactions set out at paragraph 10 of this Part IV), not being contracts entered into in the ordinary course of business, have been entered into by Focusrite Plc or any members of the Group during the two years preceding the date of this document and are or may be material:

8.1 On 5 December 2014 Focusrite Plc and Panmure Gordon entered into the Nominated Adviser and Broker Agreement pursuant to which Focusrite Plc has appointed Panmure Gordon to act as nominated adviser and broker to Focusrite Plc for a period of 12 months commencing on the date of the agreement and subject to seven days' written notice from either Focusrite Plc or Panmure Gordon. The agreement contains certain undertakings and indemnities given by Focusrite Plc in respect of, *inter alia*, compliance with all applicable laws.

8.2 On 5 December 2014 2014 Focusrite Plc entered into the Placing Agreement with the Directors, the Selling Shareholders and Panmure Gordon pursuant to which Panmure Gordon has agreed to use its reasonable endeavours to arrange for Placees to purchase the Placing Shares at the Placing Price. The agreement is conditional, *inter alia*, upon Admission taking place on or before 11 December 2014 or such later date as Panmure Gordon and Focusrite Plc may agree but in any event not later than 31 December 2014.

The agreement contains, *inter alia*, warranties and indemnities given by Focusrite Plc and the Directors in favour of Panmure Gordon as to the accuracy of information contained in this document and other matters relating to Focusrite Plc and its business and an indemnity from Focusrite Plc in favour of Panmure Gordon. The liability of the Directors for a breach of warranty is limited and such liability of Focusrite Plc is unlimited.

Under the terms of the agreement the Selling Shareholders have agreed not to dispose of any interest in their Ordinary Shares (which on admisson represents 59.6% of the Issued Share Capital), for a period of at least 12 months from the date of Admission and thereafter not to dispose of any interest in such holding until 24 months from the date of Admission only through Panmure Gordon with regard to maintaining an orderly market, except in certain limited circumstances.

Panmure Gordon may terminate the agreement in specified circumstances prior to Admission, principally in the event of a material breach of the agreement or any of the warranties contained in it, or where any event of omission relating to the Group is, or will be in the opinion of Panmure Gordon, material in the context of the Placing or Admission, or where any change of national or international, financial, monetary, economic, political or market conditions is, or will be in the opinion of Panmure Gordon, materially adverse to Focusrite Plc or the successful outcome of the Placing.

8.3 On 5 December 2014 Focusrite Plc entered into the Relationship Agreement with Phil Dudderidge (the ''Investor''). The Relationship Agreement contains, *inter alia*, provisions to allow Focusrite Plc to operate independently of the Investor and any person connected with him (''Associates'') for as long as the Investor and his Associates together hold not less than 25% or more of the voting rights. The Relationship Agreement provides that the Investor and/or his Associates will not take any action to prevent or restrict the Group from carrying on business independently of the Investor and his Associates, provides that the Investor and Associates will not approve any variations to Focusrite Plc's Articles of Association which affect Focusrite Plc's ability to carry out its business independently, provides that all arrangements between the Investor and/or Associates and Focusrite Plc will be on an arms-length basis and on a normal commercial basis and approved by independent directors alone, requires that any disputes between the Investor and/or his Associates and Focusrite Plc are dealt with on Focusrite Plc's behalf by a committee of independent directors, prohibits the Investor and/or Associates from voting in favour of any resolution to cancel Focusrite Plc's admission to AIM, prohibits the Investor and/or Associates from undertaking any activities in conflict with Focusrite Plc which could render Focusrite Plc incapable of carrying on its business independently or lead to transactions between the Investor or any of his Associates which are not on arm's length basis or normal commercial basis, requires that the Investor and any of his Associates abstain from voting on any 'Board Reserved Matter' in which he has a material interest or where a conflict of interest exists. The provisions of this agreement shall cease to have effect if the share capital of Focusrite Plc ceases to be traded on AIM or any other recognised stock exchange.

8.4 On 4 December 2014, Focusrite Plc entered into the Share Exchange Agreement with each of Phil Dudderidge, Jennifer Dudderidge, Michael Johnson, Chirstopher Gooddie, Pauline Cornwell, Timothy Dingley, Giles Orford, Helen Jenkins, Damian Hawley, Phillip Wagner, Mike Warriner, Simon Jones, Dave Froker and Robert Jenkins and the EBT ("Share Exchange Vendors") pursuant to which the Share Exchange Vendors transferred the entire issued share capital of FAEL to Focusrite Plc, in consideration for which Focusrite Plc issued, credited as fully paid, the Ordinary Shares to the Share Exchange Vendors. The Share Exchange Agreement contains limited warranties between the parties.

8.5 On 30 August 2014, Focusrite Plc entered into a settlement agreement with Disruptive Hong Kong Limited, pursuant to which Focusrite agreed to receive a sum of £450,000 in satisfaction of all outstanding amounts due, as described in paragraph 10.2 below.

8.6 On 13 November 2014, an agreement to assign was entered into between the Company and a China-based special purpose company pursuant to which the Company agreed to purchase a trade mark registration featuring one of the Company's brand names, which covers goods which are similar to some of the core goods sold and manufactured in China by the Company under the same brand name ("Competing Registration"). Under the same agreement to assign the Company agreed to purchase the application to register a new trade mark in China using the same brand name, which the Company had opposed ("Competing Application"). The agreement to assign provides for the transfer to the Company of all rights relating to the Competing Registration and Competing Application, including the right of use.

On 18 November 2014, a further agreement to assign was entered into between the Company and the China-based special purpose company pursuant to which the Company has been assigned the right to enforce the Competing Registration and the Competing Application.

8.7 On 25 July 2014, FAEL entered into a loan agreement with Dave Froker pursuant to which FAEL made an unsecured loan of £24,000 to Dave Froker. Interest was charged at 1.0% above bank base rate and such loan was fully repaid on 18 November 2014.

9. Taxation

The following summary, which is intended as a general guide only, outlines certain aspects of current UK tax legislation, and what is understood to be the current practice of HMRC in the United Kingdom regarding the ownership and disposal of ordinary shares.

Focusrite Plc is at the date of this document resident for tax purposes in the United Kingdom and the following is based on that status.

This summary is not a complete and exhaustive analysis of all the potential UK tax consequences for holders of Ordinary Shares of Focusrite Plc. It addresses certain limited aspects of the UK taxation position of UK resident Shareholders who are absolute beneficial owners of their Ordinary Shares and who hold their Ordinary Shares as an investment. This summary does not address the position of certain classes of Shareholders who (together with associates) have a 10 per cent. or greater interest in Focusrite Plc, or, such as dealers in securities, market makers, brokers, intermediaries, collective investment schemes, pension funds, charities or UK insurance companies or whose shares are held under a personal equity plan or an individual savings account or are "employment related securities" as defined in Section 421B of the Income Tax (Earnings and Pensions) Act 2003. Any person who is in any doubt as to his tax position or who is subject to taxation in a jurisdiction other than the UK should consult his professional advisers immediately as to the taxation consequences of their purchase, ownership and disposition of Ordinary Shares. This summary is based on current United Kingdom tax legislation. Shareholders should be aware that future legislative, administrative and judicial changes could affect the taxation consequences described below.

9.1 The Group

The profits of Focusrite Plc will be subject to UK corporation tax.

9.2 The Shareholders

9.2.1 *Withholding tax*

Under current UK taxation legislation, no tax will be withheld at source from dividend payments by Focusrite Plc.

9.2.2 *Taxation of dividends*

9.2.2.1 United Kingdom resident shareholders

Individuals

UK resident individual Shareholders who receive a dividend from Focusrite Plc will generally be entitled to a tax credit, which can be set off against the individual's income tax liability on the dividend payment. The rate of tax credit on dividends paid by Focusrite Plc will be 10% of the total of the dividend payment and the tax credit (the "gross dividend"), or one-ninth of the dividend payment. UK resident individual Shareholders will generally be taxable on the gross dividend, which will be regarded as the top slice of the Shareholder's income. UK resident individual Shareholders who are not liable to income tax in respect of the gross dividend will generally not be entitled to reclaim any part of the tax credit. In the case of a UK resident individual Shareholder who is not liable to income tax at the higher rates (taking account of the gross dividend he or she receives), the tax credit will satisfy in full such Shareholder's liability to income tax. To the extent that a UK resident individual Shareholder's income (including the gross dividend) is subject to 40% income tax, such Shareholders will be subject to income tax on the gross dividend at the distribution income upper rate of 32.5% but will be able to set the tax credit against this liability. This results in an effective tax rate of 25% on the net dividend. To the extent that a UK resident individual Shareholder's income (including the gross dividend) is subject to 45% income tax, such Shareholders will be subject to income tax on the gross dividend at the distribution income upper rate of 37.5% on the gross dividend and an effective tax rate of 30.6% of the net dividend.

Companies

Subject to UK dividend exemption rules, a corporate Shareholder resident in the UK (for tax purposes) should generally not be subject to corporation tax or income tax on dividend payments received from Focusrite Plc. Corporate Shareholders will not, however, be able to claim repayment of tax credits attaching to the dividend payment.

9.2.2.2 Non-residents

In general, the right of non-UK resident Shareholders to reclaim tax credits attaching to dividend payments by Focusrite Plc will depend upon the existence and the terms of an applicable double tax treaty between their jurisdiction of residence and the UK. In most cases, the amount of tax credit that can be claimed by non-UK resident Shareholders from HMRC will be nil. They may also be liable to tax on the dividend income under the tax law of their jurisdiction of residence. Non-UK resident

Shareholders should consult their own tax advisers in respect of their liabilities on dividend payments, whether they are entitled to claim any part of the tax credit and, if so, the procedure for doing so.

9.3 Taxation of Disposals

A disposal of Ordinary Shares by a Shareholder who is resident for tax purposes in the UK, will in general be subject to UK taxation on capital gains on a disposal of Ordinary Shares.

A Shareholder who is not resident in the UK for tax purposes, but who carries on a trade, profession or vocation in the UK through a permanent establishment (where the Shareholder is a company) or through a branch or agency (where the Shareholder is not a company) and has used, held or acquired the Ordinary Shares for the purposes of such trade, profession or vocation or such permanent establishment, branch or agency (as appropriate) will be subject to UK tax on capital gains on the disposal of Ordinary Shares.

In addition, any holders of Ordinary Shares who are individuals and who dispose of shares while they are temporarily non-resident may be treated as disposing of them in the tax year in which they again become resident in the UK.

For UK resident individuals, capital gains are chargeable at the applicable rate, which is generally 18% or 28% (depending on their personal circumstances, including other capital gains or income for the relevant period) subject to certain reliefs and exemptions.

For UK resident trusts or personal representatives, capital gains are chargeable at a flat rate of 28% subject to certain reliefs and exemptions. For UK corporates, capital gains are chargeable to UK Corporations at the rate of 21% (reducing to 20% from 1 April 2015) subject to indexation which may apply to reduce any such gain (though indexation is no longer available to individuals and trustees). Other reliefs may be relevant.

9.4 Stamp duty and Stamp Duty Reserve Tax ("SDRT")

No UK stamp duty will be payable on the issue by Focusrite Plc of Ordinary Shares. For as long as Ordinary Shares are admitted to trading on AIM (and not listed on a recognised stock exchange), their transfer will be exempt from stamp duty and agreements for their transfer will be exempt from SDRT. Otherwise, transfers of Ordinary Shares for value will generally give rise to a liability to pay UK *ad valorem* stamp duty, or stamp duty reserve tax, at the rate of 0.5 per cent. of the amount or value of the consideration (rounded up in the case of stamp duty to the nearest £5).

9.5 Inheritance and gift taxes

Ordinary Shares beneficially owned by an individual Shareholder will be subject to UK inheritance tax on the death of the Shareholder (even if the Shareholder is not domiciled or deemed domiciled in the UK), although the availability of exemptions and reliefs may mean that in some circumstances there is no actual tax liability. A lifetime transfer of assets to another individual or trust may also be subject to UK inheritance tax based on the loss of value to the donor, although again exemptions and reliefs may be relevant. Particular rules apply to gifts where the donor reserves or retains some benefit. Special rules also apply to close companies and to trustees of settlements who hold shares, which could bring them within the charge to UK inheritance tax.

Shareholders should consult an appropriate professional adviser if they intend to make a gift of any kind or intend to hold any Ordinary Shares through trust arrangements. They should also seek professional advice in a situation where there is a potential for a double charge to UK inheritance tax and an equivalent tax in another country.

The comments set out above are intended only as a general guide to the current tax position in the UK at the date of this document. The rates and basis of taxation can change and will be dependent on a Shareholder's personal circumstances.

Neither Focusrite Plc nor its advisers warrant in any way the tax position outlined above which, in any event, is subject to changes in the relevant legislation and its interpretation and application.

10. Related Party and Other Transactions

The Group has entered into the following related party transactions:

10.1 On 31 October 2012 FAEL subscribed £500.53 for 50,053 fully paid A1 shares in Disruptive Group Holdings Limited, the former holding company of Disruptive Limited (which is mentioned further below). The majority shareholder of Disruptive Group Holdings Limited was Thomas Dudderidge, the son of Philip Dudderidge. Disruptive Group Holdings Limited has now been dissolved.

10.2 FAEL entered into a loan agreement dated 31 October 2012 with Disruptive Limited (a company now in liquidation, registered in England and Wales ("DL")) under which the Company agreed to make a term loan to DL in the amount of £1,499,499.47 (the "Loan").

In April 2013, Disruptive Hong Kong Limited, a foreign associate company of DL, ("DHKL") assumed an amount of £648,811 of the capital sum owed by DL to FAEL arising under the Loan, by way of novation, in consideration for the acquisition by DHKL of certain assets of DL. DHKL also agreed to meet any shortfall arising in respect of DL's obligations to FAEL in respect of the Loan.

Under related agreements, DHKL remained liable to FAEL for a payment of £100,000, in respect of intellectual property rights licenced to DHKL by FAEL (the "IP Licence").

DL was not able to comply with its obligations in respect of the Loan. Until the settlement detailed below there were amounts outstanding due from DHKL to FAEL in respect of the Loan, either as primary or secondary obligor, in the sum of around £810,000. £100,000 also remained due in respect of the IP Licence.

Of the £810,000 that had been outstanding in respect of the Loan, around £297,000 was made up of capital (£1,202,500 of capital previously having been repaid), around £51,000 was made up of interest and around £462,000 was made up of default interest and redemption penalties. FAEL agreed to make a compromise with DHKL in respect of the amounts outstanding. A compromised sum of £350,000 was agreed by FAEL in respect of the Loan, representing all capital amounts outstanding, plus the interest at a commercial rate. The agreed sum in respect of the Loan together with the full £100,000 in respect of the IP Licence, was paid to FAEL on 30 August 2014.

10.3 On 25 July 2014, FAEL entered into a loan agreement with Dave Froker pursuant to which FAEL made an unsecured loan of £24,000 to Dave Froker. Interest was charged at 1.0% above bank base rate and such loan has been fully repaid to FAEL with interest accrued on 18 November 2014.

11. Intellectual Property

The Group's primary intellectual property is an extensive portfolio of registered trademarks with relevant specifications, including the house mark FOCUSRITE (covering the Member States of the European Union (CTM), the United States, China, Japan and Peru (with an application pending in Brazil)) and product marks including AUTOMAP, DICER, IMPULSE, INSITU, iTRACK, LAUNCHPAD, LIQUID, NOVA, NOVATION, REDNET, SAFFIRE, SUPERNOVA, TWITCH, VRM, XIO. As well as using the registered trademarks, the Group uses the following brand names ISA, OCTOPRE, SCARLETT, TAPE, PLATINUM, PENTA, TONEFACTORY, TRAKMASTER / TRAKMASTER PRO, VOICEMASTER / VOICEMASTER PRO, MIXMASTER, TWINTRAK PRO. The Group has 35 domain names for providing effective country-specific and top-level online portals, including the primary operating domains 'focusrite.com' and 'novationmusic.com'. Presently the Group has 3 families of design registrations; for 'audio apparatus' in the European Union (registered Community design EM001552811-0001) and United States (design patent USD642160), 'audio equipment' in the European Union (registered Community design EM001674144-0001) and United States (design patent USD674374); 'audio apparatus' in the European Union (registered Community design EM001707605-0001) and United States (USD641733).

12. Premises

12.1 The Group's principal establishment (which is leasehold and is used for offices and warehouses) is as follows:

Property	Tenure	Lease expiry date	Annual rent (unless otherwise stated)
Windsor House, Castle Estate, Turnpike Way, High Wycombe, Buckinghamshire HP12 3FX	Leasehold	10 January 2023	£162,150

13. Working capital

In the opinion of the Directors, having made due and careful enquiry, the working capital available to the Group, will be sufficient for its present requirements, that is for at least the next twelve months from the date of Admission.

14. Litigation

14.1 Save as set out below, there are no, and during the 12 month period prior to the date of this document there have not been any, governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Group is aware) which may have, or have had in the recent past, significant effects on the Group's financial position or profitability.

14.2 The Company has been involved in a potential dispute with a Chinese individual in respect of a competing trade mark registration featuring one of the Company's brand names which relates to goods that are similar to the core goods sold and manufactured in China by the Company under the same brand name. The Company entered into negotiations with the Chinese individual to resolve the potential dispute. See Part II and paragraph 8.6 of Part VI for more details.

15. General

15.1 Save as set out in paragraph 11 of Part IV of this document, there are no patents or other intellectual property rights, licences or particular contracts which are of fundamental importance to the Group's business.

15.2 The costs and expenses of the Placing and Admission are estimated to be approximately £1.2 million, excluding VAT, and are payable by Focusrite Plc.

15.3 Except as set out in this document, including as set out in paragraphs 8, 10 and 15.4 for fees payable to the professional advisers whose names are set out on page 6 above or payments to trade suppliers, no person has received any fees, securities in Focusrite Plc or other benefit to a value of £10,000 or more, whether directly or indirectly, from Focusrite Plc within the 12 months preceding the application for Admission, or has entered into any contractual arrangement to receive from Focusrite Plc, directly or indirectly, any such fees, securities or other benefit on or after Admission.

15.4 FAEL paid $100,000 on or around 13 November 2014 in order to settle a potential dispute regarding a competing trade mark registration, details of which are set out in paragraph 8.6 and 14.2 above.

15.5 There has been no significant change in the financial or trading position of the FAEL Group since 31 August 2014, being the date of the last audited financial information contained within Part III of this document.

15.6 There has been no significant change in the financial or trading position of Focusrite Plc since 14 November 2014, being the date of its incorporation.

15.7 With the exception of any arrangements summarised in paragraph 10 of Part VI no member of the Group is, nor has been, a party to any transactions with related parties which were material to the Group.

15.8 Where information has been sourced from a third party, Focusrite Plc confirms that this information has been accurately reproduced and as far as Focusrite Plc is aware and is able to ascertain from the information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

15.9 The financial information set out in this document does not constitute statutory accounts within the meaning of section 434 of the Act. Statutory accounts have been delivered to the registrar of companies for FAEL for the periods ended 31 August 2012, 31 August 2013 and 31 August 2014. KPMG LLP have been the auditors of FAEL for the three financial years ended 31 August 2014. Auditors' reports in respect of each statutory accounts have been made under section 495 of the Act and each such report was an unqualified report and did not contain any statement under section 498(2) or (3) of the Act.

15.10 The accounting reference date of the Group is 31 August.

15.11 The Placing Price represents a premium of 125.9 pence over the nominal value of an Ordinary Share.

15.12 KPMG LLP has given and has not withdrawn its written consent to the inclusion in this document of its Accountant's Report set out in Part III of this document in the form and context in which it appears and has authorised its Accountant's Report for the purposes of the AIM Rules for Companies. Except for the information set out in Part III of this document, no other information has been audited or reviewed by KPMG LLP.

15.13 Panmure Gordon has given and not withdrawn its written consent to the issue of this document and the references to them in the form and context in which such references are included.

16. Availability of document

Copies of this document will be available free of charge to the public at the registered office of Panmure Gordon, One New Change, London, EC4M 9AF during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) until the date falling one month after the date of Admission.

Dated 5 December 2014.

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