

2004.12.31

Future Electronics Limited

Report and Financial Statements

31 December 2004

 **ERNST & YOUNG**



Future Electronics Limited

Registered No: 2087867

Directors

D G Casey
T G McGrory
J A J Rourke

Secretary

W R Wingad

Auditors

Ernst & Young LLP
Apex Plaza
Reading
RG1 1YE

Bankers

ABN AMRO Bank
250 Bishopsgate
London
EC2M 4AA

Solicitors

Baker & McKenzie
100 New Bridge Street
London
EC4V 6JA

Registered office

Future House
Poyle Road
Colnbrook
Slough
Berkshire
SL3 0AA

Directors' report

The directors present their report and financial statements for the year ended 31 December 2004.

Results and dividends

The profit for the year, after taxation, amounted to £2,844,806 (2003: £1,723,443). The directors do not recommend the payment of any dividends.

Principal activities and review of the business

The principal activity of the company during the year was to be the distributor of electronic components.

Future developments

The company is committed to strengthening its market position across Europe and continues to invest in improving its efficiency and effectiveness in all locations to achieve that aim.

Events since the balance sheet date

Effective from 1 January 2005, the entire share capital of the Company was acquired by a new parent company, Future Electronics Management Services Limited, from Future Electronics Inc. As part of this restructuring in Europe, the Company's shareholding in the share capital of FE Future Holding BV (see note 10), was changed to a mixture of ordinary and preferred shares, which gives a total voting rights of 40%. The remaining 60% of the voting rights are held by Future Electronics Inc., the ultimate parent company.

Disabled employees

The directors give special attention to the health and safety of their employees and endeavour to ensure that as far as possible the training, career development and promotion of disabled persons is the same as for other employees. Should employees become disabled, every effort is made to ensure that their employment continues and appropriate retraining is received.

Employee involvement

During the year, the policy of providing employees with information about the company has continued. Regular meetings are held between management and employees to allow a free flow of information and ideas.

Directors

The directors who served the company during the year were as follows:

D G Casey
T G McGrory
J A J Rourke

There are no directors' interests requiring disclosure under the Companies Act 1985.

Directors' indemnity insurance

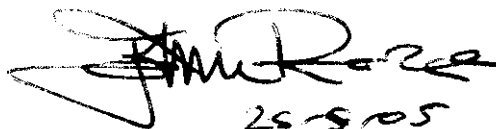
The company has indemnified one or more of the directors of the company against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985. Such qualifying third party indemnity provision was in force during the year.

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

On behalf of the board

Director



25-5-05

Statement of directors' responsibilities in respect of the financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the members of Future Electronics Limited

We have audited the company's financial statements for the year ended 31 December 2004 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet, Statement of Cash Flows and the related notes 1 to 20. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit 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 statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent auditors' report
to the members of Future Electronics Limited (continued)

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor

25 MAY

2005

Profit and loss account

for the year ended 31 December 2004

	Notes	2004 £	2003 £
Turnover	2	278,842,313	243,470,711
Cost of sales		(223,356,435)	(196,911,543)
Gross profit		55,485,878	46,559,168
Distribution costs		30,844,153	26,807,680
Administrative expenses		19,978,310	17,363,815
Other operating expenses		355,457	16,034
Operating profit	3	4,307,958	2,371,639
Interest receivable and similar income	6	622,921	485,375
Interest payable	7	(564,176)	(306,543)
		58,745	178,832
Profit on ordinary activities before taxation		4,366,703	2,550,471
Tax on profit on ordinary activities	8	(1,521,897)	(827,028)
Profit retained for the financial year	18	2,844,806	1,723,443

Statement of total recognised gains and losses

There are no recognised gains or losses other than the profit of £2,844,806 attributable to the shareholders for the year ended 31 December 2004 (2003 - profit of £1,723,443).

Balance sheet

at 31 December 2004

	Notes	2004 £	2003 £
Fixed assets			
Tangible assets	9	2,498,403	3,286,740
Investments	10	4,520,721	4,439,195
		<u>7,019,124</u>	<u>7,725,935</u>
Current assets			
Stocks	11	63,412,734	58,490,630
Debtors	12	56,554,383	55,272,474
Cash at bank and in hand		4,931,735	10,931,876
		<u>124,898,852</u>	<u>124,694,980</u>
Creditors: amounts falling due within one year	13	38,232,781	41,552,859
Net current assets		<u>86,666,071</u>	<u>83,142,121</u>
Total assets less current liabilities		<u>93,685,195</u>	<u>90,868,056</u>
Creditors: amounts falling due after more than one year	14	138,333	166,000
		<u>93,546,862</u>	<u>90,702,056</u>
Capital and reserves			
Called up share capital	17	88,069,083	88,069,083
Share premium account	18	875,938	875,938
Profit and loss account	18	4,601,841	1,757,035
Equity shareholders' funds	18	<u>93,546,862</u>	<u>90,702,056</u>

Director



25/5/2005

Statement of cash flows

for the year ended 31 December 2004

	Notes	2004 £	2003 £
Net cash (outflow)/inflow from operating activities	19(a)	(3,174,870)	2,256,779
Returns on investments and servicing of finance	19(b)	58,745	178,832
Taxation	19(c)	(2,276,505)	603,468
Capital expenditure and financial investment	19(d)	(498,318)	(475,094)
Acquisitions and disposals	19(e)	(81,526)	24,269
Financing	19(f)	(27,667)	(27,666)
(Decrease)/Increase in cash		<u>(6,000,141)</u>	<u>2,560,588</u>

Reconciliation of net cash flow to movement in net funds

		2004 £	2003 £
(Decrease)/Increase in cash		(6,000,141)	2,560,588
Net cash outflow from decrease in long-term accruals		27,667	27,666
		<u>(5,972,474)</u>	<u>2,588,254</u>
Change in net funds	19(g)	(5,972,474)	2,588,254
Net funds at 1 January	19(g)	10,765,876	8,177,622
Net funds at 31 December	19(g)	<u>4,793,402</u>	<u>10,765,876</u>

Notes to the financial statements

at 31 December 2004

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention, and in accordance with applicable accounting standards.

Fixed assets

All fixed assets are initially recorded at cost.

Depreciation

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition of each asset evenly over its expected useful life, as follows:

Short leasehold improvements	-	5 years
Equipment and fixtures	-	5 to 10 years
Computer equipment	-	4 years

The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is purchase price less trade discounts and is computed on a first-in first-out basis. Net realisable value is based on estimated selling price less any further costs expected to be incurred on disposal.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exception:

- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Pension

The company arranges stakeholders' pension schemes for eligible employees. The company does not contribute to the schemes, however arrangement fees borne by the company are charged to the profit and loss account as incurred.

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All exchange differences are taken to the profit and loss account.

Operating lease rentals

Rentals payable under operating leases are charged in the Profit and Loss Account on a straight line basis over the lease term.

Notes to the financial statements

at 31 December 2004

2. Turnover

Turnover represents the amounts derived from the sale of goods supplied by the company, net of value added tax and trade discounts. All turnover arises from continuing operations.

An analysis of turnover destination by geographical market has not been provided on the grounds that, in the opinion of the directors, it would be seriously prejudicial to the interests of the company.

3. Operating profit

This is stated after charging:

	2004 £	2003 £
Auditors' remuneration - audit services	38,835	35,000
- non-audit services	21,951	47,882
	<u>60,786</u>	<u>82,882</u>
Depreciation of owned fixed assets	<u>1,286,655</u>	<u>1,482,978</u>
Operating lease rentals - land and buildings	1,512,576	1,476,983
- plant and machinery	30,062	45,579
Net loss on foreign currency translation	<u>4,184,667</u>	<u>321,820</u>

4. Staff costs

	2004 £	2003 £
Wages and salaries	14,114,632	13,117,636
Social security costs	<u>1,665,965</u>	<u>1,520,199</u>
	<u>15,780,597</u>	<u>14,637,835</u>

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

	2004 No.	2003 No.
Warehouse	158	139
Sales and administration	<u>320</u>	<u>326</u>
	<u>478</u>	<u>465</u>

Notes to the financial statements

at 31 December 2004

5. Directors' emoluments

	2004 £	2003 £
Emoluments	<u>368,083</u>	<u>801,845</u>

The amounts in respect of the highest paid director are as follows:

	2004 £	2003 £
Emoluments	<u>217,558</u>	<u>656,057</u>

The directors of the company are also directors of fellow subsidiaries. The directors received total remuneration for the year of £368,083 (2003: £801,845), all of which was paid by Future Electronics Limited. The directors do not believe that it is practicable to apportion this amount between their services as directors of the company and their services as directors of the fellow subsidiary companies. No directors are accruing benefits under a company pension scheme (2003: nil).

6. Interest receivable

	2004 £	2003 £
Bank interest receivable	173,846	166,210
Interest from group companies	<u>449,075</u>	<u>319,165</u>
	<u>622,921</u>	<u>485,375</u>

7. Interest payable

	2004 £	2003 £
Bank interest payable	2,341	4,955
Interest payable to group undertakings	<u>561,835</u>	<u>301,588</u>
	<u>564,176</u>	<u>306,543</u>

8. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2004 £	2003 £
<i>Current tax:</i>		
UK corporation tax	1,460,534	827,028
Tax under provided in previous years	<u>61,363</u>	<u>—</u>
Total current tax (note 8(b))	<u>1,521,897</u>	<u>827,028</u>

Notes to the financial statements

at 31 December 2004

8. Tax (continued)

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 30% (2003: 30%). The differences are reconciled below:

	2004 £	2003 £
Profit on ordinary activities before taxation	4,366,703	2,550,471
Profit on ordinary activities multiplied by rate of tax	1,310,011	765,141
Disallowed expenses and non-taxable income	46,920	98,989
Depreciation in excess of capital allowances	115,847	99,846
Other timing differences	(12,244)	(136,948)
Adjustments in respect of previous periods	61,363	–
Total current tax (note 8(a))	1,521,897	827,028

(c) Deferred tax

The deferred taxation asset not recognised in the accounts is as follows:

	2004 £	2003 £
Depreciation in advance of capital allowances	53,373	(64,796)
Other timing differences	382,102	287,426
	435,475	222,630

The net deferred tax asset has not been recognised due to uncertainty over the availability of suitable future taxable profits.

Notes to the financial statements

at 31 December 2004

9. Tangible fixed assets

	<i>Short leasehold improvements</i> £	<i>Equipment and fixtures</i> £	<i>Computer Equipment</i> £	<i>Total</i> £
Cost:				
At 1 January 2004	1,177,506	3,564,292	2,081,142	6,822,940
Additions	64,638	307,103	126,577	498,318
At 31 December 2004	<u>1,242,144</u>	<u>3,871,395</u>	<u>2,207,719</u>	<u>7,321,258</u>
Depreciation:				
At 1 January 2004	698,882	1,509,200	1,328,118	3,536,200
Provided during the year	246,552	534,071	506,032	1,286,655
At 31 December 2004	<u>945,434</u>	<u>2,043,271</u>	<u>1,834,150</u>	<u>4,822,855</u>
Net book value:				
At 31 December 2004	<u>296,710</u>	<u>1,828,124</u>	<u>373,569</u>	<u>2,498,403</u>
At 31 December 2003	<u>478,624</u>	<u>2,055,092</u>	<u>753,024</u>	<u>3,286,740</u>

10. Investments

	<i>Shares in group companies</i> £
Cost:	
At 1 January 2004	4,439,195
Additions	81,526
At 31 December 2004	<u>4,520,721</u>

The company holds 100% of the preferred share capital of FE Future Holding BV, a holding company for the European subsidiary undertakings, incorporated in The Netherlands. The company also holds 50% of the voting rights in FE Future Holding BV. The remaining 50% of the voting rights are held by Future Electronics Inc., the ultimate parent company. Control of FE Future Holding BV is exercised by Future Electronics Inc. Since Future Electronics Limited does not exercise significant influence over FE Future Holding BV, the company does not equity account for its investment.

Notes to the financial statements

at 31 December 2004

11. Stocks

	2004 £	2003 £
Finished goods	<u>63,412,734</u>	<u>58,490,630</u>

Included within finished goods is £301,273 (2003: £ nil) of stock held on consignment.

12. Debtors

	2004 £	2003 £
Trade debtors	42,874,406	42,344,095
Amounts owed by group undertakings	9,571,543	9,293,773
Corporation tax repayable	189,467	—
Other debtors	2,695,811	1,742,459
Prepayments and accrued income	<u>1,223,156</u>	<u>1,892,147</u>
	<u>56,554,383</u>	<u>55,272,474</u>

13. Creditors: amounts falling due within one year

	2004 £	2003 £
Trade creditors	5,552,175	15,939,047
Amounts owed to group undertakings	29,741,480	19,991,704
Corporation tax	—	565,141
Other taxation and social security	417,735	393,872
Other creditors	253,150	10,716
Accruals and deferred income	<u>2,268,241</u>	<u>4,652,379</u>
	<u>38,232,781</u>	<u>41,552,859</u>

14. Creditors: amounts falling due after more than one year

	2004 £	2003 £
Accruals and deferred income	<u>138,333</u>	<u>166,000</u>

Accruals and deferred income contain reverse premiums, of which £nil (2003: £27,667) will be released after five years.

Notes to the financial statements

at 31 December 2004

15. Commitments under operating leases

At 31 December 2004 the company had annual commitments under non-cancellable operating leases as set out below.

	2004		2003	
	<i>Land and buildings</i>	<i>Other</i>	<i>Land and buildings</i>	<i>Other</i>
	£	£	£	£
Operating leases which expire:				
Within one year	13,578	751	-	8,448
In two to five years	350,000	122,721	324,020	54,270
In over five years	1,145,013	-	1,133,982	-
	<u>1,508,591</u>	<u>123,472</u>	<u>1,458,002</u>	<u>62,718</u>

16. Related party transaction

Mr Robert Miller is the ultimate controller of Future Electronics Limited and of the following companies whose ultimate parent undertaking is also Future Electronics Inc. During the year, the company entered into the following related party transactions, in the ordinary course of business.

Sales to related parties

Related party

	<i>Country of operation</i>	<i>2004 £</i>	<i>2003 £</i>
Future Electronics Corporation	USA	14,958,799	12,905,306
Future Electronics Inc. (Distribution)			
PTE Limited	Singapore	3,818,576	3,496,781
Future Electronics A.S.	Norway	5,296,487	6,848,836
Future Electronics Sp. Z.o.o	Poland	5,385,280	4,605,126
Future Electronics Deutschland GmbH	Germany	37,714,303	28,924,459
Future Electronics (Distribution) Israel Limited	Israel	20,461,933	16,228,527
Future Electronics Kft.	Hungary	2,789,502	3,035,003
Future Electronics Austria GmbH	Austria	3,106,173	1,608,208
		<u>93,531,053</u>	<u>77,652,246</u>

Purchases from related parties

Related party

Future Electronics Corporation	USA	61,551,807	60,850,927
Future Electronics Inc. (Distribution)			
PTE Limited	Singapore	2,533,194	2,621,462
		<u>64,085,001</u>	<u>63,472,389</u>

Notes to the financial statements

at 31 December 2004

16. Related party transactions (continued)

Loan interest paid and payable to related parties

Related party

	Country of operation	2004 £	2003 £
Future Electronics Corporation	USA	294,193	65,946
Future Electronics Austria GmbH	Austria	12,188	710
Future Electronics NV	Belgium	2,989	455
Future Electronics Deutschland GmbH	Germany	119,783	98,392
Future Electronics A/S	Denmark	5,603	4,505
Future Electronics Oy	Finland	4,606	2,620
Future Electronics S.A.	France	-	(24,462)
Future Electronics S.A.	France	19,733	52,421
Future Electronics (Ireland) Ltd	Ireland	37,949	43,174
Future Electronics SRL	Italy	23,129	23,603
Future Electronics B.V.	Netherlands	18,864	17,100
Future Electronics Distribution (Spain)	Spain	7,144	5,436
Future Electronics AB	Sweden	15,654	11,688
		<u>561,835</u>	<u>301,588</u>

Loan interest received and receivable from related parties

Related party

Future Electronics Corporation	USA	-	4,953
Future Electronics Austria GmbH	Austria	-	4,604
Future Electronics NV	Belgium	-	744
Future Electronics Oy	Finland	-	470
Future Electronics Kft	Hungary	71,510	30,627
Future Electronics Distribution (Israel) Ltd	Israel	-	230,540
Future Electronics AS	Norway	310,568	12,430
Future Electronics Polska Sp. Z o.o.	Poland	30,090	34,792
Future Electronics AB	Sweden	36,907	5
		<u>449,075</u>	<u>319,165</u>

Sales commission paid and payable to related parties

Related party

Future Electronics S.A.	France	4,442,065	4,079,701
Future Electronics S.r.L.	Italy	3,516,091	2,689,835
Future Electronics (Ireland) Limited	Ireland	891,616	701,338
Future Electronics A/S	Denmark	1,121,714	969,025
Future Electronics B.V.	Netherlands	503,205	497,369
Future Electronics Oy	Finland	1,165,079	980,719
FAI Electronics AB	Sweden	2,453,448	1,751,916
Future Electronics Kft.	Hungary	204,945	401,197
Future Electronics Distribution (Spain) S.L.	Spain	1,287,473	931,295
Future Electronics NV	Belgium	684,763	696,521
Future Electronics OU	Estonia	36,710	-
Future Electronics UAB	Lithuania	20,270	-
		<u>16,327,379</u>	<u>13,698,916</u>

Notes to the financial statements

at 31 December 2004

18. Reconciliation of shareholders' funds and movement on reserves

	Share capital £	Share premium account £	Profit and loss account £	Total share- holders' funds £
At 1 January 2003	88,069,083	875,938	33,592	88,978,613
Profit for the year	—	—	1,723,443	1,723,443
At 31 December 2003	88,069,083	875,938	1,757,035	90,702,056
Profit for the year	—	—	2,844,806	2,844,806
At 31 December 2004	88,069,083	875,938	4,601,841	93,546,862

19. Notes to the statement of cash flows

(a) Reconciliation of operating profit to net cash (outflow)/inflow from operating activities

	2004 £	2003 £
Operating profit	4,307,958	2,371,639
Depreciation	1,286,655	1,482,978
Increase in stocks	(4,922,104)	(3,587,578)
Increase in debtors	(1,092,442)	(15,662,105)
(Decrease)/Increase in creditors	(2,754,937)	17,651,845
Net cash (outflow)/inflow from operating activities	(3,174,870)	2,256,779

(b) Returns on investments and servicing of finance

	2004 £	2003 £
Interest received	622,921	485,375
Interest paid	(564,176)	(306,543)
	58,745	178,832

(c) Taxation

	2004 £	2003 £
Corporation tax (paid)/received	(2,276,505)	603,468

Notes to the financial statements

at 31 December 2004

19. Notes to the statement of cash flows (continued)

(d) Capital expenditure

	2004 £	2003 £
Payments to acquire tangible fixed assets	(498,318)	(475,094)
	<u>(498,318)</u>	<u>(475,094)</u>

(e) Acquisitions and disposals

	2004 £	2003 £
Acquisition of shares in group companies	(81,526)	—
Disposal of shares in group companies	-	24,269
	<u>(81,526)</u>	<u>24,269</u>

(f) Financing

	2004 £	2003 £
Net outflow from long-term accruals	(27,667)	(27,666)
	<u>(27,667)</u>	<u>(27,666)</u>

(g) Analysis of changes in net funds

	At 1 January 2004 £	Cash flows £	At 31 December 2004 £
Cash at bank and in hand	10,931,876	(6,000,141)	4,931,735
Debt due after one year	(166,000)	27,667	(138,333)
	<u>10,765,876</u>	<u>(5,972,474)</u>	<u>4,793,402</u>

20. Ultimate parent company

The company is a wholly owned subsidiary of Future Electronics Inc., which is incorporated in Canada. Future Electronics Inc. is also, in the opinion of the directors, the ultimate parent undertaking. The consolidated financial statements of Future Electronics Inc. are not available to the public.

In the opinion of the directors, Mr Robert Miller, who controls 100% of the shares of Future Electronics Inc., is the company's ultimate controller.