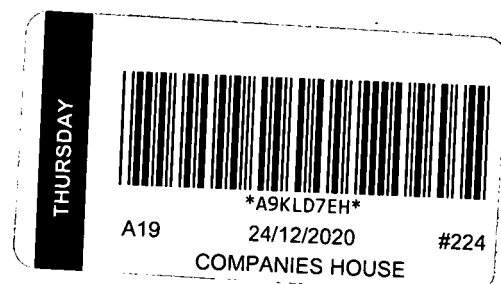


Future Electronics Limited

Report and Financial Statements

31 December 2019



Company Information

Directors

G B Oliver
A Shepherd

Secretary

K Carton

Auditors

Ernst & Young LLP
Grosvenor House
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Southampton SO15 2BE

Bankers

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Strategic report

The directors present their strategic report and the financial statements for the year ended 31 December 2019.

Review of the business

The principal activities during the year continued to be the management of customers' supply chain requirements, in particular the design, distribution and support of semi-conductor and lighting solutions.

The Company's key financial indicators during the year were as follows:

	2019 £000	2018 £000	Change £000	Change %
Turnover	720,662	758,261	(37,599)	(5)
Gross profit %	13.2%	15.8%	(2.6%)	(16)
Operating profit	3,785	33,645	(29,860)	(89)
Profit after tax	13,407	45,124	(31,717)	(70)
Total equity	260,995	247,588	13,407	5
Net current assets	233,030	295,484	(62,454)	(21)

Turnover decreased by 5% (2018 – 19% increased), through a combination of existing overstocking at customers following the shortages in the early part of the previous year and a slowdown in economic growth in the main countries in which the Company operates. Customer expansion and Franchise acquisition continued. Gross margin has decreased by 16%, due to higher availability and reduced demand for parts, a correction on the prior year and exchange rate factors.

Sales, General and Administration Costs (SGA) increased by 6.6%. Although there was increased investment in infrastructure, headcount increases and higher cost of commission to promotional companies, this was offset by an unrealised exchange gain in Euro and USD denominated accounts receivable balances following the weakening of Sterling in the second half of the year.

The decrease in volume has deducted approximately £5.7m from the Gross Profit (GP). The reduction in GP percentage has further decreased Gross Margin by approximately £18.5m, giving a total decrease of £24.2m, (2018 – increase of £32.5m). The increase in SGA costs, has negatively impacted operating profit by £5.7m, giving an overall decrease in operating profit of £29.9m (2018 – increase of £33.1m).

Income from shares in group undertakings was £12.5m in 2019 compared to £19.6m in 2018, reducing profit on ordinary activities before interest and taxation by £7.1m.

Net current assets have decreased by 21% (2018 – 23% increase), or £62.5m (2018 – £55.4m), reflecting a decrease in stock of £7.5m (2018 – £18.3m increase), a decrease in debtors of £15.8m (2018 – £27.5m increase), and a decrease in net cash of £18.0m (2018 – £9.6m increase) and an increase in creditors (<1 year) of £21.3m (2018 - £18.7m decrease). This is consistent with the movement in trading performance noted above, other than the movement in creditors, which is due to the movement in the classification of an intercompany loan that was due to expire at the end of 2020 from long-term to short-term.

Principal risks and uncertainties

The Company has identified the principal risks that it faces, and its reaction to them, as follows:

Market risk

The European Electronic Component market is subject to fluctuations of demand by customers. These fluctuations are linked to the economic cycles of the region and each individual country as well as the migration of manufacturing activity. The Company manages its exposure to these fluctuations by monitoring working capital, restricting dependence on large customers and maintaining close working relationships with suppliers.

Strategic report

Principal risks and uncertainties (continued)

Financial risk management

The Company manages its interest rate risk exposure, as interest on the group loan is an annually agreed fixed rate of interest.

The Company manages its foreign currency risk exposures on the sale of goods overseas where possible by invoicing in the same currency that the goods were purchased in. In addition, where the buying and selling currencies are mismatched, the Company attempts to include contractual terms to enable a variable rate to be invoiced in the event of significant currency movements.

The Company assesses the creditworthiness of new customers before commencing trade with them. Based on this, authorised credit line limits are set. A proactive approach to the identification and control of bad and doubtful debts is operated as well as a group insurance policy against uncollectible receivables.

Competitive risk

The Company is at risk from changes in market trading conditions driven by consumer demand and the level of competition in the marketplaces in which the company operates. The Company attempts to offset such risks by maintaining a diversified portfolio of products and suppliers and by extending the geographical marketplaces in which it operates.

Legislative and business environment risk

Unanticipated changes in the legislative framework in which the company operates could affect its future results from operations. In addition, the Company buys and sells products in many different countries exposing it to the additional risks of their legislatures as well as economic, political and business environmental risks. The Company continuously assesses these environments and decides what actions to take to limit its risk following such examination, up to the withdrawal from markets considered to hold a prohibitive level of risk.

COVID-19 Virus

The Company continues to monitor the impact of the COVID-19 virus outbreak. In view of the outbreaks in Italy and Spain, we put into place our Business Continuity Plan, moving all employees to a 'working from home' status, having accelerated the roll out of Microsoft Teams. All our employees were temporarily home-based prior to the lockdown, and the ability to interact with customers and suppliers was tested. During lockdown we prepared our offices for socially distanced working and subsequently allowed employees to return to the office on a one week in three rotation basis, if they were comfortable doing so. The physical and mental well-being of all employees has been monitored through-out. During the most recent lockdown, the majority of employees have worked from home again. We will continue to monitor the situation and will only bring employees back into the office in a manner that ensures the safety of all.

Our experience is that we adapted well to the changed circumstances. Our distribution centre in Leipzig continued to operate with a full team. Additionally, stringent measures, and daily checks were carried out, and to date there have been no cases of infection reported.

Our suppliers and customers took the measures they felt appropriate to their situations and national laws. Our supply and level of inventory was sufficient to enable us to continue to operate without disruption. During the spring many customers, particularly in France, Spain and Italy closed temporarily, resulting in a weaker second quarter, however the business has strengthened significantly in Q3 and Q4, with an increasing backlog of orders.

Strategic report

Brexit

In June 2016 the United Kingdom voted in a referendum to leave the European Union. In January 2020 the Withdrawal Agreement was signed, agreeing the terms of the departure of the UK from the EU. Currently there is a transition period until the end of 2020 during which trading conditions remain unchanged while a Trade Agreement between the two is negotiated. The content of this Agreement, or indeed whether an Agreement will be reached by the deadline of 31 December 2020, is unknown. The Directors are of the opinion that FEL's exposure to the consequences of these decisions is relatively limited. The majority of FEL's business is outside of the UK with most shipments of goods being from a warehouse in Germany to customers within the EU. Therefore, changes resulting from Tariffs, VAT impacts or hold-ups at borders will be relatively small. FEL is working to plan for all contingencies, however it is the view of the Directors that the implementation of the decisions in 2021 will not have a materially negative effect on the Company. This does not include any assumptions for the overall impact on the economies in which the Company trades.

Statement by the Directors in performance of their statutory duties in accordance with S172 (1) Companies Act 2006

The directors consider that both individually and together they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172 (1) (a-f) of the Act) in the decisions taken during the year ended 31 December 2019. This forms part of the directors' statement required under section 414CZA of the Companies Act 2006.

Through the actions detailed below, the directors have worked to ensure that the long-term objectives of the business are met and its reputation maintained

Customers

The Company works closely with its customers to understand and address their business requirements in order to further the success of the respective businesses in partnership.

Senior management (including company directors) meet regular with key strategic partners, which provides valuable insights into customers' issues, challenges and opportunities.

Employees

Matters affecting employees are communicated via the management structure to enable employees to be aware of the Company's strategy and performance. As a key component of making the Company a great place to work, wellbeing initiatives have been successfully delivered during the year including private health insurance, social club, cycle schemes, eyesight testing, life-style management programs and training 5 'mental health first aiders' who are available to support all employees. The Company also rolled out a compulsory online management training course on 'Mental Health Awareness'.

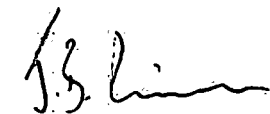
Suppliers

Company suppliers are fundamental to the success of its business. Key supplier relationships are managed at an executive level across the Future Electronics organisation globally, regionally and locally.

Community and environment

The Company is committed to managing the wider social and environmental impacts of its operations. Reference is made to the Future Electronics website for details of the 'Code of Conduct', 'Environmental Policy' and 'Modern Slavery and Human Trafficking Statement'.

On behalf of the Board



G B Oliver

Director

Date: 18 December 2020

Registered No. 2087867

Directors' report

The directors present their report and financial statements for the year ended 31 December 2019.

Results and dividends

The profit for the year after taxation amounted to £13.4m (2018 – profit of £45.1m). No dividend was paid to Future Electronics Management Services Ltd (2018 – £nil).

Future developments

The Company is committed to strengthening its market position across EMEA and continues to invest in improving its presence, efficiency and effectiveness in all locations to achieve that aim.

Going concern

A financial review of the results and group financial position occurs each month with the Board of Future Electronics Limited (FEL) and the Board of Future Electronics Inc. The group has considerable financial resources together with established long-term relationships with a number of customers, suppliers and advisors. As a consequence, the directors believe that the group is well placed to manage its business risks successfully.

As mentioned in the Strategic report under the principal risks and uncertainties, Covid-19 has not had a significant negative impact on the Company in order to affect its going concern.

Whilst the consequences of the COVID-19 pandemic have been far-reaching, the impact on our industry, with the exception of the transportation sector, has been limited. The demand for electronic components continues to be relatively strong, and despite the industry suffering a circa 15% reduction in the first part of 2020 vs 2019, FEL is anticipating to see single digit growth, with higher demand still in 2021 as countries begin electronic intensive infrastructure projects such as the roll out of 5G and all of the products that become enabled by that. In assessing going concern, the Directors considered the following matters:

- In 2019 FEL had operating profit of £3.8m on turnover of £721m. PBT was £13.9m and net income £13.4m.
- Forecast for 2020 is operating profit of £9.4m (Q3 2020 YTD - £9.4m) on turnover of £728m (Q3 YTD £543m). PBT is forecast at £19.2m (Q3 YTD £12.9m) and net income £17.8m (Q3 YTD - £11.1M).
- At December 2019 current assets totalled £385m. Forecast for December 2020 is £407m (Sept 2020 - £412m). This includes £180m (Sept YTD - £181m) of inventory and £219m (Sept YTD - £218M) of trade debtors.
- Agreements with suppliers provide a level of return rights and subsidised inventory write-offs. Typically, write-offs to our P&L have not exceeded the 0.5%-1% range. Therefore, the majority of this value would be convertible to cash.
- As noted above, management of credit terms is very strict and as a result bad debt tends not to exceed 0.1% of receivables. YTD 2020 is 0.06%. Again, this asset has very high liquidity.
- Short-term payables are forecast at £80m at December 2020. This compares to £76m at December 2019 after adjusting for the intercompany loan of £75.5m which was classified as short term in 2019.
- Intercompany loan funding of £75.5m which was due to expire on 31 December 2020 has been renewed for a further 2-year fixed term until 31 December 2022. The interest rate will be reduced to 2.29%.
- Excluding the investment in subsidiaries and fixed assets, the Company has close to £250m of net assets (Inventory - £180M; Trade Debtors - £219m; Cash - £8m; Short Term Creditors - £(80m);

Directors' report (continued)

Long-Term Creditors - £(75.5m) that are highly liquid. This compares to total SG&A costs annualised at around £85m (Commissions to subsidiary promotional entities - £37m; Intercompany Charges (including Distribution centre recharge) - £20m; Compensation - £18m; Rent and Rates - £2.6m; Freight out - £2.4m; Other - £5m), before any potential restructuring. Therefore, the directors believe that the company has significant financial headroom

The Company also has access to additional cash resources through its ability to call on its investments to pay dividends.

If the Company were to fail as a result of conditions created by the pandemic, we believe it would most likely be an iterative process. It would start with losing a significant number of customers who themselves would have failed. Some franchises would consider the Company not relevant enough to continue being franchised and would withdraw their business. The remaining customers who used that franchise would discontinue their trade and possibly take their other franchised business with them which could cause another franchise to collapse eventually leading to a domino effect. The Company would mitigate this by reducing costs but could eventually reach a point where the corporate office in London would become too small to be able to run the marketing operation that is needed to sustain a major distribution company. However, given the ever-expanding need for electronic components in global projects such as 5G, medical resources and security, we do not believe that such a collapse could take place in less than 2 years at the very least. We already have firm orders to cover Q1 and part of Q2 in 2021.

Furthermore, the Company's ultimate parent undertaking, has committed to provide the company with continuing financial support for a period of not less than twelve months from the date of approval of these financial statements to the extent that the Company is unable to meet its obligations itself.

The Directors therefore consider that it is appropriate to draw up these accounts on a going concern basis.

Directors

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

G B Oliver
A Shepherd

Charitable contributions

In the current year the Company supported charities in the areas of medical research and child welfare. Contributions during the year amounted to £2,542 (2018 – £5,350).

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.

Disabled employees

The Company gives full and fair consideration to applications for employment made by disabled persons, having regard to their particular aptitudes and abilities, and is committed to continuing the employment of, and arranging the appropriate training for, employees who may become disabled persons during the period when they were employed by the Company. Also, the Company will endeavour to ensure that as far as possible the training, career development and promotion of disabled persons is the same as for other employees.

Directors' report (continued)

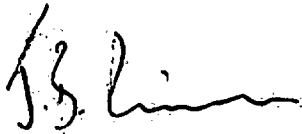
Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

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



G B Oliver
Director

Date: 18 December 2020

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and 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

Opinion

We have audited the financial statements of Future Electronics Limited for the year ended 31 December 2019 which comprise the Income Statement, the Statement of Other Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 24, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Independent auditors' report

to the members of Future Electronics Limited

Other information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Independent auditors' report

to the members of Future Electronics Limited

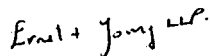
Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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



James Harris (Senior statutory auditor)
for and on behalf of
Ernst & Young LLP, (Statutory Auditor)
Southampton
Date: 18 December 2020

Income statement

for the year ended 31 December 2019

	Notes	2019 £000	2018 £000
Turnover	4	720,662	758,261
Cost of sales		(625,190)	(638,567)
Gross Profit		95,472	119,694
Sales, general and administration costs		(91,687)	(86,049)
Operating Profit	5	3,785	33,645
Income from shares in group undertakings		12,548	19,631
Profit on ordinary activities before interest and taxation		16,333	53,276
Interest receivable and similar income	8	858	1,100
Interest payable and similar charges	8	(3,284)	(3,177)
Net interest payable and similar charges	8	(2,426)	(2,077)
Profit on ordinary activities before taxation		13,906	51,199
Tax on profit on ordinary activities	9	(499)	(6,075)
Profit for the financial year		13,407	45,124

Statement of total recognised gains and losses

for the year ended 31 December 2019

	2019	2018
<i>Notes</i>	<i>£000</i>	<i>£000</i>
Profit for the year	13,407	45,124
Other comprehensive income:		
Recycling of derivative financial instruments	-	-
Other comprehensive income, net of tax	13,407	45,124
Total comprehensive income for the year	<u>13,407</u>	<u>45,124</u>

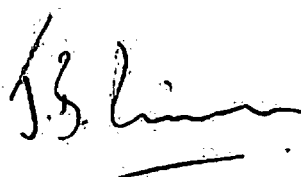
The notes on page 18 to 36 form part of these financial statements.

Statement of financial position

at 31 December 2019

	Notes	2019 £000	2018 £000
Fixed assets			
Tangible assets	10	1,388	602
Investments	11	28,193	28,618
		<u>29,581</u>	<u>29,220</u>
Current assets			
Stocks	12	196,180	203,633
Debtors: amounts falling due within one year	13	183,050	198,813
Cash at bank and in hand	14	7,525	25,490
		<u>386,755</u>	<u>427,936</u>
Creditors: amounts falling due within one year	15	<u>(153,725)</u>	<u>(132,452)</u>
Net current Assets		<u>233,030</u>	<u>295,484</u>
Total assets less current liabilities		<u>262,611</u>	<u>324,704</u>
Creditors: amounts falling due after more than one year	16	-	(75,500)
Provisions for liabilities	17	<u>(1,616)</u>	<u>(1,616)</u>
Net Assets		<u>260,995</u>	<u>247,588</u>
Capital and reserves			
Called up share capital	18	169,789	169,789
Share premium		13,325	13,325
Profit and loss		<u>77,881</u>	<u>64,474</u>
Equity		<u>260,995</u>	<u>247,588</u>

The financial statements for company registration number 2087867 were approved and authorised for issue by the Board and were signed on its behalf by:



G B Oliver
Director

Date: 18 December 2020

The notes on page 18 to 36 form part of these financial statements.

Statement of changes in equity

for the year ended 31 December 2019

	<i>Called up share capital £000</i>	<i>Share premium £000</i>	<i>Hedging reserve £000</i>	<i>Profit and loss £000</i>	<i>Total equity £000</i>
At 1 January 2018	169,789	876	–	19,350	190,015
Profit for the year	–	–	–	45,124	45,124
<i>Other comprehensive income for the year:</i>					
Increase in share capital/premium	–	12,449	–	–	12,449
At 1 January 2019	169,789	13,325	–	64,474	247,588
Profit for the year	–	–	–	13,407	13,407
<i>Other comprehensive income for the year:</i>					
Increase in share capital/premium	–	–	–	–	–
Balance at 31 December 2019	169,789	13,325	–	77,881	260,995

Statement of cash flows

for the year ended 31 December 2019

		2019	2018
	Note	£000	£000
Cash used in operations	20	(8,240)	(17,151)
Interest paid		(3,284)	(3,177)
Interest received		858	1,100
Tax paid		(4,967)	(757)
Net cash used in operating activities		<u>(15,633)</u>	<u>(19,985)</u>
Purchase of PPE		(1,042)	(174)
Net decrease/(increase) in investments		424	(2,278)
Dividends received		12,548	19,631
Dividends paid		—	—
Net cash generated from/(used in) investing activities		<u>11,930</u>	<u>17,179</u>
Increase in share premium		—	12,449
Issue of additional share capital		—	—
Net cash generated from financing activities		<u>—</u>	<u>12,449</u>
Net (decrease)/increase in cash and cash equivalents		(3,703)	9,643
Cash and cash equivalents including bank overdrafts at the beginning of the period		9,208	(435)
Net cash and cash equivalents at the end of the year		5,505	9,208
Reconciliation of net cash and cash equivalents			
Cash and cash equivalents (disclosed within current assets)		7,525	25,490
Bank overdraft (disclosed within current liabilities)		<u>(2,020)</u>	<u>(16,282)</u>
Net cash and cash equivalents at the end of the year		<u>5,505</u>	<u>9,208</u>

Notes to the financial statements

at 31 December 2019

1. General information

Future Electronics Limited (the Company) is engaged in the management of customers' supply chain requirements, in particular, the design, distribution and support of semi-conductor and lighting solutions. The Company is a private limited company and is incorporated and domiciled in the UK. The address of its registered office is Future House, The Glanty, Egham, Surrey TW20 9AH.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 102, "The Financial Reporting Standard Applicable in the UK and the Republic of Ireland" (FRS 102). The financial statements have been prepared on the going concern basis, under the historical cost convention except for derivative financial instruments which are measured at fair value, and in accordance with the Companies Act 2006.

The financial statements have been prepared in sterling which is the Company's functional currency and rounded to the nearest £000.

Going Concern

A financial review of the results and group financial position occurs each month with the Board of Future Electronics Limited (FEL) and the Board of Future Electronics Inc. The group has considerable financial resources together with established long-term relationships with a number of customers, suppliers and advisors. As a consequence, the directors believe that the group is well placed to manage its business risks successfully.

As mentioned in the Strategic report under the principal risks and uncertainties, Covid-19 has not had a significant negative impact on the Company in order to affect its going concern.

Whilst the consequences of the COVID-19 pandemic have been far-reaching, the impact on our industry, with the exception of the transportation sector, has been limited. The demand for electronic components continues to be relatively strong, and despite the industry suffering a circa 15% reduction in the first part of 2020 vs 2019, FEL is anticipating to see single digit growth, with higher demand still in 2021 as countries begin electronic intensive infrastructure projects such as the roll out of 5G and all of the products that become enabled by that. In assessing going concern, the Directors considered the following matters:

- In 2019 FEL had operating profit of £3.8m on turnover of £721m. PBT was £13.9m and net income £13.4m.
- Forecast for 2020 is operating profit of £9.4m (Q3 2020 YTD - £9.4m) on turnover of £728m (Q3 YTD £543m). PBT is forecast at £19.2m (Q3 YTD £12.9m) and net income £17.8m (Q3 YTD - £11.1M).
- At December 2019 current assets totalled £385m. Forecast for December 2020 is £407m (Sept 2020 - £412m). This includes £180m (Sept YTD - £181m) of inventory and £219m (Sept YTD - £218M) of trade debtors.
- Agreements with suppliers provide a level of return rights and subsidised inventory write-offs. Typically, write-offs to our P&L have not exceeded the 0.5%-1% range. Therefore, the majority of this value would be convertible to cash.
- As noted above, management of credit terms is very strict and as a result bad debt tends not to exceed 0.1% of receivables. YTD 2020 is 0.06%. Again, this asset has very high liquidity.

Notes to the financial statements

at 31 December 2019

- Short-term payables are forecast at £80m at December 2020. This compares to £76m at December 2019 after adjusting for the intercompany loan of £75.5m which was classified as short term in 2019.
- Intercompany loan funding of £75.5m which was due to expire on 31 December 2020 has been renewed for a further 2-year fixed term until 31 December 2022. The interest rate will be reduced to 2.29%.
- Excluding the investment in subsidiaries and fixed assets, the Company has close to £250m of net assets (Inventory - £180m; Trade Debtors - £219m; Cash - £8m; Short Term Creditors - £(80m); Long-Term Creditors - £(75.5m) that are highly liquid. This compares to total SG&A costs annualised at around £85m (Commissions to subsidiary promotional entities - £37m; Intercompany Charges (including Distribution centre recharge) - £20m; Compensation - £18m; Rent and Rates - £2.6m; Freight out - £2.4m; Other - £5m), before any potential restructuring. Therefore, the directors believe that the company has significant financial headroom

The Company also has access to additional cash resources through its ability to call on its investments to pay dividends.

If the Company were to fail as a result of conditions created by the pandemic, we believe it would most likely be an iterative process. It would start with losing a significant number of customers who themselves would have failed. Some franchises would consider the Company not relevant enough to continue being franchised and would withdraw their business. The remaining customers who used that franchise would discontinue their trade and possibly take their other franchised business with them which could cause another franchise to collapse eventually leading to a domino effect. The Company would mitigate this by reducing costs but could eventually reach a point where the corporate office in London would become too small to be able to run the marketing operation that is needed to sustain a major distribution company. However, given the ever-expanding need for electronic components in global projects such as 5G, medical resources and security, we do not believe that such a collapse could take place in less than 2 years at the very least. We already have firm orders to cover Q1 and part of Q2 in 2021.

Furthermore, the Company's ultimate parent undertaking, has committed to provide the company with continuing financial support for a period of not less than twelve months from the date of approval of these financial statements to the extent that the Company is unable to meet its obligations itself.

The Directors therefore consider that it is appropriate to draw up these accounts on a going concern basis.

Consolidation

The Company is a wholly owned subsidiary of Future Electronics Management Services Limited, a company registered in England and Wales. Alonim Investments Inc. is regarded by the directors as being the entity's ultimate parent entity and is incorporated in Canada.

The smallest group of undertakings for which group financial statements are drawn up and of which the Company and its subsidiaries are included is Future Electronics Inc. (incorporated in Canada).

Tangible assets

All tangible fixed assets are initially recorded at cost and are stated at cost less accumulated depreciation. Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value - updated if indicators are present that its value has changed, 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

Notes to the financial statements

at 31 December 2019

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

Investments

Investments in other group companies are carried at cost. The Company assesses potential impairments to its investments when events or changes in circumstances indicate that the carrying amount may not be fully recoverable. If necessary, an impairment loss is recognised as the difference between the carrying value and the recoverable amount of the investment. Recoverable amount is determined based on the greater of fair value less costs to sell or value in use.

2. Summary of significant accounting policies (continued)

Revenue recognition

Revenue is recognised when the significant risk and rewards of ownership of the goods have passed to the buyer, when the price to the buyer is determinable and collectability is reasonably assured. Risk and rewards of ownership pass depending on terms of agreement with the customer, typically with most agreements this is on delivery. Revenue is measured at the fair value of consideration received, excluding VAT and other sales taxes or duty.

Interest income is recognised as interest accrues using the effective interest method, and dividend income when the right to receive dividend is obtained.

Stocks

Stock, including consignment inventory, is stated at the lower of cost and net realisable value including provision for any slow moving or obsolete items. Cost is purchase price including the cost to bring the stock into its present location less trade discounts and is computed on a weighted average cost basis. Net realisable value is based on estimated selling price less any further costs expected to be incurred on disposal.

Deferred taxation

Deferred taxation 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 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.

Foreign currencies

Transactions in foreign currencies are recorded at the spot exchange rate 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 statement of comprehensive income.

Provisions of liabilities

A provision is recognised when the company has a legal or constructive obligation as a result of a past event, the amount of the obligation can be estimated reliably, and it is probable that an outflow of funding will be required to settle the obligation.

Notes to the financial statements

at 31 December 2019

The Company has applied a pre-tax rate in order to take account of the time value of money on future obligations and benefits arising from a lease agreement to arrive at the value of a leasehold dilapidation provision.

Provision for the expected costs of leasehold dilapidations are recognised when there is an obligation to restore the building to its original condition, such cost is provided for over the term of the lease through the income statement on a straight-line basis over the shorter of the period to the first rent review or the life of the lease. The obligation will be relinquished when the lease has ended.

Operating leases

Rentals payable under operating leases are charged in the profit and loss account on a straight-line basis over the lease term. Lease incentives are recognised over the lease term.

2. Summary of significant accounting policies (continued)

Pensions

The Company makes payments into a defined contribution pension scheme for all eligible and enrolled employees. As such the amounts are charged to the statement of comprehensive income in the period in which they become payable.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at banks and in hand and short-term deposits with an original maturity date of three months or less. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Financial instruments

Financial assets

The Company's financial assets include cash, trade and other debtors.

Cash and cash equivalents comprise balances on bank financial statements, cash in transit and cash floats held in the business.

Trade and other debtors that have fixed or determinable payments that are not quoted in an active market are classified as debtors. Trade debtors are measured initially at transaction price and subsequently at amortised cost using the effective interest method, less any impairment. Impairment is only recognised when there is objective evidence of an impairment.

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the income statement in other operating expenses. At the end of each reporting period, the company assesses whether there is objective evidence of impairment of any financial assets that are measured at cost or amortised cost. If there is objective evidence of impairment, the company recognises an impairment loss in profit or loss immediately.

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the assets to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of the ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities

Notes to the financial statements

at 31 December 2019

Equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

A Financial liability is recognised at amortised cost if the contract meets certain criteria the conditions as discussed within FRS 11.9. Only when at initial measurement of the financial liability that represents a financing transaction is the market rate of interest for a similar debt instrument used to determine the present value of the arrangement.

Notes to the financial statements

at 31 December 2019

2. Summary of significant accounting policies (continued)

Financial liabilities

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classified as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited directly to equity.

Impairment of assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount in order to determine the extent of the impairment loss. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses on continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

For assets 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, not to exceed the carrying amount that would have been determined, net of depreciation, had no impairment losses been recognised for the asset or cash generating unit in prior years. A reversal of impairment loss is recognised immediately in the income statement, unless the asset is carried at a revalued amount when it is treated as a revaluation increase.

Loan stock

Loan stock which is a basic financial instrument is initially recorded at the present value of future payments discounted at a market rate of interest. Subsequently, it is measured at amortised cost using the effective interest method.

3. Critical accounting estimates and judgements

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These can affect the amounts recognised in the financial statements for assets, liabilities, revenues and expenses, as well as issues with regards to contingent liabilities.

The estimates and assumptions that are deemed by the Board to be the most important for an understanding of the financial statements are discussed below.

Impairment of Investments, property, plant and equipment

The Company tests whether any of its investments have suffered any impairment. The carrying value of the asset in the financial statements is compared to the recoverable amount of the investment at the year end. Recoverable amount is determined based on the greater of fair value less costs to sell or value in use.

Notes to the financial statements

at 31 December 2019

3. Critical accounting estimates and judgements (continued)

Other fixed assets are depreciated or amortised over their estimated useful lives to their estimated residual values. Both the estimated useful life and the residual value are reviewed at least at each financial year-end.

Stock

Stock is valued at the lower of cost and net realisable value. Due allowance is made for obsolete and slow-moving items by consulting with persons who are experts in this field as to the most likely value of such items. However, a change in demand or a new innovation subsequent to the publishing of these financial statements could change such judgements. Stock obsolescence provision at 2019 year-end is £1,293,000 (2018 – £717,000).

Accounts receivable

The Company has a highly sophisticated process for managing debtors including the credit limits offered to customers. All customers are given a risk assessment rating on a quarterly or bi-annual basis and all receivables balances are reviewed at year end for collectability. Any individual receivable for which collection is considered improbable – based on objective evidence – is provided for, however without knowing all individual circumstances of a customer, the actuality could differ from this judgement. Accounts receivable provision at 2019 year-end is £636,000 (2018 – £434,000).

Income taxes

The Company makes a provision for corporation tax based on estimates of certain matters. If the final determination of HMRC differs from such estimates, then the difference will impact the period during which the determination is made. There are no uncertain tax positions at year end.

Disputes

The Company can be party to disputes and legal proceedings in the ordinary course of business. Management consults with legal experts in relation to legal disputes, and other experts both internal and external for other disputes in the ordinary course of business. Any dispute that is deemed to have a likely ultimate negative impact on the financial statements is provided at the best estimate of the cost to the Company. Such amounts are reviewed regularly.

Dilapidation costs

An estimate has been made of the cost to restore the Company's leasehold properties to their original conditions on lease termination and such cost provided for over the term of the lease. Whilst Chartered Surveyors have advised the Company in this calculation, there will be some variation when the actual cost is incurred.

4. 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.

Notes to the financial statements

at 31 December 2019

5. Operating profit

This is stated after charging/(crediting):

	2019	2018
	£000	£000
Wages and salaries	15,497	15,324
Social security costs	1,674	1,695
Defined pension contributions	463	333
Staff costs	17,634	17,352
Depreciation of owned assets	371	240
Operating lease charges – land and buildings	2,120	2,096
Operating lease charges – plant and machinery	3	9
Write down of inventory	91	83
Foreign exchange loss/(gain)	4,154	(4,022)
Audit fees payable to the Company's auditors	<u>80</u>	<u>84</u>

6. Directors' remuneration

Certain directors' remuneration has been borne by the Company's immediate parent undertaking Future Electronics Management Services 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. The directors participate in the Company's defined contribution scheme on the same terms as other employees.

The remuneration is disclosed within the immediate parent undertaking's financial statements. The total remuneration paid to the directors in the parent undertaking's financial statements is £426k (2018 – £363k).

7. Staff costs

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

	2019	2018
Sales	52	56
General and administration	<u>291</u>	<u>283</u>

8. Interest income and expense

	2019	2018
	£000	£000
Interest receivable and similar income		
Bank interest receivable	<u>858</u>	<u>1,100</u>
Total interest received and similar income	<u>858</u>	<u>1,100</u>
Interest payable and similar charges		
Bank interest payable	(1,131)	(974)
Interest payable to group companies	<u>(2,153)</u>	<u>(2,203)</u>
Total interest payable and similar charges	<u>(3,284)</u>	<u>(3,177)</u>

Notes to the financial statements

at 31 December 2019

8. Interest income and expense (continued)

	2019	2018
	£000	£000
Net finance cost		
Interest income	858	1,100
Interest expense	(3,284)	(3,177)
Net finance cost	(2,426)	(2,077)

9. Tax

(a) Tax on profits on ordinary activities

The tax charge is made up as follows:

	2019	2018
	£000	£000
Current tax:		
Tax expense included in profit or loss		
UK corporation tax charge on profits for the year	369	6,056
Adjustments in respect of prior periods	33	–
Total current tax	402	6,056
Total deferred tax	97	19
Tax on profit on ordinary activities	499	6,075

(b) Factors affecting tax charge for the year

The tax assessed for the year is lower (2018 – lower) than the standard rate of corporation tax in the UK of 19.00% (2018 – 19.00%). The differences are explained below:

	2019	2018
	£000	£000
Profit on ordinary activities before tax	13,906	51,199
Tax on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.00% (2018 – 19.00%)	2,642	9,728
Effects of:		
Income not subject to and expenses not deductible for tax	(2,285)	(3,643)
Depreciation in excess of capital allowances	12	6
Adjustment to tax charge in respect of prior periods	(9)	(12)
Other timing differences	139	(4)
Tax charge	499	6,075

Notes to the financial statements

at 31 December 2019

9. Tax (continued)

The deferred taxation asset recognised in the financial statements is as follows:

	2019 £000	2018 £000
Depreciation in advance of capital allowances	22	(4)
Losses carried forward to future years	-	-
Rate change on opening balances	-	-
Other timing differences	(15)	(86)
Total	7	(90)

In 2019, the deferred taxation asset not recognised in the financial statements was as follows:

	2019 £000	2018 £000
Depreciation in advance of capital allowances	-	-
Rate change on opening balances	-	-
Other timing differences	-	-
Total	-	-

(c) Factors that may affect future tax charges

Reductions in the UK corporation tax main rate to 19% (effective from 1 April 2017) and 18% (effective from 1 April 2020) were enacted on 26 March 2016. In the Budget on 16 March 2016, the Chancellor announced a further reduction of the Corporation tax main rate to 17% (effective from 1 April 2020) which was enacted on 15 September 2016. These changes will reduce the Company's future tax charges accordingly. In March 2020, the Chancellor announced that the rate of Corporation tax (effective from 1 April 2020) would be 19% and would remain at 19% for the financial year beginning 1 April 2021.

10. Tangible fixed assets

	Leasehold improvements £000	Equipment and fixtures £000	Computer equipment £000	Total £000
Cost:				
At 1 January 2019	3,926	632	1,119	5,677
Additions	31	20	991	1,042
Disposals	-	-	-	-
At 31 December 2019	3,957	652	2,110	6,719
Accumulated depreciation and impairment:				
At 1 January 2019	3,702	502	871	5,075
Charge for the year	31	49	291	371
Disposals	-	-	-	-
At 31 December 2019	3,733	551	1,162	5,446
Net book value:				
At 31 December 2019	224	101	948	1,273
At 1 January 2019	224	130	248	602

Notes to the financial statements

at 31 December 2019

11. Investments

*Subsidiary
undertakings
£000*

Cost and net book value:

At 1 January 2019	28,618
Additions	-
Disposals	(424)
At 31 December 2019	<u>28,194</u>

<i>Name of company</i>	<i>% Holding</i>	<i>Principal Activity</i>	<i>Country of Incorporation</i>
Future Electronics Austria GmbH	100%	Local Distributor	Austria
Future Electronics NV	100%	Marketing & Technical	Belgium
Future Electronics s.r.o	100%	Marketing & Technical	Czech Rep
Future Electronics NS	100%	Marketing & Technical	Denmark
Future Electronics OU	100%	Marketing & Technical	Estonia
Future Electronics Oy	100%	Marketing & Technical	Finland
Future Electronics S.A.	100%	Marketing & Technical	France
Future Electronics Deutschland GmbH	100%	Local Distributor	Germany
Future Electronics Kft.	100%	Marketing & Technical	Hungary
Future Electronics (Ireland) Limited	100%	Local Distributor	Ireland
Future Electronics Distribution (Israel) Limited	100%	Marketing & Technical	Israel
Future Electronics S.r.L	100%	Marketing & Technical	Italy
Future Electronics UAB	100%	Marketing & Technical	Lithuania
Future Electronics B.V.	100%	Marketing & Technical	Netherlands
Future Electronics AS.	100%	Local Distributor	Norway
Future Electronics Polska S.P.Z.o.o.	100%	Marketing & Technical	Poland
Future Electronics Portugal Unipessoal LDA	100%	Marketing & Technical	Portugal
Future Electronics SRL	100%	Marketing & Technical	Romania
Future Electronics Rus LLC	100%	Marketing & Technical	Russia
Future Electronics d.o.o.	100%	Marketing & Technical	Slovenia
FE Trading PTY Limited	100%	Local Distributor	South Africa
Future Electronics Distribution (Spain) S.L.	100%	Marketing & Technical	Spain
FAI Electronics AB	100%	Marketing & Technical	Sweden
Future Electronics Schweiz GmbH	100%	Local Distributor	Switzerland
Future Electronics Turkey Ltd	100%	Local Distributor	Turkey

The registered addresses for these Investments are:

Notes to the financial statements

at 31 December 2019

11. Investments (continued)

Future Electronics Austria GmbH – Scheringgasse 2, 1140 Wien, Austria
 Future Electronics NV – Bedrijvencentrum Regio Aalst, Industrielaan 4 Erembodegem-Aalst 9320 Belgium
 Future Electronics s.r.o. – 4th Floor, East Building, Antala Staska 510/38, Prague, 140 00, Czech Republic
 Future Electronics A/S – Skomagervej 130, Vejle, 7100, Denmark
 Future Electronics OU – Narva Rd. 13^a, Tallinn; 10151. Estonia
 Future Electronics Oy – Teknobulevardi 7, 01530 Vantaa. Finland
 Future Electronics S.A. – Le Crystalys, 6 Avenue Morane-Saulnier 78140, Velizy-Villacoublay. France
 Future Electronics Deutschland GmbH – Maz-Planck-Str. 3, 85609 Ascheim - Domach. Germany.
 Future Electronics Kft. – H-1113 Budapest, Nagyszolos ucy 1-153.em. Hungary
 Future Electronics (Ireland) Ltd – Block B, The Crescent Building, Northwood Crescent. Northwood, Santry, Dublin 9, D09C6X8. Ireland
 Future Electronics Distribution (Israel) Limited – 2 Maskit Street, Herzliya Pituach 4673302. Israel
 Future Electronics S.r.l. – Via Victor Hugo n.4, Milano, Italy
 Future Electronics UAB – Taikos av. 151, Kaunas, Republic of Lithuania
 Future Electronics BV – 4823 AA Breda, Tinststraat 3. Netherlands
 Future Electronics AS – Tevlingveien 23, 1018 Oslo, 0301 Oslo. Norway
 Future Electronics Polska Sp. Z.o.o. – Kłopotowskiego 22, Warsaw, 03-717. Poland
 F.E. Portugal Unipessoal LDA – Rua Rodrigo Da Fonesca 82, 1250-193, Lisboa. Portugal
 Future Electronics S.R.L. – Bulevardul Eroilor 16, Cluj-Napoca 400000. Romania
 Future Electronics Rus LLC – 7 Dolgorukovskaya Street, 127006, Moscow. Russia
 Future Electronics d.o.o. – Leskoskova cesta 2, 1000 Ljubljana. Slovenia
 FE Trading PTY Limited – 89 Welsh Road Estcourt 3310. South Africa
 Future Electronics Distribution (Spain) SL – AV. Partenon, 28042, Madrid. Spain
 Future Electronics AB – Kista Science Tower and Farogatan 33, 164 51. Sweden
 Future Electronics Schweiz GmbH – Grabenwisstrasse 1, 8604 Volketswill. Switzerland
 Future Electronics Turkey – Koyzatagi Mah. S.M.Gaith Ongul Sk.No:3 Bagdatlioglu Plaza K:9 Kadikoy. Istanbul. Turkey

12. Stocks

	2019	2018
	£000	£000
Finished goods and goods for resale	196,180	203,633

Included within finished goods is £4.4m (2018 – £5.7m) of stock held on consignment.

Stocks recognised as an expense in the period were £619.2m (2018 – £631.7m).

Notes to the financial statements

at 31 December 2019

13. Debtors

	2019	2018
	£000	£000
Trade debtors	143,580	160,284
Amounts owed by group undertakings	22,799	21,070
Corporation tax	819	–
Other debtors	7,926	8,825
Other taxes and social security costs	6,405	7,115
Prepayments	1,521	1,519
	<u>183,050</u>	<u>198,813</u>

Amounts owed by group undertakings are for the most part trading balances which are repayable on normal commercial terms and are non-interest bearing.

Provision for doubtful debts for the year was £636,000 (2018 – £434,000). A proactive approach to the identification and control of bad and doubtful debts is operated as well as a group insurance policy against uncollectable receivables. Provision for doubtful debts is the gross amount before any insurance claims.

14. Cash and cash equivalents

Up until January 2019, the Company had a revolving Credit Loan with BNP Paribas of \$10m. The interest rate levied on this loan if utilised was the Overnight USD rate+ 0.75%.

15. Creditors: amounts falling due within one year

	2019	2018
	£000	£000
Trade payables	31,824	42,699
Amounts owed to group undertakings	91,759	46,574
Corporation tax	–	3,771
Bank overdraft	2,020	16,282
Other creditors	119	72
Accruals	28,003	22,754
	<u>153,725</u>	<u>132,152</u>

Amounts owed to group undertakings includes the intercompany loan stock of £75.5m from FE Luxfinco Services Sarl. It was unsecured and repayable on 31 December 2020 (fell due after one year in 2018). Interest is payable at 2.75% per annum (2018 – 2.75%). This loan has subsequently been renegotiated and now expires at the end of 2022. The remaining balance represents for the most part trading balances which are repayable on normal commercial terms and are non-interest bearing. For those elements which remain outstanding for longer periods and assume the substance of financing, interest is charged at an arm's length rate, being 50 basis points above 12 month LIBOR for UK companies, 12 month Euribor for Eurozone companies and 12 month Applicable Federal Rate for other companies.

A £69k accrual is included within Accruals in relation to an ongoing legal claim (2018 – £73k). This reduction in 2019 was due to part of the claim being dropped.

Notes to the financial statements

at 31 December 2019

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

	2019	2018
	£000	£000
Loan – owed to group company	-	75,500

The intercompany loan stock of £75.5m is from FE Luxfinco Services Sarl. It is unsecured and repayable on 31 December 2020. Interest is payable at 2.75% per annum (2018 – 2.75%).

17. Provisions for liabilities

	<i>Dilapidations</i>
	£000
At 1 January 2019	1,616
Additions to the income statement	-
Additions to fixed assets	-
Amounts utilised against the provision	-
At 31 December 2019	1,616

18. Issued share capital

		2019		2018
<i>Allotted, called up and fully paid</i>	<i>No.</i>	£000	<i>No.</i>	£000
Ordinary shares of £1 each	169,788,984	169,789	169,788,984	169,789

19. Other financial commitments

The Company had the following future minimum annual lease payments under non-cancellable operating leases for each of the following periods:

	2019	2018
	£000	£000
Not later than one year	1,103	1,082
Later than one year and not greater than five years	7,135	6,129
Later than five years	6,102	9,153
	14,340	16,364

During the year, the Company and its fellow subsidiaries provided a financial guarantee of up to \$200m (£152.9m); (2018 – \$200m (£157.4m)) to a syndicate of banks in connection with a secured revolving credit facility entered into by its ultimate parent undertaking. The facility was partially guaranteed by a first claim on the Company's financial statements receivable and stock with carrying amounts of £143.6m and £196.2m respectively at 31 December 2019. As at 31 December 2019, the amount utilised under the loan facility of its ultimate parent undertaking subject to the guarantee above was \$1.9m (£1.5m) exclusively for standby letters of credit.

Notes to the financial statements

at 31 December 2019

20. Cash (used in)/generated from operations

	2019	2018
	£000	£000
<i>Profit before tax</i>	13,906	51,199
Adjustments for:		
Depreciation	371	240
Interest income	(858)	(1,100)
Interest expense	3,284	3,177
Dividends received	(12,548)	(19,631)
Changes in working capital:		
Inventories	7,453	(18,311)
Trade and other receivables	18,311	(26,206)
Increase in amounts owed by group companies	(1,729)	(2,924)
(Decrease)/increase in amounts owed to group companies	(30,315)	5,697
(Decrease) in trade and other payables	(6,115)	(9,292)
Cash (used in)/generated from operations	<u>(8,240)</u>	<u>(17,151)</u>

21. Financial instruments

The entity's financial instruments are listed by category below:

	2019	2018
	£000	£000
<i>Financial assets that are debt instruments measured at amortised cost</i>	<u>180,710</u>	<u>189,916</u>
Debtors (excluding derivatives, taxes & prepayments)		
<i>Financial assets that are equity instruments measured at cost less impairment</i>		
Investments	<u>28,194</u>	<u>28,618</u>
<i>Financial liabilities measured at amortised cost</i>		
Bank overdraft	(2,020)	(16,282)
Loan stock	(75,500)	(75,500)
Trade creditors (excluding taxes)	<u>(153,725)</u>	<u>(115,518)</u>

22. Controlling parties

The Company is a wholly-owned subsidiary of Future Electronics Management Services Limited, a company registered in England and Wales. Alonim Investments Inc. is regarded by the directors as being the entity's ultimate parent entity and is incorporated in Canada.

The smallest group of undertakings for which group financial statements are drawn up and of which the Company is a member is Future Electronics Inc. with a registered address of 237 Hymus Blvd., Pointe-Claire, Quebec, H9R 5C7, Canada.. Copies of its group financial statements are available from this address.

The largest group of undertakings for which group financial statements are drawn up and of which the Company is a member is Alonim Investments Inc. This company is regarded by the directors as being the entity's ultimate parent entity and is incorporated in Canada.

Notes to the financial statements

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22. Controlling parties (continued)

In the opinion of the directors, Mr Robert Miller, who controls 100% of the shares of Future Electronics Inc. through his interest in Alonim Investments Inc., is the Company's controlling party.

23. Related party transactions

During the year, the Company entered into the following related party transactions, in the ordinary course of business.

Sales to related parties		2019	2018
<i>Related party</i>	<i>Country of operation</i>	<i>£000</i>	<i>£000</i>
Future Electronics Deutschland GmbH	Germany	127,253	129,889
Future Electronics Inc. (Distribution) PTE Limited	Singapore	34,607	46,147
Future Electronics (Distribution) Israel Limited	Israel	24,420	26,668
Future Electronics Corporation	USA	12,851	14,762
Future Electronics Austria GmbH	Austria	20,629	27,494
Future Electronics (Schweiz) GmbH	Switzerland	13,740	13,484
Future Electronics Turkey Ltd	Turkey	5,900	7,500
Paris Nord Electronics S.A.	France	3,928	5,674
Future Electronics A.S.	Norway	3,583	3,577
FE Trading PTY Limited	South Africa	2,027	3,100
Future Electronics Inc.	Canada	105	53
		<u>249,043</u>	<u>278,348</u>
Purchases from related parties		2019	2018
<i>Related party</i>	<i>Country of operation</i>	<i>£000</i>	<i>£000</i>
Future Electronics Inc. (Distribution) PTE Limited	Singapore	30,077	37,523
Future Electronics Corporation	USA	32,346	39,125
		<u>62,423</u>	<u>76,648</u>
Management charges from related parties		2019	2018
<i>Related party</i>	<i>Country of operation</i>	<i>£000</i>	<i>£000</i>
Future Electronics Management Services Ltd	UK	<u>503</u>	<u>570</u>
Loan interest paid and payable to related parties		2019	2018
<i>Related party</i>	<i>Country of operation</i>	<i>£000</i>	<i>£000</i>
FE Luxfinco Services SARL	Luxembourg	2,076	2,076
Future Electronics Corporation	USA	77	126
		<u>2,153</u>	<u>2,202</u>

Notes to the financial statements

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23. Related party transactions (continued)

Sales commission paid and payable to related parties

<i>Related party</i>	<i>Country of operation</i>	2019 £000	2018 £000
Future Electronics S.r.L	Italy	7,766	7,983
Future Electronics S.A.	France	8,931	9,889
F AI Electronics AB	Sweden	2,738	3,032
Future Electronics Distribution (Spain) S.L.	Spain	3,535	3,690
Future Electronics Polska Sp.Z.o.o.	Poland	1,733	2,324
Future Electronics Oy	Finland	1,927	1,869
Future Electronics A/S	Denmark	1,452	1,530
Future Electronics B.V.	Netherlands	1,470	1,449
Future Electronics Kft.	Hungary	888	1,191
Future Electronics s.r.o	Czech Rep	1,158	1,315
Future Electronics (Ireland) Limited	Ireland	836	667
Future Electronics UAB	Lithuania	937	1,031
Future Electronics NV	Belgium	829	867
Future Electronics SRL	Romania	847	1,074
Future Electronics OU	Estonia	501	531
Future Electronics d.o.o.	Slovenia	297	115
Future Electronics Portugal Unipessoal LDA	Portugal	185	-
Future Electronics Rus LLC	Russia	624	393
		<u>36,654</u>	<u>38,950</u>

Amounts due from related parties

<i>Related party</i>	<i>Country of operation</i>	2019 £000	2018 £000
Future Electronics Management Services Ltd	UK	7,718	8,468
Future Electronics Deutschland GmbH	Germany	6,069	6,158
Future Electronics Distribution (Israel) Limited	Israel	2,740	1,223
Future Electronics Inc. (Distribution) PTE Limited	Singapore	3,695	1,744
Future Electronics Austria GmbH	Austria	1,083	1,252
FE Trading PTY Limited	South Africa	309	682
Future Electronics Schweiz GmbH	Switzerland	724	692
Paris Nord Electronics S.A.	France	20	404
Future Electronics A.S.	Norway	434	386
Future Electronics B.V.	Netherlands	-	39
F AI Electronics AB	Sweden	-	18
Future Electronics Portugal Unipessoal LDA	Portugal	-	4
Future Electronics Srl	Romania	7	-
		<u>22,799</u>	<u>21,070</u>

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23. Related party transactions (continued)

Amounts due to related parties		2019	2018
<i>Related party</i>	<i>Country of operation</i>	<i>£000</i>	<i>£000</i>
Future Electronics Corporation	USA	9,499	2,247
Future Electronics S.r.L	Italy	634	601
Future Electronics Portugal Unipessoal LDA	Portugal	1	–
Future Electronics S.A.	France	1,159	1,164
Future Kitting Limited.	UK	-	1
Future Electronics Inc.	Canada	2,281	40,672
Future Electronics Distribution (Spain) S.L.	Spain	145	55
Future Electronics B.V.	Netherlands	46	–
FE Luxfinco Services Sari	Luxembourg	75,500	75,500
Future Electronics EDC Services GmbH	Germany	768	703
Future Electronics Polska Sp. Z.o.o.	Poland	162	374
Future Electronics Oy	Finland	93	14
Future Electronics (Ireland) Limited	Ireland	19	28
Future Electronics A/S	Denmark	59	43
Future Electronics Kft.	Hungary	81	111
Future Electronics UAB	Lithuania	133	160
Future Electronics SRL	Romania	-	33
Future. Electronics s.r.o	Czech Rep	124	71
FAI Electronics AB	Sweden	249	–
Future Electronics Rus LLC	Russia	11	21
Future Electronics d.o.o.	Slovenia	27	36
Future Electronics NV	Belgium	116	61
Future Electronics OU	Estonia	79	101
Future Electronics Turkey Ltd	Turkey	573	496
		<u>91,759</u>	<u>122,492</u>

The £75.5m (2018 – £75.5m) loan is owed to FE Luxfinco Services Sarl. It is unsecured and repayable on 31 December 2020. Interest is payable at 2.75% per annum (2018 – 2.75%).

Notes to the financial statements

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24. Subsequent Events

In early 2020 the existence of a novel coronavirus ("COVID-19") was confirmed which has spread pan-continently. The impact on the global economy has been material and almost all areas of society have been affected, however as mentioned in the Strategic report under the principal risks and uncertainties, Covid-19 has not had a significant negative impact on the Company in order to affect its going concern.

Refer to Covid-19 disclosure in the Strategic Report for steps the Company is taking to mitigate the impact of the pandemic. As mentioned in the Covid-19 disclosure the majority of the semi-conductor and electronics distribution sector has remained robust **during the pandemic and thus the group's forecasts remain optimistic.**

Furthermore, the Company's ultimate parent undertaking, has committed to provide the company with continuing financial support for a period of not less than twelve months from the date of approval of these financial statements to the extent that the Company is unable to meet its obligations itself. The Company has renegotiated and extended its intercompany loan of £75,5m such that it will be repaid at the end of 2022 instead of 2020.

The Company has taken many steps to mitigate its risk (see Strategic Report) and considers the existence of the pandemic to be a non-adjusting post balance sheet event. **Despite the robust nature of the Company's balance sheet and the guaranteed parent company support in place, the company believes that the inherent uncertainties of the situation, including the outcome of the vaccination program mean that it is not practicable to measure the impact of this event.**