

EY

Future Electronics Limited

Report and Financial Statements

31 December 2017

TUESDAY



A7ERUK9F

A07

18/09/2018

#99

COMPANIES HOUSE

Directors

G B Oliver
A Shepherd

Secretary

K Carton

Auditors

Ernst & Young LLP
Wessex House
19 Threefield Lane
Southampton SO14 3QB

Bankers

BNP Paribas
10 Harewood Avenue
London NW1 6AA

Registered Office

Future House
The Glanty
Egham
Surrey TW20 9AH

Strategic report

The directors present their strategic report and the financial statements for the year ended 31 December 2017.

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:

	2017 £000	2016 £000	Change £000	Change %
Turnover	692,733	579,964	112,769	19
Gross profit %	12.6%	16.1%	(3.5%)	(22)
Operating profit	561	25,385	(24,824)	(98)
Profit after tax	2,132	21,542	(19,410)	(90)
Total equity	190,015	186,483	3,532	2
Net current assets	240,123	177,944	62,179	35

Turnover increased by 19% (2016 – 20% increased), through focus on existing customers, demand creation and other value-add programs, identification of new customers, and franchise expansion. Gross margin has decreased by 3.5% as a result of appreciation of sterling against USD dollar and the Euro. The majority of the Company's revenue stream is denominated in either USD or Euros, whilst the majority of inventory purchases are USD based. The increase in the value of sterling through the course of the year resulted in a constant erosion of margin when reporting in sterling. Besides this, the market continued to be highly competitive. In the second half of the year the market began to show a shortage of supply against demand with the expectation that prices will recover in 2018.

SGA (Selling, General and Admin Expenses) costs increased by 27% as a result of increasing investment in infrastructure, headcount increases and the higher cost of commission to promotional companies.

The increase in volume has added approximately £18.2m to the Gross Profit (GP), whilst the decrease in GM has decreased GP by approximately £24.5m giving a decrease of £6.3m, (2016 – increase of £26.3m). The increase in SGA costs, has negatively impacted operating profit by £18.5m, giving an overall decrease in operating profit of £24.8m (2016 – increase of £19.5m).

Net current assets have increased by 35% (2016 – 13%), or £62.2m (2016 – £21.1m), reflecting an increase in stock of £36.6m (2016 – £28.7m), and an increase in debtors of £24.9m (2016 – £42.7m) offset by a reduction in net cash of £3.1m (2016 – £1.4m), and an increase in creditors (<1 year) of £12.9m (2016 – £48.9m).

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.

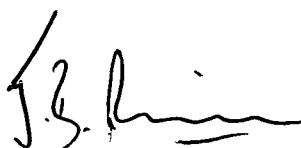
Legislative and business environment risk

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.

UK EU Referendum Vote

On 23rd June 2016 the eligible voters in the United Kingdom voted in a referendum to leave the European Union. At present, the consequences of this decision are still not known in detail, so it is difficult to estimate the impact on our business. However, for FEL, a UK based company trading in (amongst others) the single market of the EU, there will be implications, not least in how that market will be accessed, what the tariffs will be, the operation of other indirect sales taxes and the regulatory framework under which such exports are made. However, it is the view of the directors that the implementation of this decision will not have a materially negative effect in the short term and that the going concern principal remains appropriate for the preparation of these statements and this report.

On behalf of the Board



G B Oliver
Director

Date: 30-8-2018

Registered No. 2087867

Directors' report

The directors present their report and financial statements for the year ended 31 December 2017.

Results and dividends

The profit for the year after taxation amounted to £2,132,000 (2016 – profit of £21,542,000). A dividend of £58,500,000 was paid to Future Electronics Management Services Ltd (2016 – £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 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. The directors have a reasonable expectation that the Company and the group have adequate resources to continue in operational existence for the foreseeable future. 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. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

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 £8,235 (2016 – £1,083).

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)

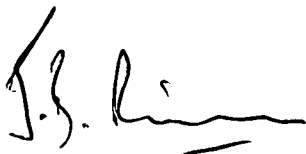
Disclosure of information to the auditors

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:

30.8.2018

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 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 2017 which comprise 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 23, 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 2017 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 6, 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

Ernst & Young LLP

James Harris (Senior statutory auditor)
for and on behalf of
Ernst & Young LLP, (Statutory Auditor)
Southampton
Date: 05/09/18

Income statement

for the year ended 31 December 2017

		2017	2016
	Notes	£000	£000
Turnover	4	692,733	579,964
Cost of sales		(605,536)	(486,488)
Gross profit		87,197	93,476
Sales, general and administration costs		(86,636)	(68,091)
Operating profit	5	561	25,385
Income from shares in group undertakings		2,722	2,152
Profit on ordinary activities before interest and taxation		3,283	27,537
Interest receivable and similar income	8	559	209
Interest payable and similar charges	8	(1,782)	(1,264)
Net interest payable and similar charges	8	(1,223)	(1,055)
Profit on ordinary activities before taxation		2,060	26,482
Tax on profit on ordinary activities	9	72	(4,940)
Profit for the financial year		2,132	21,542

Statement of other comprehensive income

for the year ended 31 December 2017

	<i>Notes</i>	<i>2017</i> <i>£000</i>	<i>2016</i> <i>£000</i>
<i>Profit for the year</i>		2,132	21,542
<i>Other comprehensive income:</i>			
Recycling of derivative financial instruments		–	(531)
Other comprehensive income, net of tax		<u>2,132</u>	<u>21,011</u>
<i>Total comprehensive income for the year</i>		<u>2,132</u>	<u>21,011</u>

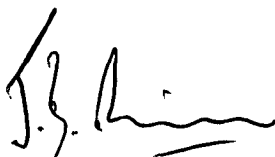
The notes on pages 15 to 29 form part of these financial statements.

Statement of financial position

at 31 December 2017

	Notes	2017 £000	2016 £000
Fixed assets			
Tangible assets	10	668	822
Investments	11	<u>26,340</u>	<u>26,340</u>
		27,008	27,162
Current assets			
Stocks	12	185,322	148,751
Debtors: amounts falling due within one year	13	171,348	146,470
Cash at bank and in hand	14	<u>34,642</u>	<u>20,995</u>
		391,312	316,216
Creditors: amounts falling due within one year	15	<u>(151,189)</u>	<u>(138,272)</u>
Net current assets		<u>240,123</u>	<u>177,944</u>
Total assets less current liabilities		<u>267,131</u>	<u>205,106</u>
Creditors: amounts falling due after more than one year	16	(75,500)	(17,000)
Provisions for liabilities	17	<u>(1,616)</u>	<u>(1,623)</u>
Net assets		<u>190,015</u>	<u>186,483</u>
Capital and reserves			
Called up share capital	18	169,789	109,889
Share premium		876	876
Profit and loss		<u>19,350</u>	<u>75,718</u>
Equity		<u>190,015</u>	<u>186,483</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: 30.8.2018

The notes on pages 15 to 29 form part of these financial statements.

Statement of changes in equity

for the year ended 31 December 2017

	<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 2016	109,889	876	531	54,176	165,472
<i>Profit for the year</i>	–	–	–	21,542	21,542
<i>Other comprehensive income for the year:</i>					
Recycling of derivative financial instruments	–	–	(531)	–	(531)
At 1 January 2017	109,889	876	–	75,718	186,483
<i>Profit for the year</i>	–	–	–	2,132	2,132
<i>Other comprehensive income for the year:</i>					
Increase in share capital	59,900	–	–	–	59,900
Intercompany dividend paid To Future Electronics Management Services Ltd.	–	–	–	(58,500)	(58,500)
Balance at 31 December 2017	169,789	876	–	19,350	190,015

Statement of cash flows

for the year ended 31 December 2017

	Note	2017 £000	2016 £000
Cash (used in)/generated from operations	20	(59,763)	1,339
Interest paid		(1,782)	(1,264)
Interest received		559	209
Tax paid		(4,397)	(2,588)
Net cash (used in) operating activities		(65,383)	(2,304)
Purchase of PPE		(361)	(282)
Dividends received		2,722	2,152
Dividends paid		(58,500)	-
Net cash (used in)/generated from investing activities		(56,139)	1,870
Increase in intercompany loan		58,500	-
Issue of additional share capital		59,900	-
Net cash generated from financing activities		118,400	-
Net decrease in cash and cash equivalents		(3,122)	(434)
Cash and cash equivalents including bank overdrafts at the beginning of the period		2,687	3,121
Net cash and cash equivalents at the end of the year		(435)	2,687
Reconciliation of net cash and cash equivalents			
Cash and cash equivalents (disclosed within current assets)		34,642	20,995
Bank overdraft (disclosed within current liabilities)		(35,077)	(18,308)
Net cash and cash equivalents at the end of the year		(435)	2,687

Notes to the financial statements

at 31 December 2017

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.

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

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.

Notes to the financial statements

at 31 December 2017

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.

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.

Notes to the financial statements

at 31 December 2017

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

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 2017

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 judgements 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 2017

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 2017 year-end is £873,000 (2016 – £740,000).

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 2017 year-end is £629,000 (2016 – £628,000).

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 2017

5. Operating profit

This is stated after charging:

	2017 £000	2016 £000
Wages and salaries	14,866	14,905
Social security costs	1,747	1,712
Defined pension contributions	233	224
Staff costs	16,846	16,841
Depreciation of owned assets	515	469
Operating lease charges – land and buildings	2,096	1,948
Operating lease charges – plant and machinery	16	39
Write down of inventory	52	123
Foreign exchange losses/(gains)	1,769	(4,884)
Audit fees payable to the Company's auditors	110	87

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 £349k (2016 – £347k).

7. Staff costs

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

	2017	2016
Sales	55	58
General and administration	286	282

8. Interest income and expense

	2017 £000	2016 £000
Interest receivable and similar income		
Bank interest receivable	559	209
Total interest received and similar income	559	209
Interest payable and similar charges		
Bank interest payable	(530)	(155)
Other interest charges	–	(73)
Interest payable to group companies	(1,252)	(1,036)
Total interest payable and similar charges	(1,782)	(1,264)

Notes to the financial statements

at 31 December 2017

8. Interest income and expense (continued)

	2017 £000	2016 £000
Net finance cost		
Interest income	559	209
Interest expense	(1,782)	(1,264)
Net finance cost	(1,223)	(1,055)

9. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2017 £000	2016 £000
Current tax:		
Tax expense included in profit or loss		
UK corporation tax charge on profit for the year	–	4,939
Adjustments in respect of prior periods	37	1
Total current tax	37	4,940
Total deferred tax	(109)	–
Tax on profit on ordinary activities	(72)	4,940

(b) Factors affecting tax charge for the year

The tax assessed for the year is lower (2016 – lower) than the standard rate of corporation tax in the UK of 19.25% (2016 – 20.00%). The differences are explained below:

	2017 £000	2016 £000
Profit on ordinary activities before income tax	2,059	26,482
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.25% (2016 – 20.00%)	396	5,296
<i>Effects of:</i>		
Income not subject to and expenses not deductible for tax	(487)	(357)
Depreciation in excess of capital allowances	59	–
Adjustment to tax charge in respect of prior periods	37	1
Other timing differences	(77)	–
Tax charge	(72)	4,940

Notes to the financial statements

at 31 December 2017

9. Tax (continued)

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

	2017 £000	2016 £000
Depreciation in advance of capital allowances	(9)	–
Losses carried forward to future years	(40)	–
Rate change on opening balances	–	–
Other timing differences	(60)	–
Total	(109)	–

In 2017, the deferred taxation asset not recognised in the financial statements was as follows:

	2017 £000	2016 £000
Depreciation in advance of capital allowances	–	51
Rate change on opening balances	–	(19)
Other timing differences	–	70
Total	–	102

(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.

10. Tangible fixed assets

	Leasehold improvements £000	Equipment and fixtures £000	Computer equipment £000	Total £000
Cost:				
At 1 January 2017	3,667	530	945	5,142
Additions	258	66	37	361
Disposals	–	–	–	–
At 31 December 2017	3,925	596	982	5,503
Accumulated depreciation and impairment:				
At 1 January 2017	3,360	385	575	4,320
Charge for the year	309	57	149	515
Disposals	–	–	–	–
At 31 December 2017	3,669	442	724	4,835
Net book amount:				
At 1 January 2017	307	145	370	822
At 31 December 2017	256	154	258	668

Notes to the financial statements

at 31 December 2017

11. Investments

*Investment
undertakings
£000*

Cost and net book value:

At 1 January 2017 and 31 December 2017

26,340

<i>Name of company</i>	<i>Holding</i>	<i>%</i>	<i>No Nature of business</i>
FE Future Holding BV (Netherlands)	Ordinary	31.5%	158 Parent undertaking
FE Future Holding BV (Netherlands)	Preference	8.5%	43 Parent undertaking

The registered address for the above investments is Luna Arena, Herikerbergweg 238, 1101 CM, Amsterdam, Netherlands.

12. Stocks

*2017
£000*

*2016
£000*

Finished goods and goods for resale	<u>185,322</u>	<u>148,751</u>
-------------------------------------	----------------	----------------

Included within finished goods is £5.1m (2016 – £3.5m) of stock held on consignment.

Stocks recognised as an expense in the period were £600.8m (2016 – £485.1m).

13. Debtors

*2017
£000*

*2016
£000*

Trade debtors	136,438	117,497
Amounts owed by group undertakings	18,146	16,307
Corporation tax	1,665	–
Other debtors	7,588	6,554
Other taxes and social security costs	6,743	4,935
Prepayments	768	1,177
	<u>171,348</u>	<u>146,470</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 £629,000 (2016 – £628,000). 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

The Company has a revolving Credit Loan with BNP Paribas of \$10m. The interest rate levied on this loan if utilised is the Overnight USD rate + 0.75%.

Notes to the financial statements

at 31 December 2017

15. Creditors: amounts falling due within one year

	2017 £000	2016 £000
Trade payables	38,119	38,243
Amounts owed to group undertakings	41,295	59,599
Corporation tax	–	2,797
Bank overdraft	35,077	18,308
Other creditors	86	42
Accruals	36,612	19,283
	<u>151,189</u>	<u>138,272</u>

Amounts owed to group undertakings are 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 £274k accrual is included within Accruals in relation to an ongoing legal claim (2016 – £326k).

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

	2017 £000	2016 £000
Loan – owed to group company	<u>75,500</u>	<u>17,000</u>

The intercompany loan stock is from FE Luxfinco Services Sarl. It is unsecured and repayable on 31 December 2020. Interest is payable at 2.75% per annum (2016 – 5.25%).

17. Provisions for liabilities

	<i>Dilapidations</i> £000
At 1 January 2017	1,623
Additions to the income statement	–
Additions to fixed assets	–
Amounts utilised against the provision	(7)
At 31 December 2017	<u>1,616</u>

18. Issued share capital

		2017 £000		2016 £000
<i>Allotted, called up and fully paid</i>	<i>No.</i>		<i>No.</i>	
Ordinary shares of £1 each	169,788,583	<u>169,789</u>	109,888,583	<u>109,889</u>

Notes to the financial statements

at 31 December 2017

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:

	2017 £000	2016 £000
Not later than one year	1,091	1,964
Later than one year and not greater than five years	5,166	260
Later than five years	10,180	–
	<u>16,437</u>	<u>2,224</u>

During the year, the Company and its fellow subsidiaries provided a financial guarantee of up to \$200,000,000 (£148,033,338; (2016 – \$200,000,000 (£162,864,000))) 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 £136,438,000 and £185,322,000 respectively at 31 December 2017. As at 31 December 2017, the amount utilised under the loan facility of its ultimate parent undertaking subject to the guarantee above was \$1,905,000 (£1,410,018) exclusively for standby letters of credit.

20. Cash (used in)/generated from operations

	2017 £000	2016 £000
<i>Profit before tax</i>	2,060	26,482
Adjustments for:		
Depreciation	515	469
Dilapidation charges	–	203
Interest income	(559)	(209)
Interest expense	1,782	1,264
Dividends received	(2,722)	(2,152)
Changes in working capital:		
Inventories	(36,571)	(28,723)
Trade and other receivables	(21,374)	(37,944)
(Increase) in amounts owed by group companies	(1,839)	(5,194)
(Decrease)/increase in amounts owed to group companies	(18,304)	28,633
Trade and other payables	17,249	18,510
Cash (used in)/generated from operations	<u>(59,763)</u>	<u>1,339</u>

Notes to the financial statements

at 31 December 2017

21. Financial instruments

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

	2017 £000	2016 £000
<i>Financial assets that are debt instruments measured at amortised cost</i>		
Debtors (excluding derivatives, taxes & prepayments)	162,172	140,358
<i>Financial assets that are equity instruments measured at cost less impairment</i>		
Investments	26,340	26,340
<i>Financial liabilities measured at amortised cost</i>		
Bank overdraft	(35,077)	(18,308)
Loan stock	(75,500)	(17,000)
Trade creditors (excluding taxes)	(116,112)	(117,167)

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.

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

In the opinion of the directors, Mr Robert Miller, who controls 100% of the shares of Future Electronics Inc. through his interest in Alonim 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

Related party	Country of operation	2017 £000	2016 £000
Future Electronics Deutschland GmbH	Germany	116,495	102,334
Future Electronics Inc. (Distribution) PTE Limited	Singapore	47,257	39,872
Future Electronics (Distribution) Israel Limited	Israel	30,145	23,759
Future Electronics Corporation	USA	20,605	22,824
Future Electronics Austria GmbH	Austria	20,434	14,031
Future Electronics (Schweiz) GmbH	Switzerland	11,482	9,427
Future Electronics Turkey Ltd	Turkey	7,067	5,870
Paris Nord Electronics S.A.	France	5,880	5,365

Notes to the financial statements

at 31 December 2017

23. Related party transactions (continued)

Sales to related parties (continued)

<i>Related party</i>	<i>Country of operation</i>	<i>2017</i> £000	<i>2016</i> £000
Future Electronics A.S.	Norway	3,400	2,659
FE Trading PTY Limited	South Africa	2,563	2,633
		<u>265,328</u>	<u>228,774</u>

Purchases from related parties

<i>Related party</i>	<i>Country of operation</i>	<i>2017</i> £000	<i>2016</i> £000
Future Electronics Inc. (Distribution) PTE Limited	Singapore	54,635	62,675
Future Electronics Corporation	USA	46,342	42,090
		<u>100,977</u>	<u>104,765</u>

Management charges from related parties

<i>Related party</i>	<i>Country of operation</i>	<i>2017</i> £000	<i>2016</i> £000
Future Electronics Management Services Ltd	UK	896	685

Loan interest paid and payable to related parties

<i>Related party</i>	<i>Country of operation</i>	<i>2017</i> £000	<i>2016</i> £000
FE Luxfinco Services SARL	Luxembourg	999	893
Future Electronics Corporation	USA	252	143
		<u>1,251</u>	<u>1,036</u>

Sales commission paid and payable to related parties

<i>Related party</i>	<i>Country of operation</i>	<i>2017</i> £000	<i>2016</i> £000
Future Electronics S.r.L	Italy	7,096	6,517
Future Electronics S.A.	France	9,313	9,517
FAI Electronics AB	Sweden	3,016	3,077
Future Electronics Distribution (Spain) S.L.	Spain	3,303	2,371
Future Electronics Polska Sp.Z.o.o.	Poland	2,389	1,640
Future Electronics Oy	Finland	1,667	1,130
Future Electronics A/S	Denmark	1,602	1,046
Future Electronics B.V.	Netherlands	1,155	836
Future Electronics Kft.	Hungary	980	811
Future Electronics s.r.o	Czech Rep	1,142	721

Notes to the financial statements

at 31 December 2017

23. Related party transactions (continued)

Sales commission paid and payable to related parties (continued)

<i>Related party</i>	<i>Country of operation</i>	<i>2017</i>	<i>2016</i>
		<i>£000</i>	<i>£000</i>
Future Electronics (Ireland) Limited	Ireland	620	526
Future Electronics UAB	Lithuania	846	572
Future Electronics NV	Belgium	676	465
Future Electronics SRL	Romania	651	433
Future Electronics OU	Estonia	630	335
Future Russia Repco Holding B.V.	Russia	300	6
		<u>35,386</u>	<u>30,003</u>

Amounts due from related parties

<i>Related party</i>	<i>Country of operation</i>	<i>2017</i>	<i>2016</i>
		<i>£000</i>	<i>£000</i>
Future Electronics Management Services Ltd	UK	9,034	10,166
Future Electronics Distribution (Israel) Limited	Israel	3,015	2,368
FE Trading PTY Limited	South Africa	592	920
Future Electronics Schweiz GmbH	Switzerland	700	767
Paris Nord Electronics S.A.	France	849	635
Future Electronics A.S.	Norway	383	339
Future Electronics Turkey Ltd	Turkey	15	–
Future Russia Repco Holding B.V.	Russia	120	115
Future Electronics Austria GmbH	Austria	1,764	997
Future Electronics Inc. (Distribution) PTE Limited	Singapore	1,523	–
Future Electronics OY	Finland	151	–
		<u>18,146</u>	<u>16,307</u>

Amounts due to related parties

<i>Related party</i>	<i>Country of operation</i>	<i>2017</i>	<i>2016</i>
		<i>£000</i>	<i>£000</i>
Future Electronics Corporation	USA	1,720	17,895
FE Electronics Inc. (Distribution) PTE Limited	Singapore	–	13,200
Future Electronics S.r.L	Italy	888	2,642
F.E. Future Holding B.V.	Netherlands	38	8
Future Electronics Deutschland GmbH	Germany	11,685	1,510
Future Electronics S.A.	France	1,471	2,543
Future Kitting Limited.	UK	–	897
Future Electronics Inc.	Canada	6,931	10,109
FE Luxfinco Services Sarl	Luxembourg	75,500	17,000
Future Electronics EDC Services GmbH	Germany	14,239	7,692
Future Electronics Polska Sp. Z.o.o.	Poland	2,789	1,659
Future Electronics Oy	Finland	–	58

Notes to the financial statements

at 31 December 2017

23. Related party transactions (continued)

Amounts due to related parties (continued)

<i>Related party</i>	<i>Country of operation</i>	<i>2017</i> <i>£000</i>	<i>2016</i> <i>£000</i>
Future Electronics Distribution (Spain) S.L.	Spain	437	267
Future Electronics B.V.	Netherlands	232	215
Future Electronics (Ireland) Limited	Ireland	79	33
Future Electronics A/S	Denmark	52	45
Future Electronics Kft.	Hungary	61	34
Future Electronics UAB	Lithuania	183	90
Future Electronics SRL	Romania	116	145
Future Electronics s.r.o	Czech Rep	133	21
FAI Electronics AB	Sweden	75	233
Future Electronics NV	Belgium	52	146
Future Electronics OU	Estonia	114	91
Future Electronics Turkey Ltd	Turkey	—	66
		116,795	76,599

The £75,500,000 (2016 - £17,000,000) 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 (2016 - 5.25%).

Key management personnel

Certain senior employees who have authority and responsibility for planning, directing, and controlling the activities of the company are considered to be key management personnel. Total remuneration in respect of these individuals is £1.0m (2016 – £0.9m).