

Company Registration No. 02823778 (England and Wales)

ZONES (UK) LTD
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

Jeffreys Henry LLP
Finsgate, 5-7 Cranwood Street
London
EC1V 9EE

ZONES (UK) LTD

COMPANY INFORMATION

Directors	F Lalji A D Kaye R McFadden J Bauer
Secretary	T Boyd
Company number	02823778
Registered office	St Clements House 27 Clements Lane London EC4N 7AE
Auditor	Jeffreys Henry LLP Finsgate 5 - 7 Cranwood Street London EC1V 9EE

ZONES (UK) LTD

CONTENTS

	Page
Strategic report	1 - 2
Directors' report	3
Directors' responsibilities statement	4
Independent auditor's report	5 - 6
Statement of comprehensive income	7
Balance sheet	8
Statement of changes in equity	9
Statement of cash flows	10
Notes to the financial statements	11 - 23

ZONES (UK) LTD

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

The directors present the strategic report for the year ended 31 December 2019.

Fair review of the business

This year has seen continued growth in revenue as Zones further expands into global markets, especially throughout Europe. This growth in European business has caused the company to tighten controls to protect against changes in currency values, especially the Euro.

We work with currency brokers and our bankers to ensure that we do not suffer losses in our currency exposure, whilst remaining competitive when quoting clients. Sales to global clients have increased and margins have increased as we pride ourselves on providing excellent service and value for money. This has helped us continue to increase our sales to such clients throughout 2019.

We are aware that a post-Brexit marketplace will lead to more challenges, many of which cannot yet be fully foreseen. However we have VAT registrations in many EU countries, employees operating in Ireland, and intend to hire in the Netherlands and Germany within the next few months. We have also incorporated a separate business entity in Ireland, which will commence trading from 1st October 2020, and we are evaluating whether to also incorporate in the Netherlands, where we already have shared use of an office, warehouse and configuration space and two employees via a service contract with one of our major vendors.

In addition to this, we have invested in our e-commerce capabilities and can sync our catalogue with those of several local distributors in many EU countries. We are confident that this helps us to be well-placed to manage any future challenges we face in a post-Brexit world.

The full long-term impact of Covid-19 on our business is still uncertain, however we continue to work closely with customers, suppliers and partners on this issue. Some of our customers have seen their spend increase, as they address the changes in technology required to address the impact on their own businesses. Other customers have temporarily reduced or suspended budgets, whilst others have requested extended payment terms. Our credit lines remain fully intact, and we have a robust working capital facility in place with our Bankers, and this has enabled us to continue to meet our commitments. This working capital facility will shortly be increased to accommodate the potential for continued growth in 2021, but will also protect us from any knock-on effect of increased debtor days. In addition to protecting our cash management and working capital we continually monitor our costs, and will reduce overheads as required to ensure the continued success of the Company.

Section 172 Statement

The Directors are well aware of their duty under Section 172 of the Companies Act 2006 to act in the way which 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 and, in doing so, to have regard (amongst other matters) to:

- The likely consequences of any decision in the long term;
- The interests of the Company's employees;
- The need to foster the Company's business relationships with suppliers, customers and others;
- The impact of the Company's operations on the community and the environment;
- The desirability of the company maintaining a reputation for high standards of business conduct; and
- The need to act fairly between members of the Company.

The Board recognises that the long-term success of Zones (UK) Ltd requires positive interaction with its stakeholders, including customers, suppliers, government and regulatory authorities. The directors seek to actively identify and positively engage with key stakeholders in an open and constructive manner. The board believes that this strategy enables our stakeholders to better understand and address relevant stakeholder views which will assist the Board in its decision making and to discharge its duties under Section 172 of the Companies Act 2006.

ZONES (UK) LTD

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks.

The key risks and uncertainties affecting the company are as follows:

- purchasing cycles of customers;
- more manufacturers going direct;
- industry consolidation and increased competition;
- loss of significant customers;
- decrease in gross margins due to increase in competition in the computer industry;
- decrease of rebates/incentives from key suppliers;
- the ongoing impact of the Covid pandemic
- rapid inventory obsolescence due to accelerating technological changes in the personal computer industry; or
- Brexit and general economic conditions.

A decline in sales could adversely affect our business, financial condition, cash flows or results of operation.

Key performance indicators

The main KPIs in the year are as follows:

- Sales up by 16.5% to £72.9m (2018: £62.6m)
- Gross profit up by 10.5% to £8.1m (2018: £7.4m)

On behalf of the board

A D Kaye

Director

29 September 2020

ZONES (UK) LTD

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

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

Principal activities

The principal activity of the company continued to be the trade of computer consumables, hardware, software and data centre, security mobility and cloud services.

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

F Lalji
A D Kaye
R McFadden
J Bauer

Results and dividends

The results for the year are set out on page 7.

No ordinary dividends were paid. The directors do not recommend payment of a final dividend.

Financial instruments

Treasury operations and financial instruments

The company operates a treasury function which is responsible for managing the liquidity, interest and foreign currency risks associated with the company's activities.

The company's principal financial instruments include derivative financial instruments, the purpose of which is to manage currency risks and interest rate risks arising from the company's activities. In addition, the company has various other financial assets and liabilities such as trade debtors and trade creditors arising directly from its operations. Derivative transactions which the company enters into principally comprise forward exchange contracts. In accordance with company's treasury policy, derivative instruments are not entered into for speculative purposes.

Auditor

In accordance with the company's articles, a resolution proposing that Jeffreys Henry LLP be reappointed as auditor of the company will be put at a General Meeting.

Statement of disclosure to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditor is aware of that information.

On behalf of the board

A D Kaye
Director

29 September 2020

ZONES (UK) LTD

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

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 judgements and accounting 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;
- 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.

ZONES (UK) LTD

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ZONES (UK) LTD

Opinion

We have audited the financial statements of Zones (UK) Ltd (the 'company') for the year ended 31 December 2019 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity, the statement of cash flows and notes to the financial statements, 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, including 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 state 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. 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 directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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 this 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 our 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 the directors' report have been prepared in accordance with applicable legal requirements.

ZONES (UK) LTD

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF ZONES (UK) LTD

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 and the directors' report.

We have nothing to report in respect of the following matters where 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, 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.

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: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's 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.

Sanjay Parmar (Senior Statutory Auditor)
for and on behalf of Jeffreys Henry LLP

29 September 2020

Chartered Accountants
Statutory Auditor

Finsgate
5 - 7 Cranwood Street
London
EC1V 9EE

ZONES (UK) LTD

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 £	2018 £
Turnover	3	72,956,731	62,617,899
Cost of sales		(64,771,297)	(55,215,034)
Gross profit		8,185,434	7,402,865
Administrative expenses		(6,747,671)	(6,711,107)
Operating profit	4	1,437,763	691,758
Interest receivable and similar income	7	4,466	-
Interest payable and similar expenses	8	(155,876)	(143,171)
Profit before taxation		1,286,353	548,587
Tax on profit	9	(247,059)	(107,983)
Profit for the financial year		1,039,294	440,604

The profit and loss account has been prepared on the basis that all operations are continuing operations.

ZONES (UK) LTD

BALANCE SHEET

AS AT 31 DECEMBER 2019

	Notes	2019 £	£	2018 £	£
Fixed assets					
Tangible assets	10		191,688		172,791
Current assets					
Stocks	11	2,071,449		1,517,059	
Debtors	12	11,315,397		11,235,381	
Cash at bank and in hand		520,043		728	
		<u>13,906,889</u>		<u>12,753,168</u>	
Creditors: amounts falling due within one year	13	<u>(11,006,518)</u>		<u>(10,881,271)</u>	
Net current assets			<u>2,900,371</u>		<u>1,871,897</u>
Total assets less current liabilities			<u>3,092,059</u>		<u>2,044,688</u>
Provisions for liabilities	15		<u>(15,981)</u>		<u>(7,904)</u>
Net assets			<u><u>3,076,078</u></u>		<u><u>2,036,784</u></u>
Capital and reserves					
Called up share capital	17	866,666		866,666	
Share premium account		783,334		783,334	
Profit and loss reserves		<u>1,426,078</u>		<u>386,784</u>	
Total equity			<u><u>3,076,078</u></u>		<u><u>2,036,784</u></u>

The financial statements were approved by the board of directors and authorised for issue on 29 September 2020 and are signed on its behalf by:

A D Kaye
Director

Company Registration No. 02823778

ZONES (UK) LTD

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital	Share premium account	Profit and loss reserves	Total
	£	£	£	£
Balance at 1 January 2018	866,666	783,334	(53,820)	1,596,180
Year ended 31 December 2018:				
Profit and total comprehensive income for the year	-	-	440,604	440,604
Balance at 31 December 2018	866,666	783,334	386,784	2,036,784
Year ended 31 December 2019:				
Profit and total comprehensive income for the year	-	-	1,039,294	1,039,294
Balance at 31 December 2019	866,666	783,334	1,426,078	3,076,078

ZONES (UK) LTD

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

		2019		2018	
	Notes	£	£	£	£
Cash flows from operating activities					
Cash generated from operations	23	1,998,825		2,861,077	
Interest paid		(155,876)		(143,171)	
Income taxes paid		(106,648)		(17,469)	
Net cash inflow from operating activities		1,736,301		2,700,437	
Investing activities					
Purchase of tangible fixed assets		(156,785)		(75,238)	
Proceeds on disposal of tangible fixed assets		16,918		-	
Proceeds from other investments and loans		(124,636)		(10,927)	
Interest received		4,466		-	
Net cash used in investing activities		(260,037)		(86,165)	
Financing activities					
Repayment of borrowings		-		(176,604)	
Net cash used in financing activities		-		(176,604)	
Net increase in cash and cash equivalents		1,476,264		2,437,668	
Cash and cash equivalents at beginning of year		(3,487,102)		(5,924,770)	
Cash and cash equivalents at end of year		(2,010,838)		(3,487,102)	
Relating to:					
Cash at bank and in hand		520,043		728	
Bank overdrafts included in creditors payable within one year		(2,530,881)		(3,487,831)	

ZONES (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

Company information

Zones (UK) Ltd is a private company limited by shares incorporated in England and Wales. The registered office is St Clements House, 27 Clements Lane, London, EC4N 7AE.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £.

The financial statements have been prepared under the historical cost convention.

1.2 Going concern

At the time of approving the financial statements, the directors have a reasonable expectation that the company has adequate resources and has the continued support of the shareholder to continue in operational existence for the foreseeable future. Thus the directors continue to adopt the going concern basis of accounting in preparing the financial statements. Additionally, there is a bank facility in place ensuring availability of resources.

1.3 Turnover

Turnover is recognised at the fair value of the consideration received or receivable for goods and services provided in the normal course of business, and is shown net of VAT and other sales related taxes. The fair value of consideration takes into account trade discounts, settlement discounts and volume rebates.

When cash inflows are deferred and represent a financing arrangement, the fair value of the consideration is the present value of the future receipts. The difference between the fair value of the consideration and the nominal amount received is recognised as interest income.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer (usually on dispatch of the goods), the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue relating to the sale of goods whereby the buyer does not take immediate delivery of the goods is recognised when the buyer takes title of the goods providing; the delivery is probable, the goods are on hand and ready for delivery, the buyer acknowledges deferral of delivery and usual payment terms apply.

Revenue from contracts for the provision of professional services is recognised by reference to the stage of completion when the stage of completion, costs incurred and costs to complete can be estimated reliably. Where the outcome cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

1.4 Tangible fixed assets

Tangible fixed assets are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses.

ZONES (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Fixtures, fittings & equipment	20% - 30% p.a. on cost
Computer equipment	33% p.a. on cost

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is credited or charged to profit or loss.

1.5 Impairment of fixed assets

At each reporting period end date, the company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

1.6 Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the stocks to their present location and condition.

At each reporting date, an assessment is made for impairment. Any excess of the carrying amount of stocks over its estimated selling price less costs to complete and sell is recognised as an impairment loss in profit or loss. Reversals of impairment losses are also recognised in profit or loss.

1.7 Cash at bank and in hand

Cash and cash equivalents are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

1.8 Financial instruments

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the company's balance sheet when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

ZONES (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

Basic financial assets

Basic financial assets, which include debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

Other financial assets

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

Trade debtors, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument to the net carrying amount on initial recognition.

Impairment of financial assets

Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the company transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

Classification of financial liabilities

Financial liabilities and 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 company after deducting all of its liabilities.

ZONES (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

Basic financial liabilities

Basic financial liabilities, including creditors, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Other financial liabilities

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate, unless hedge accounting is applied and the hedge is a cash flow hedge.

Debt instruments that do not meet the conditions in FRS 102 paragraph 11.9 are subsequently measured at fair value through profit or loss. Debt instruments may be designated as being measured at fair value through profit or loss to eliminate or reduce an accounting mismatch or if the instruments are measured and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Financial liabilities and 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 company after deducting all of its liabilities.

Derecognition of financial liabilities

Financial liabilities are derecognised when the company's contractual obligations expire or are discharged or cancelled.

1.9 Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of transaction costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

1.10 Derivatives

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to fair value at each reporting end date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset, whereas a derivative with a negative fair value is recognised as a financial liability.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

ZONES (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

1.11 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

Deferred tax

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

1.12 Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of stock or fixed assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

1.13 Foreign exchange

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting end date. Gains and losses arising on translation in the period are included in profit or loss.

1.14 Bill and hold

Under a bill-and-hold arrangement, the seller may have a performance obligation to act as the custodian for the goods being held at its facility. If so, the seller may need to allocate a portion of the transaction price to the custodial function, and recognize this revenue over the course of the custodial period.

ZONES (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

2 Judgements and key sources of estimation uncertainty

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

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

The main estimates consist of:

Stock provisions

Inventories are valued at the lower of cost and net realizable value, on a weighted average cost basis.

Slow-moving, obsolete or unsellable inventory are reviewed by management on a regular basis and a provision is made if needed. This methodology could be affected if actual demand or usage were to be lower than estimated.

Bad debt provisions

We perform ongoing credit evaluations of our customers and grant credit based upon past payment history, financial condition and anticipated industry conditions. Customer payments are regularly monitored and a provision for doubtful accounts is established based upon specific situations and overall industry conditions. Hence the provision is maintained for potential credit losses based upon management's assessment of the expected collectability of all accounts receivable.

Depreciation

The company depreciates fixtures and fittings and computer equipment on a straight-line method over the estimated useful lives. The estimated useful lives reflect the directors' estimate of the periods that the company intends to derive future economic benefits from the use of these assets.

3 Turnover and other revenue

An analysis of the company's turnover is as follows:

	2019	2018
	£	£
Turnover analysed by class of business		
Goods	66,256,243	59,887,349
Services	6,700,489	2,730,550
	<u>72,956,731</u>	<u>62,617,899</u>
	2019	2018
	£	£
Other significant revenue		
Interest income	<u>4,466</u>	<u>-</u>

ZONES (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

3 Turnover and other revenue (Continued)

	2019 £	2018 £
Turnover analysed by geographical market		
United Kingdom	34,526,841	33,973,233
European Union	37,583,439	25,811,557
Other	846,451	2,833,109
	<u>72,956,731</u>	<u>62,617,899</u>

4 Operating profit

	2019 £	2018 £
Operating profit for the year is stated after charging/(crediting):		
Exchange gains	(157,361)	(91,186)
Fees payable to the company's auditor for the audit of the company's financial statements	23,275	14,683
Depreciation of owned tangible fixed assets	120,970	113,484
Cost of stocks recognised as an expense	64,928,658	55,306,220
	<u>64,928,658</u>	<u>55,306,220</u>

Exchange differences recognised in profit or loss during the year, except for those arising on financial instruments measured at fair value through profit or loss, amounted to £157,361 (2018 - £91,186).

5 Employees

The average monthly number of persons (including directors) employed by the company during the year was:

	2019 Number	2018 Number
Directors	4	4
Administration	39	31
Sales	18	19
Warehouse	6	9
Total	<u>67</u>	<u>63</u>

Their aggregate remuneration comprised:

	2019 £	2018 £
Wages and salaries	4,805,169	4,981,095
Social security costs	513,064	563,107
	<u>5,318,233</u>	<u>5,544,202</u>

ZONES (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

6 Directors' remuneration

	2019 £	2018 £
Remuneration for qualifying services	555,427	512,500

Remuneration disclosed above include the following amounts paid to the highest paid director:

	2019 £	2018 £
Remuneration for qualifying services	375,635	371,000

7 Interest receivable and similar income

	2019 £	2018 £
Interest income		
Interest on bank deposits	1,160	-
Other interest income	3,306	-
Total income	4,466	-

Investment income includes the following:

Interest on financial assets not measured at fair value through profit or loss	1,160	-
--	-------	---

8 Interest payable and similar expenses

	2019 £	2018 £
Interest on financial liabilities measured at amortised cost:		
Interest on bank overdrafts and loans	155,876	143,171

9 Taxation

	2019 £	2018 £
Current tax		
UK corporation tax on profits for the current period	242,112	109,778
Deferred tax		
Origination and reversal of timing differences	4,947	(1,795)
Total tax charge	247,059	107,983

ZONES (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

9 Taxation

(Continued)

The actual charge for the year can be reconciled to the expected charge for the year based on the profit or loss and the standard rate of tax as follows:

	2019 £	2018 £
Profit before taxation	1,286,353	548,587
Expected tax charge based on the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%)	244,407	104,232
Tax effect of expenses that are not deductible in determining taxable profit	35,243	-
Double tax relief	(3,262)	-
Permanent capital allowances in excess of depreciation	(34,276)	5,546
Change in deferred tax provision	4,947	(1,795)
Taxation charge for the year	247,059	107,983

10 Tangible fixed assets

	Fixtures, fittings & equipment	Computer equipment	Total
	£	£	£
Cost			
At 1 January 2019	404,827	987,102	1,391,929
Additions	8,213	148,572	156,785
Disposals	(309,972)	(756,918)	(1,066,890)
At 31 December 2019	103,068	378,756	481,824
Depreciation and impairment			
At 1 January 2019	335,385	883,753	1,219,138
Depreciation charged in the year	13,944	107,026	120,970
Eliminated in respect of disposals	(293,361)	(756,611)	(1,049,972)
At 31 December 2019	55,968	234,168	290,136
Carrying amount			
At 31 December 2019	47,100	144,588	191,688
At 31 December 2018	69,442	103,349	172,791

ZONES (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

11 Stocks

	2019 £	2018 £
Finished goods and goods for resale	2,071,449	1,517,059

12 Debtors

	2019 £	2018 £
Amounts falling due within one year:		
Trade debtors	8,449,094	9,236,707
Other debtors	1,232,368	717,391
Prepayments and accrued income	1,633,935	1,281,283
	11,315,397	11,235,381

13 Creditors: amounts falling due within one year

	Notes	2019 £	2018 £
Bank loans and overdrafts	14	2,530,881	3,487,831
Trade creditors		7,349,371	6,290,379
Corporation tax		242,112	109,778
Other taxation and social security		137,501	121,795
Accruals and deferred income		746,653	871,488
		11,006,518	10,881,271

14 Loans and overdrafts

	2019 £	2018 £
Bank facility	2,530,881	3,487,831
Payable within one year	2,530,881	3,487,831

The bank facility is secured by way of a fixed and floating charge over the company's assets and a guarantee of \$1million from Zones Inc.

ZONES (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

15 Provisions for liabilities

	Notes	2019 £	2018 £
Deferred tax liabilities	16	15,981	7,904

16 Deferred taxation

Deferred tax assets and liabilities are offset where the company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	Liabilities 2019 £	Liabilities 2018 £
Balances:		
ACAs	15,981	7,904
Movements in the year:		2019 £
Liability at 1 January 2019		7,904
Charge to profit or loss		8,077
Liability at 31 December 2019		15,981

The deferred tax liability set out above is expected to reverse within 12 months and relates to accelerated capital allowances that are expected to mature within the same period.

17 Share capital

	2019 £	2018 £
Ordinary share capital		
Issued and fully paid		
520,000 A Ordinary shares of £1 each	520,000	520,000
346,666 B Ordinary shares of £1 each	346,666	346,666
	866,666	866,666

Each Ordinary A and each Ordinary B share is entitled to one vote in any circumstances.

ZONES (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

18 Operating lease commitments

At the reporting end date the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2019 £	2018 £
Within one year	545,928	535,272
Between two and five years	25,625	511,050
	<u>571,553</u>	<u>1,046,322</u>

19 Related party transactions

Remuneration of key management personnel

The remuneration of key management personnel is as follows.

	2019 £	2018 £
Aggregate compensation	<u>930,859</u>	<u>826,512</u>

Transactions with related parties

During the year the company entered into the following transactions with related parties:

	Sale of goods		Purchase of goods	
	2019 £	2018 £	2019 £	2018 £
Entities with control, joint control or significant influence over the company	31,718	445,172	579,206	-
	<u>31,718</u>	<u>445,172</u>	<u>579,206</u>	<u>-</u>

The following amounts were outstanding at the reporting end date:

	Amounts owed to related parties	
	2019 £	2018 £
Entities with control, joint control or significant influence over the company	(214,827)	(322,114)
	<u>(214,827)</u>	<u>(322,114)</u>

No guarantees have been given or received.

ZONES (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

20 Directors' transactions

City Consortium UK Limited, a company controlled by AD Kaye, was paid sales consultancy fees of £79,750 (2018: £80,500) during the year. At the year end the balance owed was £Nil (2018: £Nil).

At the year end AD Kaye owed the company £135,562 (2018: £10,927) in respect of a loan, interest at which is charged at 2.5% amounting to £3,306.

21 Ultimate controlling party

The immediate parent undertaking is Zones (EMEA) Limited, a company incorporated in the UK.

The ultimate controlling party is F Lalji (Director).

22 Post reporting date events

There are no post reporting date events to report.

23 Cash generated from operations

	2019 £	2018 £
Profit for the year after tax	1,039,294	440,604
Adjustments for:		
Taxation charged	247,059	107,983
Finance costs	155,876	143,171
Investment income	(4,466)	-
Depreciation and impairment of tangible fixed assets	120,970	113,484
Movements in working capital:		
(Increase) in stocks	(554,390)	(327,450)
Decrease in debtors	44,619	1,433,771
Increase in creditors	949,863	949,514
Cash generated from operations	1,998,825	2,861,077

24 Analysis of changes in net debt

	1 January 2019 £	Cash flows £	31 December 2019 £
Cash at bank and in hand	728	519,315	520,043
Bank overdrafts	(3,487,831)	956,950	(2,530,881)
	<u>(3,487,103)</u>	<u>1,476,265</u>	<u>(2,010,838)</u>

This document was delivered using electronic communications and authenticated in accordance with the registrar's rules relating to electronic form, authentication and manner of delivery under section 1072 of the Companies Act 2006.