

# **Fender Musical Instruments Europe Limited**

Annual report and financial statements

Registered number 3127180

1 January 2023

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## **Company information**

### **Directors**

L Cunnah  
G A McAuley

### **Company Secretary**

G A McAuley

### **Registered number**

3127180

### **Registered office**

Leo House  
Birches Industrial Estate  
East Grinstead  
West Sussex  
RH19 1QZ

### **Independent auditors**

PricewaterhouseCoopers LLP  
Chartered Accountants and Advisors  
7 More London Riverside  
London  
SE1 2RT

### **Solicitors**

Gibson Dunn  
Telephone House,  
2-4 Temple Avenue,  
London  
EC4Y 0HB

### **Bankers**

JP Morgan Chase Group  
25 Bank Street  
Canary Wharf  
London  
E14 5JP

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## **Strategic Report**

The directors present their annual report and audited financial statements for the 52-week period ended 1 January 2023 hereafter referred to as “2022”. The comparative period was the 52-week period ended 2 January 2022 hereafter referred to as “2021”.

### **Objectives**

The company's long-term objective is to increase its profitability and net worth as a contribution to the ultimate parent company, Fender Musical Instruments Corporation.

### **Business Strategies**

The company's business strategies in achieving its long-term objective remained the same as in 2021:

- Elevate and extend our brands,
- Connect with consumers to build a broad-based Fender community,
- Drive operational efficiencies and improvements with a view to increasing the profit of the company and its partners.

### **Key Performance Indicators**

The company identified the following financial key performance indicators for 2022 to meet its Business Strategies:

- Achieve targeted profit for the financial period,
- Minimise cash balance held at the balance sheet date.

In comparing 2022 to 2021, the company made a profit after tax of £3,239,000 compared to a profit after tax of £1,844,000.

Cash decreased to £3,628,000 (2021: £4,573,000) at the end of the period compared to the prior period. This was due to the timing of collections from customers.

### **Business review**

In 2022, the company saw a reduction in turnover of 24% over the prior year across its product ranges. Customer demand reduced year on year as consumers faced into a challenging economic climate, driven by inflationary pressures, and demand trends normalising post the pandemic period, especially in the entry level categories. Heightened stock levels within the trade further constrained sales as previous global supply challenges eased and consumer demand reduced. Whilst Turnover was complemented by the addition of sales from the PreSonus product range, sales were further reduced due to the sale of its non-UK business to a Fender affiliated company (see below).

Other Income helped offset Turnover reductions and was the key driver in Year-on-Year Operating Profit growth. After review of its operations and processes, the company decided to transfer its non-UK business to an EU affiliate company, generating a profit of £2,067,000 (see note 7). This was partially offset from lower income from support services compared with 2021 due to the decrease in Operating costs driven by reduced employee performance related pay.

Profit before Tax was further supported by Interest receivable growth relating to amounts charged on interest bearing loans between group undertakings, as described in note 8. In 2021 amounts were classed as Interest Payable as amounts were owed to group undertakings.

## **Strategic Report (continued)**

### **Business review (continued)**

Tangible fixed assets decreased in the year to £594,000 (2021: £686,000) due to depreciation charges for the period. Intangible assets were acquired through the purchase of the aforementioned PreSonus customer lists for the value, £527,000, and the capitalisation of costs associated with a future implementation of a new operating software package, £109,000.

The value of stock includes finished goods and the cost of products in transit but not yet delivered to customers within the financial period. In 2022 the value of stock was lower, primarily due to sales being made earlier in the year compared to 2021.

The Debtors balance is primarily made up of the Trade Debtors and Amounts owed by group undertakings. The Trade Debtors balance was higher due to longer standard payment terms were offered to customers during 2022. The balances between Group companies amounted to £2,369,000 whereas there was no corresponding balance in 2021.

The Creditors balance was lower in comparison to 2021 due to Deferred Income and Other taxation and social security. The Deferred Income reduced due to the income related to products in transit but not yet delivered to customers within the financial period being lower relative to 2021. The Other taxation and social security value was lower due to delayed COVID VAT payments being made in the first quarter of 2022.

### **Employees**

The company recognises its unique position of employing staff who have a high level of loyalty and affiliation to Fender and its related brands and therefore ultimately to the company. The company has personnel policies and programs to appraise, train and promote employees based on their ability, skill, and aptitude and on the requirements of their job. The company has implemented regular benchmarking reviews of staff compensation plans to ensure that salary levels are competitive and key staff are on performance driven salary packages.

### **Environmental factors**

The company takes its responsibility towards the environment seriously. The company recycles damaged products in an environmentally efficient manner as well as ensuring the office waste is recycled as much as possible. The company has complied with the existing legislation including WEEE legislation (Waste Electrical and Electronic Equipment Directive) and Producer Responsibility Obligations (Packaging Waste and Waste Batteries) to ensure that all products are compliant with the relevant regulations.

### **Principal risks and uncertainties**

The directors are responsible for establishing and maintaining the company's system of internal controls and for reviewing its effectiveness. Internal controls are designed to manage rather than eliminate the risk of misstatement or material loss and can only provide reasonable rather than absolute assurance that this happens. The main risks and mitigations are as follows:

#### **1. Operational risk**

The company is exposed to operational risks. These are inherent in all businesses and result mainly from a potential breakdown in the company's control of its human, physical and operating resources. The potential effect on the financial performance and reputation arising from failures in internal controls, flaws or malfunctions in computer systems, poor product design and delivery could have a significant adverse effect on the company performance. Over recent periods the company had to manage the complexities of Brexit. The company has attempted to reduce the risk by putting in resources, procedures and internal controls as follows:

## Strategic Report (continued)

### Principal risks and uncertainties (continued)

#### 1. Operational risk (continued)

- Quality inspection processes and regular checks for products before they are delivered to customers.
- The employment of experienced staff dedicated to repairing damaged and defective products.
- Regular feedback to suppliers for quality issues on products to reduce avoidable failures in the future.
- Segregation of duties between the order entry, logistics function, finance function and IT function. Furthermore, the logistics function is totally outsourced to a third-party logistics provider complete with its own bonded warehouse, therefore offering increased segregation of duties.
- The additional administrative burden impact of Brexit has added additional costs and time in importing products from the European Union. In 2022 the company has amended and developed its operational process with Customer Sales and Support and Logistics teams to find efficiencies to improve delivery times and minimise costs.

#### 2. Commercial risk

The company is exposed to commercial risks which could have an adverse impact on company performance and working capital. These risks include, but not limited to, economic environmental factors and changing market dynamics impacting customer and consumer demand, competitor activity, shifting consumer demand trends and global events such as the Ukraine conflict. The company has the following established processes to aid the mitigation of these potential risks:

- Production and review of daily, monthly, and annual information on the performance against budgets, forecasts, and prior period.
- An annual budgeting process with regular re-forecasts of results.
- Regular market feedback to R&D and Global Product Management on product performance and market activity
- Development of Promotional programs to support sales performance.
- Regular reporting to the board on matters of safety, insurance, and treasury management.
- Regular reviews of the company's internal control procedures by the Corporate Finance department.

#### 3. Financial risk

- a. Credit risk - the company is not exposed to material credit risk as most customers are set up on direct debit schemes, established, reliable and credit worthy. In addition, the company has effective credit management procedures administered by an appropriately skilled and resourced internal control team.
- b. Foreign currency risk – the company is exposed to limited direct exchange rate risk. The company will be indirectly affected by competitors' responses to exchange rate movements. Such exchange rate movements will influence some competitor's purchase prices, whilst on others it will have an impact on the affected sterling sale price. The company feels that the strength of the brands and the longevity of the products sold will maintain its financial performance during periods of downturn and will limit the effect of large exchange rate fluctuations. The company's ultimate parent has a hedging policy that provides a certainty on purchase prices for the period ahead.

## Strategic Report (continued)

### 3 Financial risk (continued)

- c. Liquidity risk – is low because the company holds positive cash balances, is supported by its ultimate Parent undertaking and it has treasury procedures in place to manage these balances effectively.
- d. Interest rate risk – the company is not exposed to material interest rate risk due to positive cash balances and any intra group transactions are held at a fixed rate.
- e. Price risk – the company is exposed to relatively low-price risk. Due to strength of the brands the company is able to pass on supply cost increases to its customer base.
- f. Competition risk – the company is exposed to competition risk in a highly competitive retail sector. The company is susceptible to a possible downturn in consumer spending, influenced by factors such as a reduction in disposable income, increases in interest rates and reduced popularity in the brands. The company feels that the strength of the brands and the longevity of the products sold, together with robust marketing and sales strategies, will maintain its financial performance during periods of downturn.

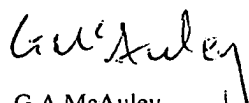
### Future Developments

The company is committed to consistently introducing new products, or product refreshes, to solidify the strength of the relevant product range in its market. In 2023, the company has so far launched new Fender Electric Guitar ranges, such as the Gold Foil Series and Artist Signature Models from H.E.R and Troy Sanders. The performance of our American made Fender range is forecasted to benefit from the full year effect of the American Vintage II, which was launched at the end of 2022.

Following the full integration of the PreSonus brand in 2022, the company anticipates further growth opportunity in the recording category which will support 2023 revenue performance.

The Directors are cautiously optimistic about the company's long-term profitability in the face of the economic and structural challenges.

For and on behalf of the board of directors,

  
G A McAuley  
Director

Registered number 3127180

Leo House  
Birches Industrial Estate  
East Grinstead  
West Sussex  
RH19 1QZ

17 August, 2023

## **Directors' Report**

The directors present their report and the Financial Statements for the 52 week period ended 1 January, 2023.

### **Principal activities**

The principal activity of the company throughout the period was the provision of sales and marketing support services to Fender International Corporation for the sale of musical instruments.

### **Future development**

The company's future developments are set out in the Strategic Report on page 4 in accordance with s414C(11) of the Companies Act 2006

### **Statement of directors' responsibilities in respect of the financial statements**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

Under company law, 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also 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.

### **Directors' confirmation**

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and



## Directors' Report (continued)

- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

### Results and dividends

The profit for the period, after taxation, amounted to £3,239,000 (2021: £1,844,000). The directors have not declared a dividend during the period (2021: nil) and do not recommend one should be paid. After making enquiries, the directors have reasonable expectations that the company has adequate resources to continue in operational existence for the foreseeable future. Further information is given in the Basis of Preparation, note 1. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

### Financial risk management

The Strategic Report contains an indication of the company's exposure to price risk, credit risk and liquidity risk on page 3.

### Going Concern

The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons:

The company meets its day to day working capital requirements from balances to and from companies in the group headed by Fender Musical Instruments Corporation (see notes 13 and 15). A significant proportion of the company's turnover relates to the distribution of products manufactured by and purchased from those companies at intragroup transfer prices. Intercompany amounts are generally trading balances, on mutually acceptable terms in the normal course of business that are repayable on demand, although they have not historically been demanded.

In assessing the going concern basis, the directors have considered severe but plausible downside scenarios in preparing EMEA Group sales forecasts, assuming that monthly revenue for the remainder of 2023 through to December 2024 will be at the same level as the corresponding periods in 2022. Based on these sales forecasts, the company would have positive net current assets and net assets at the end of December 2024.

The company has received a letter of support from its parent company, Fender Musical Instruments Corporation, stating its intention to support the company and provide financial support, as required, to enable the company to meet its liabilities as they fall due for the foreseeable future, being a period not less than 12 months from when the financial statements will be signed. In providing this assurance, the parent company has taken full account of their own funding requirements, obligations, and commitments for the same period as this letter covers.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

### Directors

The directors of the company who were in office during the year and up to the date of signing the financial statements were:

Gerard Anthony McAuley  
Liam Cunnah

The company is a wholly owned subsidiary of Fender International Corporation.

## **Directors' Report (continued)**

### **Directors' insurance and indemnities**

The directors have the benefit of the indemnity provisions contained in the company's Articles of Association ('Articles'), and the company has maintained throughout the year directors' and officers' liability insurance for the benefit of the company, the directors, and its officers. The company has entered into qualifying third-party indemnity arrangements for the benefit of all its directors in a form and scope which comply with the requirements of the Companies Act, 2006 and which were in force throughout the year and remain in force.

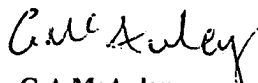
### **Political and Charitable Contributions**

The company made no political contributions during the period (2021: *£nil*). Charitable donations for the period amounted to *£nil* (2021: *£nil*).

### **Auditors**

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.

By order of the Board



**G A McAuley**  
*Company Secretary*

Leo House  
Birches Industrial Estate  
East Grinstead  
West Sussex  
RH19 1QZ

Registered number 3127180

17 August, 2023

# Independent auditors' report to the members of Fender Musical Instruments Europe Limited

## Report on the audit of the financial statements

### Opinion

In our opinion, Fender Musical Instruments Europe Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 1 January 2023 and of its profit and cash flows for the 52 week period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: balance sheet as at 1 January 2023; statement of comprehensive income, statement of changes in equity and cash flow statement for the period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

## **Independent auditors' report to the members of Fender Musical Instruments Europe Limited (continued)**

### **Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

### **Strategic report and Directors' report**

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the period ended 1 January 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

### **Responsibilities for the financial statements and the audit**

#### **Responsibilities of the directors for the financial statements**

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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 Fender Musical Instruments Europe Limited (continued)**

### **Auditors' 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 auditors' 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to competition legislation, environmental protection act, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as UK tax legislation and the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to manipulate financial results. Audit procedures performed by the engagement team included:

- Enquiries of Management, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Evaluation of Management's controls to prevent and detect irregularities;
- Identification and testing of journal entries, in particular any journal entries posted with unusual account combinations that represent a risk of material misstatement due to fraud;
- Incorporating elements of unpredictability into the audit procedures performed.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

### **Use of this report**

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Independent auditors' report to the members of Fender Musical Instruments Europe Limited (continued)

### Other required reporting

#### **Companies Act 2006 exception reporting**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

*Lisa Wilson*

**Lisa Wilson (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP,  
Chartered Accountants and Statutory Auditors**

**London**

**17 August 2023**

**Statement of Comprehensive Income**  
*for the period ended 1 January 2023*

		<b>52 week period ended 1 January 2023</b>	<b>52 week period ended 2 January 2022</b>
	<i>Note</i>	<b>Total</b>	<b>Total</b>
		<b>£000</b>	<b>£000</b>
<b>Turnover</b>	<b>3</b>	<b>45,441</b>	<b>60,008</b>
<b>Cost of sales</b>		<b>(42,340)</b>	<b>(55,136)</b>
<b>Gross profit</b>		<b>3,101</b>	<b>4,872</b>
<b>Administrative expenses</b>		<b>(11,345)</b>	<b>(11,951)</b>
<b>Other operating income</b>	<b>7</b>	<b>11,686</b>	<b>10,037</b>
<b>Operating profit</b>	<b>4</b>	<b>3,442</b>	<b>2,958</b>
<b>Interest payable and similar expenses</b>	<b>8</b>	<b>-</b>	<b>(588)</b>
<b>Interest receivable and similar income</b>	<b>8</b>	<b>512</b>	<b>-</b>
<b>Profit before taxation</b>		<b>3,954</b>	<b>2,370</b>
<b>Tax on profit</b>	<b>9</b>	<b>(715)</b>	<b>(526)</b>
<b>Profit for the financial period</b>		<b>3,239</b>	<b>1,844</b>
<b>Total comprehensive income</b>		<b>3,239</b>	<b>1,844</b>

The accompanying notes set out on pages 16 to 31 form part of these financial statements.

**Balance Sheet**  
*As at 1 January 2023*

	<i>Note</i>	<b>1 January 2023</b>		<b>2 January 2022</b>	
		<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Fixed assets</b>					
Tangible assets	<i>10</i>		<b>594</b>		<b>686</b>
Intangible assets	<i>11</i>		<b>614</b>		<b>-</b>
			<hr/>		<hr/>
			<b>1,208</b>		<b>686</b>
<b>Current assets</b>					
Stocks	<i>12</i>	<b>1,054</b>		<b>1,515</b>	
Debtors	<i>13</i>	<b>5,047</b>		<b>3,779</b>	
Cash at bank and in hand	<i>14</i>	<b>3,628</b>		<b>4,573</b>	
		<hr/>		<hr/>	
		<b>9,729</b>		<b>9,867</b>	
<b>Creditors: amounts falling due within one year</b>	<i>15</i>	<b>(4,915)</b>		<b>(7,770)</b>	
		<hr/>		<hr/>	
<b>Net current assets</b>		<b>4,814</b>		<b>2,097</b>	
			<hr/>		<hr/>
<b>Total assets less current liabilities</b>			<b>6,022</b>		<b>2,783</b>
			<hr/>		<hr/>
<b>Net assets</b>			<b>6,022</b>		<b>2,783</b>
			<hr/>		<hr/>
<b>Capital and reserves</b>					
Called up share capital	<i>18</i>	<b>60</b>		<b>60</b>	
Profit and loss account		<b>5,962</b>		<b>2,723</b>	
		<hr/>		<hr/>	
<b>Total shareholders' funds</b>			<b>6,022</b>		<b>2,783</b>
			<hr/>		<hr/>

The accompanying notes on pages 16 to 31 form part of these financial statements.

These financial statements on pages 12 to 31 were approved by the board of directors on 17 August, 2023 and were signed on its behalf by:



**G A McAuley**  
*Director*

Company registered number 3127180



**Statement of Changes in Equity**  
*for the period ended 1 January 2023*

	<b>Called up Share capital</b>	<b>Profit and loss account</b>	<b>Total equity</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Balance at 3 January 2021	60	879	939
<b>Total comprehensive income for the financial period</b>			
Profit for the period	-	1,844	1,844
	<hr/>	<hr/>	<hr/>
<b>Balance at 2 January 2022</b>	<b>60</b>	<b>2,723</b>	<b>2,783</b>
	<hr/>	<hr/>	<hr/>
<b>Total comprehensive income for the financial period</b>			
Profit for the period	-	3,239	3,239
	<hr/>	<hr/>	<hr/>
<b>Balance at 1 January 2023</b>	<b>60</b>	<b>5,962</b>	<b>6,022</b>
	<hr/>	<hr/>	<hr/>

The accompanying notes on pages 16 to 31 form part of these financial statements.

**Cash Flow Statement**  
*for the period ended 1 January 2023*

	<i>Note</i>	<b>2022</b> <b>£000</b>	<b>2021</b> <b>£000</b>
<b>Profit for the period</b>		<b>3,239</b>	<b>1,844</b>
Interest (receivable) / payable	<i>8</i>	<b>(512)</b>	<b>588</b>
Tax		<b>715</b>	<b>526</b>
<b>Operating Profit</b>		<b>3,442</b>	<b>2,958</b>
<i>Adjustments for:</i>			
Depreciation and Amortisation	<i>10, 11</i>	<b>193</b>	<b>140</b>
Equity-settled share-based payment transactions	<i>17</i>	<b>(6)</b>	<b>431</b>
		<hr/> <b>3,629</b>	<hr/> <b>3,529</b>
(Increase)/decrease in trade and other debtors	<i>13</i>	<b>(1,374)</b>	<b>2,798</b>
Decrease/(Increase) in stocks	<i>12</i>	<b>460</b>	<b>(893)</b>
(Increase)/decrease in trade and other creditors	<i>15</i>	<b>(3,462)</b>	<b>408</b>
		<hr/>	<hr/>
Cash flows from operating activities		<b>(747)</b>	<b>5,842</b>
Tax paid		<b>(524)</b>	<b>(838)</b>
		<hr/>	<hr/>
<b>Net cash used in operating activities</b>		<b>(1,271)</b>	<b>5,004</b>
		<hr/>	<hr/>
Purchase of tangible fixed assets	<i>10</i>	<b>(79)</b>	<b>(532)</b>
Acquisition of intangible assets	<i>11</i>	<b>(109)</b>	<b>-</b>
		<hr/>	<hr/>
<b>Net cash outflow from investing activities</b>		<b>(188)</b>	<b>(532)</b>
		<hr/>	<hr/>
<b>Cash flows from financing activities</b>			
Interest received/(paid)	<i>8</i>	<b>9</b>	<b>(27)</b>
		<hr/>	<hr/>
<b>Net cash inflow/(outflow) from financing activities</b>		<b>9</b>	<b>(27)</b>
		<hr/>	<hr/>
Net (decrease) / increase in cash and cash equivalents		<b>(1,450)</b>	<b>4,445</b>
Cash and cash equivalents at the start of the period		<b>4,573</b>	<b>689</b>
Foreign exchange gain / (loss)		<b>505</b>	<b>(561)</b>
		<hr/>	<hr/>
<b>Cash and cash equivalents at end of the period</b>	<i>14</i>	<b>3,628</b>	<b>4,573</b>
		<hr/> <hr/>	<hr/> <hr/>

The accompanying notes on pages 16 to 31 form part of these financial statements.

## Notes

*(forming part of the financial statements)*

### **1. Accounting policies**

#### **1.1 Company information**

Fender Musical Instruments Europe Limited (the “company”) is a private company limited by shares; incorporated, domiciled, and registered in England in the United Kingdom. The registered number is 03127180 and the registered address is Leo House, Birches Industrial Estate, East Grinstead, West Sussex, RH19

The principal activities of the company are set out in the Directors’ Report.

#### **1.2 Statement of compliance**

These financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland (“FRS 102”). The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

#### **1.3 Summary of significant accounting policies**

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

#### **1.4 Basis of preparation**

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with the Financial Reporting Standard 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland and the Companies Act 2006.

The company’s ultimate parent undertaking, Fender Musical Instruments Corporation includes the company in its consolidated financial statements. The consolidated financial statements of Fender Musical Instruments Corporation are prepared in accordance with United States Generally Accepted Accounting Principles.

The company has taken advantage of the exemptions available under FRS 102 in respect of the following disclosures:

- from disclosing transactions with wholly owned subsidiaries or with their parent as required by FRS102 paragraph 33.5 of FRS102.
- from disclosing the company’s key management personnel compensation as required by FRS102 paragraph 33.7 of FRS102.

#### **1.5 Going concern**

The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons:

The company meets its day to day working capital requirements from balances to and from companies in the group headed by Fender Musical Instruments Corporation (see notes 13 and 15). A significant proportion of the company’s turnover relates to the distribution of products manufactured by and purchased from those companies at intragroup transfer prices. Intercompany amounts are generally trading balances, on mutually acceptable terms in the normal course of business that are repayable on demand, although they have not historically been demanded.

In assessing the going concern basis, the directors have considered severe but plausible downside scenarios in preparing EMEA Group sales forecasts, assuming that monthly revenue for the remainder of 2023 through to December 2024 will be at the same level as the corresponding periods in 2022. Based on these sales forecasts, the company would have positive net current assets and net assets at the end of December 2024.

## Notes (continued)

### **1. Accounting policies (continued)**

#### **1.5 Going concern (continued)**

The company has received a letter of support from its parent company, Fender Musical Instruments Corporation, stating its intention to support the company and provide financial support, as required, to enable the company to meet its liabilities as they fall due for the foreseeable future, being a period not less than 12 months from when the financial statements will be signed. In providing this assurance, the parent company has taken full account of their own funding requirements, obligations, and commitments for the same period as this letter covers.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

#### **1.6 Foreign currency**

The functional currency of the company is Sterling.

Transactions in foreign currencies are translated to the company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the profit and loss account.

#### **1.7 Financial instruments**

The company has chosen to adopt the Sections 11 and 12 of FRS 102 in respect of financial instruments.

##### *Financial assets*

Basic financial assets, including trade and other trade receivables and cash and bank balances, are initially recognised at transaction price, unless the arrangement constitutes a financial transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Financial assets are de-recognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party, or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

##### *Financial liabilities*

Basic financial liabilities, including trade and other payables are initially recognised at transaction price, unless the arrangement constitutes a financial transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

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

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts 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 payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest rate method.

Financial liabilities are de-recognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled, or expires.

## Notes (continued)

### 1. Accounting policies (continued)

#### 1.8 Tangible assets

Tangible assets are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes the original purchase price of the asset and the costs directly attributable to bringing the asset to the location and working condition for its intended use.

The company assesses at each reporting date whether tangible assets (including those leased under a finance lease) are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. The estimated useful lives are as follows:

- Short-term leasehold property between 5 and 10 years and in line with lease term
- Fixtures and fittings between 3 and 5 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

#### 1.9 Intangible assets

Intangible assets are stated at cost less accumulated amortisation and any accumulated impairment losses.

The company assesses at each reporting date whether intangible assets are impaired. If an indication exists, the company estimates the recoverable amount of the intangible asset and recognises an impairment loss for amounts below carrying amount.

Amortisation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are as follows:

- Customer Lists 8 years

Amortisation rates and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the company are recognised as intangible assets when feasibility and useability criteria are met.

#### 1.10 Leased assets

Leases in which the company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases.

Leased assets acquired by way of finance lease are stated on initial recognition at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, including any incremental costs directly attributable to negotiating and arranging the lease. At initial recognition, a finance lease liability is recognised equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease. Lease payments are accounted for as described at 1.16 below.

#### 1.11 Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition.

## Notes (continued)

### 1. Accounting policies (continued)

#### 1.12 Impairment excluding stocks and deferred tax assets

##### *Financial assets (including trade and other debtors)*

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment, an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

#### 1.13 Employee benefits

##### *Defined contribution plans and other long-term employee benefits*

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

##### *Share-based payment transactions*

In October 2020 Fender Musical Instruments Corporation established the Employee Share Option and Class B Common Share Tender Offer Program for its shares, coupled with a cash bonus (Tender Offer Program) for certain employees. The Tender Offer Program includes a cash settlement feature for employee share options and Class B Common Share, which triggered a modification that changed the accounting classification of certain awards from equity to a liability. The value of share options included in the share settlement plan are estimated using the intrinsic value of the award and are liability classified. The company recognizes compensation expense over the period the options are expected to vest. The liability is remeasured at the reporting date when a valuation of the company's common stock is performed. The resulting change in the liability is recorded to compensation expense.

##### *Long term incentive plan*

In January 2020, the ultimate parent company, Fender Musical Instruments Corporation, established the 2020 Long-Term Incentive Plan (the 2020 Plan). Awards under the 2020 Plan are earned over a three-year service period and are determined based on achievement of approved performance goals and are settled in cash based on the fair value of its shares,

In January 2021, the company established the 2021 Long-Term Incentive Plan (the 2021 Plan). Awards under the 2021 Plan mirrored the rules outlined above for the 2020 Plan.

#### 1.14 Provisions

A provision is recognised in the balance sheet when the company has a present legal or constructive obligation as a result of a past event, that can be reliably measured, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

#### 1.15 Turnover

Turnover comprises the value of sales (excluding Value Added Tax and trade discounts) of goods and services in the normal course of business. Sales are recognized when the risks and rewards of ownership transfer to the customer. This is deemed to occur on delivery. The company concluded that it is the principal in its revenue arrangements as it has the primary responsibility for providing the goods, has latitude in establishing prices of the goods and bears the customer's credit risk for the amount receivable from the customer.

## Notes (continued)

### **1. Accounting policies (continued)**

#### **1.16 Leases**

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in the profit and loss over the term of the lease as an integral part of the total lease expense.

#### **1.17 Interest receivable and interest payable**

Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy).

Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Foreign currency gains and losses are reported on a net basis.

#### **1.18 Other operating income**

Other Income comprises of management fees and gain on sale of a business segment. The management fee income relates to the provision of sales and marketing support services to Fender International Corporation. In 2022 the category also includes the gain on sales of the non-UK business segment to its affiliate company Fender Sales BV. After review of its operations and processes the company decided to transfer its non-UK business to an EU affiliate company.

#### **1.19 Current and deferred taxation**

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The timing differences are not provided for on the differences between accumulated depreciation and tax allowances for the cost of a fixed asset if, and when all conditions for retaining the tax allowances have been met. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date.

### **2. Critical accounting estimates and judgement**

In the application of the company's accounting policies, the directors are required to make judgement, estimate 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.

## Notes (continued)

### 2. Critical accounting estimates and judgement (continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are not 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 directors do not consider there to be any critical accounting estimates or judgement in the application of the accounting policies.

### 3 Turnover

	2022 £000	2021 £000
Sale of goods	45,441	60,008
Total turnover	<u>45,441</u>	<u>60,008</u>
By geographical market		
UK	35,959	48,121
Europe	9,482	11,887
	<u>45,441</u>	<u>60,008</u>

### 4 Operating profit

*Operating profit is stated after charging / (crediting):*

	2022 £000	2021 £000
Depreciation of owned tangible assets	171	140
Amortisation of intangible assets	22	-
Exchange differences	(505)	561
Operating lease rentals:		
Plant and machinery	66	42
Motor vehicles	60	72
Land and buildings	377	282

*Auditors' remuneration:*

	2022 £000	2021 £000
Audit of these financial statements	<u>81</u>	<u>63</u>



## Notes (continued)

### 5 Staff numbers and costs

The monthly average number of persons employed by the company (including directors) during the period, analysed by category, was as follows:

	Number of employees	
	2022	2021
Sales and marketing	71	69
Warehousing	2	3
Administration	49	38
	<u>122</u>	<u>110</u>

The aggregate payroll costs of these persons were as follows:

	2022	2021
	£000	£000
Wages and salaries	6,285	5,952
Share based payments (See note 17)	(6)	431
Social security costs	636	727
Other pension costs	195	172
	<u>7,110</u>	<u>7,282</u>

### 6 Directors' remuneration

	2022	2021
	£000	£000
Directors' remuneration	339	630
Amounts receivable under long term incentive plans (see note 17)	(70)	199
Company contributions to money purchase pension plans	20	20
Compensation for loss of office	-	54
	<u>289</u>	<u>903</u>

The aggregate of remuneration and amounts receivable under long term incentive plans of the highest paid director was £142,000 (2021: £412,000) and company pension contributions of £6,000 (2021: £5,000) were made to a money purchase scheme on his behalf. No share options were exercised by directors in the period (2021: *£nil*).

During the year, two directors were accruing benefits in a defined contribution pension plan (2021: *three*). Two directors were part of long-term incentive plans whereby shares or financial rewards were receivable in respect of their qualifying services (2021: *three*).

The Directors consider that the only key management personnel are the directors themselves, therefore remuneration in respect of key management personnel is as per the directors' remuneration.

## Notes (continued)

### 7 Other operating income

	2022 £000	2021 £000
Management fee	9,619	10,037
Sale of non-UK business	2,067	-
	<u>11,686</u>	<u>10,037</u>

The company sold its non-UK business to Fender Sales BV, an affiliate company, on 1<sup>st</sup> October 2022, for €2,350,000 (£2,067,000). The value of the assets transferred to Fender Sales BV were immaterial. All debts and liabilities on the sale date were not transferred over. During the year this business contributed post-tax profits of £230,000 (2021: £259,000).

### 8 Interest receivable/(payable) and similar income/(expenses)

	2022 £000	2021 £000
Interest on amounts due from/(to) group undertakings	16	(27)
Net foreign exchange gain/(loss)	505	(561)
Other interest	(9)	-
	<u>512</u>	<u>(588)</u>

### 9 Tax on profit

Total tax expense recognised in the profit and loss account, other comprehensive income and equity.

There are no unused tax losses or unused tax credits.

	2022 £000	2021 £000
<i>Current tax</i>		
Current tax on income for the period	650	575
Adjustments in respect of prior periods	(45)	25
	<u>605</u>	<u>600</u>
<i>Deferred tax (see note 16)</i>		
Origination and reversal of timing differences	110	(74)
	<u>110</u>	<u>(74)</u>
	<u>715</u>	<u>526</u>

## Notes (continued)

### 9 Tax on profit (continued)

#### *Analysis of current tax recognised in profit and loss*

	2022 £000	2021 £000
UK corporation tax	605	600
Deferred taxation credit/(charge)	110	(74)
Total current tax recognised in profit and loss	715	526

#### **Reconciliation of effective tax rate**

	2022 £000	2021 £000
Profit for the financial period	3,239	1,844
Total tax expense	715	526
Profit excluding taxation	3,954	2,370
Tax using the UK corporation tax rate of 19% (2021: 19%)	751	450
Non-deductible expenses	9	71
Adjustments in respect of prior periods	(45)	5
Total tax expense included in profit or loss	715	526

The Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. As the proposal to increase the rate to 25% had been substantively enacted at the balance sheet date, its effects are included in these financial statements.

## Notes (continued)

### 10 Tangible assets

	Short-term leasehold property £000	Fixtures & fittings £000	Total £000
<b>Cost</b>			
Balance at 3 January 2022	1,155	802	1,957
Additions	-	79	79
Disposals	-	(17)	(17)
	<hr/>	<hr/>	<hr/>
Balance at 1 January 2023	1,155	864	2,019
	<hr/>	<hr/>	<hr/>
<b>Accumulated depreciation</b>			
Balance at 3 January 2022	703	568	1,271
Depreciation charge for the period	60	111	171
Disposals	-	(17)	(17)
	<hr/>	<hr/>	<hr/>
Balance at 1 January 2023	763	662	1,425
	<hr/>	<hr/>	<hr/>
<b>Net book value</b>			
At 2 January 2022	452	234	686
	<hr/>	<hr/>	<hr/>
At 1 January 2023	392	202	594
	<hr/>	<hr/>	<hr/>

### 11 Intangible assets

	Assets under construction £000	Customer Lists £000	Total £000
<b>Cost</b>			
Balance at 3 January 2022	-	-	-
Additions	109	527	636
	<hr/>	<hr/>	<hr/>
Balance at 1 January 2023	109	527	636
	<hr/>	<hr/>	<hr/>
<b>Amortisation and impairment</b>			
Balance at 3 January 2022	-	-	-
Amortisation charge for the period	-	22	22
	<hr/>	<hr/>	<hr/>
Balance at 1 January 2023	-	22	22
	<hr/>	<hr/>	<hr/>
<b>Net book value</b>			
At 2 January 2022	-	-	-
	<hr/>	<hr/>	<hr/>
At 1 January 2023	109	505	614
	<hr/>	<hr/>	<hr/>

## Notes (continued)

### 12 Stocks

	2022 £000	2021 £000
Finished goods	1,054	1,515
	<u>1,054</u>	<u>1,515</u>

The write-down of stocks to net realisable value amounted to £173,000 (2021: £224,000).

### 13 Debtors

	2022 £000	2021 £000
Trade debtors	2,262	1,678
Amounts owed by parent (see note 21)	18	17
Amounts owed by group undertakings (see note 21)	2,369	-
Other debtors	210	1,838
Deferred tax assets (see note 16)	-	106
Prepayments	188	140
	<u>5,047</u>	<u>3,779</u>

The Amounts owed by group undertakings are repayable on demand and interest is charged. Interest in the period was owed to group undertakings £16,000 (2021 owed from: £27,000). No amounts are provided against this debt and no expense during the year in relation to bad debt against these amounts.

### 14 Cash at bank and in hand

	2022 £000	2021 £000
Cash at bank and in hand	3,628	4,573
Cash and cash equivalents per cash flow statement	<u>3,628</u>	<u>4,573</u>

## Notes (continued)

### 15 Creditors: amounts falling due within one year

	2022 £000	2021 £000
Trade creditors	828	262
Amounts owed to group undertakings (see note 21)	651	702
Other taxation and social security	1,202	1,831
Accruals and deferred income	2,117	4,946
Deferred tax liability (see note 16)	4	-
Corporation tax	113	29
	<u>4,915</u>	<u>7,770</u>

Amounts owed to parent are unsecured, interest free and have no fixed date of repayment.

### 16 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2022 £000	2021 £000	2022 £000	2021 £000	2022 £000	2021 £000
Accelerated capital allowances	-	-	(23)	(27)	(23)	(27)
Employee benefits	14	127	-	-	14	127
Bad debt provision	5	6	-	-	5	6
	<u>19</u>	<u>133</u>	<u>(23)</u>	<u>(27)</u>	<u>(4)</u>	<u>106</u>

## Notes (continued)

### 17 Employee benefits

#### Defined contribution plans

The company operates a defined contribution pension plan.

The total expense relating to this plan in the current period was £195,000 (2021: £172,000).

#### Share based payments

The board of directors of Fender Musical Instruments Corporation, the ultimate parent company, operates an employee share plan under which it makes cash-settled share-based payments to certain employees. The exercise price is equal to or greater than the fair value of the shares at the date of the grant, as determined by the ultimate parent's board of directors.

The terms and conditions of the grants are as follows:

Grant date	Method of settlement accounting	Number of options	Vesting conditions	Contractual life of options
02 01 2019	Cash	5,000	Unvested	02 01 2029
		<u>5,000</u>		

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price 2022	Number of options 2022	Weighted average exercise price 2021	Number of options 2021
Outstanding at the beginning of the period	US\$ 13.01	28,750	US\$ 13.00	65,000
Forfeited during the period	US\$ 13.01	(10,000)	US\$ 13.00	(25,000)
Granted during the period		-		-
Repurchased during the period	US\$ 13.00	(13,750)	US\$ 13.01	(11,250)
	<u>US\$ 13.00</u>	<u>5,000</u>	<u>US\$ 13.01</u>	<u>28,750</u>
Outstanding at the end of the period	US\$ 13.00	-	US\$ 13.01	13,750
Vested and exercisable at the end of the period	<u>US\$ 13.00</u>	<u>-</u>	<u>US\$ 13.01</u>	<u>13,750</u>

In 2022 the estimated fair value of the share price was \$20.51 (2021: \$41.32)

No share options were exercised (2021: £nil) and no share options expired (2021: £nil) during the period.

## Notes (continued)

### 17 Employee benefits (continued)

In October 2020 Fender Musical Instruments Corporation established an employee share option and share tender offer coupled with a cash bonus for certain employees under the employee share plan. This offer triggered a modification that changed the accounting classification of these awards from equity to a liability in the company's financial statements.

In 2022 the company recognised an expense of £18,000 (2021: £92,000) relating to the bonus and a credit of £6,000 (2021: expense of £430,000) relating to the share-based compensation awards. The share-based compensation liability related to the awards was £17,000 (2021: £347,000). The bonus liability related to these awards was £nil (2021: £92,000).

Fender Musical Instruments Corporation acquired and retired 1,292 of its own shares owned by a company director. The total amount paid in 2022 based on \$41.32 per share was £41,000 (2021: £79,000).

#### *Long Term Incentive Plan*

In January 2020, the company established the 2020 Long-Term Incentive Plan. Awards under the 2020 Plan are earned over a three-year service period and are determined based on achievement of approved performance goals and are settled in cash based on the fair value of common stock. In 2022 the company recognised a credit of £167,000 (2021: expense of £146,000) relating to these awards. In 2022 the liability related to these awards was £55,000 (2021: £222,000). At the end of 2022 the achievement of the targets associated with the 2020 Long-Term Incentive Plan was lower compared at the end of 2021, but a payout was still expected to be made in 2023.

In January 2021, the company established the 2021 Long-Term Incentive Plan. Awards under the 2021 Plan are earned over a three-year service period and are determined based on achievement of approved performance goals and are settled in cash based on the fair value of common stock. In 2022 the company recognised a credit of £46,000 (2021: expense of £46,000) relating to these awards. In 2022 the liability related to these awards was £nil (2021: £46,000). At the end of 2022 the achievement of the targets associated with the 2021 Long-Term Incentive Plan was not expected to be met compared at the end of 2021 and no accrual was made.

There was no 2022 Long Term Incentive Plan.



## Notes (continued)

### 18 Called up share capital

	2022 £000	2021 £000
<i>Allotted, called up and fully paid</i>		
60,000 ordinary shares of £1 each	60	60
	<u>60</u>	<u>60</u>
	<u><u>60</u></u>	<u><u>60</u></u>
	2022 £000	2021 £000
Shares classified in shareholders' funds	60	60
	<u>60</u>	<u>60</u>
	<u><u>60</u></u>	<u><u>60</u></u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. There is a single class of ordinary shares. There are no restrictions on the distribution of dividends and the repayment of capital. No dividends were proposed in the period.

### 19 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2022 £000	2021 £000
Less than one year	375	291
Between one and five years	1,493	1,450
More than five years	1,216	1,564
	<u>3,084</u>	<u>3,305</u>
	<u><u>3,084</u></u>	<u><u>3,305</u></u>

During the period £503,000 was recognised as an expense in the profit and loss account in respect of operating leases (2021: £396,000).

### 20 Contingent liabilities

The company has provided a bank guarantee of £400,000 (2021: £200,000) in favour of HM Customs & Excise relating to amounts due on UK inbound duty and VAT. The bank guarantee is secured on credit balances held in the company's UK Sterling bank account.

## Notes (continued)

### 21 Related parties

#### *Identity of related parties with which the company has transacted*

In these financial statements, the company has applied the exemptions available under FRS 102 in respect of disclosures for transactions with wholly owned subsidiaries or its parent.

#### *Transactions with key management personnel*

The directors consider that the only key management personnel are the directors themselves, therefore remuneration in respect of key management personnel is as per the directors' remuneration.

Total compensation of key management personnel in the period amounted to £801,000 (2021: £903,000).

#### *Other related party transactions*

	Receivables outstanding		Creditors outstanding	
	2022 £000	2021 £000	2022 £000	2021 £000
Key management personnel of the company or its Parent	-	-	-	-
Other subsidiaries of the group	2,369	-	651	702
	<u>2,369</u>	<u>-</u>	<u>651</u>	<u>702</u>

### 22 Immediate and ultimate parent company

The company is a subsidiary undertaking of Fender International Corporation (incorporated in USA).

Servco Pacific, Incorporated, a company incorporated in USA, is the majority shareholder of Fender Musical Instruments Corporation. Servco Pacific, Incorporated is the parent undertaking of the largest group, which includes the company and for which group accounts are prepared. The group accounts are prepared at 2850 Pukoloa Street, Suite 300 Honolulu, Hawaii 96819, USA registered office, Servco Pacific, Incorporated.

In the opinion of the directors, the company's ultimate parent company and ultimate controlling party is Fender Musical Instruments Corporation, a company incorporated in USA. Fender Musical Instruments Corporation is the smallest group in which the results of the company are consolidated. The group accounts are prepared at 17600 N. Perimeter Drive, Suite 100, Scottsdale, Arizona, AZ 85255, USA, registered office, Fender Musical Instruments Corporation.