

PENN ELCOM LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

PENN ELCOM LIMITED

COMPANY INFORMATION

Directors

P. J. Stratford
R. P. Willems
D. C. Brown
S. Langdon
R. C. W. Platt

Registered number

04768848

Registered office

1st Floor Sackville House
143-149 Fenchurch Street
London
EC3M 6BN

Independent auditors

Wilder Coe Ltd
Chartered Accountants & Statutory Auditors
1st Floor Sackville House
143-149 Fenchurch Street
London
EC3M 6BL

PENN ELCOM LIMITED

CONTENTS

	Page
Strategic Report	1 - 3
Directors' Report	4 - 5
Independent Auditors' Report	6 - 9
Statement of Comprehensive Income	10
Balance Sheet	11
Statement of Changes in Equity	12
Statement of Cash Flows	13 - 14
Analysis of Net Debt	15
Notes to the Financial Statements	16 - 31

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2021**

Introduction

The Directors present the strategic report of the company for the year ended 31 December 2021

Background

Penn Elcom Limited (the "Company") manufactures and distributes over 3000 catalogue products and is a leading manufacturer of quality flight case hardware, speaker hardware, 19 inch racking and accessories.

Development, performance and review

The company made a profit before tax of £1,651,107 (2020 : £249,395 Loss) for the year.

The Directors are driven to continue with long term-term value for the organisation with process to develop and implement growth, including new products and markets.

The directors are satisfied with the performance of the company during the year. Their aim is to maintain the level of performance in the coming year.

Penn Elcom Limited showed an increase in turnover of 46%. This upturn was mainly due to the increase of sales after the Pandemic.

The Company performed relatively well as the Showbiz industry was back on track after lock down during the year where Penn Elcom derives majority of its income. In doing so we managed to make the best use of our resources by creating new products.

Principle risks and uncertainties

The Directors believe the principal risks and uncertainties facing the business are general business and market risks as experienced by the majority of businesses of our nature.

Changes to the political and economic climate and their impact on rates of exchange and freedom of trade are also of primary concern, however we believe that the company is well positioned to mitigate these risks and take advantage of opportunities as they arrive. With the Pandemic almost behind us, the Directors are fully aware of all the emerging risks facing the Company and threatening our business model.

The company's exposure to the price of raw materials is important therefore purchase strategies are monitored regularly as well as selling prices.

2021 Covid-19 Pandemic update

The global coronavirus pandemic involving the spread of COVID-19 presents a number of different risks and impacts to the business including safety, operational, financial and liquidity risk. The main priority for the company is Health & Safety of all employees and the company continues to follow Government advice. The company responded rapidly and dynamically to the changing situation which allowed the production operations to continue to operate throughout.

Withdrawal of UK from European Union (Brexit)

On the 31 December 2020 the transition period between the UK and the EU ended and the new rules on exports, imports, tariffs, data and hiring were introduced. For Penn Elcom Limited a significant proportion of turnover and the supply chain is UK domestic, which reduces the impact of Brexit. As a result, in the period since 31 December 2021 the company has seen no significant impact from the new rules introduced.

STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

Financial risk management, objectives and policies

Foreign currency risk

The company's currency risk is controlled by natural hedge wherever possible and where there is an excess, the company may take out foreign currency contracts accordingly.

Interest rate risk

The company's policy is to limit its cost of borrowing by paying cash using a mix of debt types.

Credit risk

The company's policy is to insure its trade debtors and exercise strong credit control procedures.

Price risk

The company's products are subject to changing market prices at both selling and purchasing levels. It manages the risk by striving to be a low cost producer.

Liquidity risk

The company aims to mitigate liquidity risk by managing cash generation by its operations, and applying cash collection targets. Investment is carefully controlled, with authorisation limits operating at board level and cash payback periods applied as part of the investment appraisal process.

Position of the business at year end

For the year ended 31 December 2021 the company posted a profit before tax of £1,651,107 (2020: £249,395 Loss). The Directors are pleased with the performance in the year and are confident of repeat performance in the future.

The company's balance sheet remains strong with a Net Asset position of £12.8 million, increasing from £11.6 million as 31 December 2020, which puts us in a strong position to whether any future economic turmoil out with our control.

**STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021**

Financial key performance indicators:

The Directors monitor closely the performance of the business using key performance indicators (KPI's) for both financial and non-financial.

These KPI's include:

Financial key performance indicators

- Net Assets: reviewed on a monthly basis by the Directors throughout the year. Net Assets as at the year ended 31 December 2021 are £12.7 million (2020: £11.6 million).
- Gross Profit Margins: reviewed by Directors throughout the year. Raw material levels are regularly reviewed, together with the level of sales throughout the year. The Gross profit Margin was 24.1 % for the year ended 31 December 2021 (2020: 17.1%).
- Operating Margin: reviewed by Directors throughout the year. Administrative expense levels are regularly reviewed, together with one off exceptional items throughout the year. The Operating Margin was (8.8%) for the year ended 31 December 2021 (2020: -1.7%)
- Inventory turnover ratio for the year ended 31 December 2021 was 3.6 (2020: 2.8).
- Inventory days for the year ended 31 December 2021 are 119.2 (2020: 109.8).
- EBITDA: EBITDA is reviewed regularly to ascertain the progression of the Company on a monthly basis. For the year ended 31 December 2021 EBITDA was £3,026,325 (2020: £1,107,629).

Non-Financial key performance indicators

- Customer Service: the level of quality and performance are continually reviewed by Directors' to maximise the satisfaction of customers.
- Staff retention and wellbeing: monitored by Directors' to ensure employee welfare is at the forefront of the Company and staff retention is maintained.

Cashflow targets: forecast short term cashflows are reviewed weekly and monthly to ensure the Company has sufficient funds available to continue to trade.

The Directors consider the above ratios to be at an acceptable level for the year ended 31 December 2021 and can be calculated using the figures shown within the primary statements which follow this report.

This report was approved by the board on 9 November 2022 and signed on its behalf.

R. P. Willems

Director

PENN ELCOM LIMITED

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2021**

The directors present their report and the audited financial statements for the year ended 31 December 2021.

Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report, the Directors' 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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. 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 for the Company's financial statements and then apply them consistently;
- make judgments 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 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 to 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.

Principal activity

The principal activity of the Company is that of the manufacture and sale of light engineering products and audio equipment.

Disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be 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 year, after taxation, amounted to £1,290,670 (2020 - loss £188,201).

During the year, dividends totalling £214,558 were paid (2020: £Nil).

PENN ELCOM LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021**

Directors

The directors who served during the year were:

P. J. Stratford
R. P. Willems
D. C. Brown
S. Langdon
R. C. W. Platt

Auditors

The auditors, Wilder Coe Ltd, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 9 November 2022 and signed on its behalf.

R. P. Willems
Director

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PENN ELCOM LIMITED

Opinion

We have audited the financial statements of Penn Elcom Limited (the 'Company') for the year ended 31 December 2021, which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Cash Flows, the Statement of Changes in Equity and the related notes, 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 Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, except for the possible effects of the matter described in the Basis of qualified opinion paragraph, in our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2021 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 qualified 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 Auditors' 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 United Kingdom, including the Financial Reporting Council'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.

With respect to prior year stock having a carrying amount of £3,337,191, the audit evidence available to us was limited because we did not observe the counting of the physical stock as at 31 December 2020. Owing to the nature of the Company's records, we were unable to obtain sufficient appropriate audit evidence regarding the prior year stock by using other audit procedures.

Conclusions relating to going concern

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.

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.

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 PENN ELCOM LIMITED (CONTINUED)

Other information

The other information comprises the information included in the Annual Report other than the financial statements and our Auditors' Report thereon. The directors are responsible for the other information contained within the Annual Report. 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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves.

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.

Opinion on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

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

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PENN ELCOM 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:

Discussions with and enquiries of management and those charged with governance were held with a view to identifying those laws and regulations that could be expected to have a material impact on the financial statements. During the engagement team briefing, the outcomes of these discussions and enquiries were shared with the team, as well as consideration as to where and how fraud may occur in the entity.

The following laws and regulations were identified as being of significance to the entity:

- Those laws and regulations considered to have a direct effect on the financial statements include UK financial reporting standards, company law, tax and pension legislation and distributable profits legislation; and
- Those laws and regulations for which non-compliance may be fundamental to the operating aspects of the business and therefore may have a material effect on the financial statements include operating licence, environmental regulations and health and safety legislation.

Audit procedures undertaken in response to the potential risks relating to irregularities (which include fraud and non-compliance with laws and regulations) comprise of: inquiries of management and those charged with governance as to whether the entity complies with such laws and regulations; enquiries with the same concerning any actual or potential litigation or claims; inspection of relevant legal correspondence; review of board minutes; testing the appropriateness of journal entries; and the performance of analytical review to identify unexpected movements in account balances which may be indicative of fraud.

No instances of material non-compliance were identified. However, the likelihood of detecting irregularities, including fraud, is limited by the inherent difficulty in detecting irregularities, the effectiveness of the entity's controls and the nature, timing and extent of the audit procedures performed. Irregularities that result from fraud might be inherently more difficult to detect than irregularities that result from error. As explained above, there is an unavoidable risk that material misstatements may not be detected, even though the audit has been planned and performed in accordance with ISAs (UK).

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PENN ELCOM LIMITED (CONTINUED)

Use of our report

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

Chris Gent BA FCA (Senior Statutory Auditor)
for and on behalf of

Wilder Coe Ltd

Chartered Accountants & Statutory Auditors
1st Floor Sackville House
143-149 Fenchurch Street
London
EC3M 6BL

9 November 2022

PENN ELCOM LIMITED

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 £	2020 £
Turnover		19,579,336	13,379,124
Cost of sales		(14,866,856)	(11,095,853)
Gross profit		4,712,480	2,283,271
Distribution costs		(298,414)	(153,225)
Administrative expenses		(5,260,050)	(4,654,339)
Other operating income	4	2,576,376	2,303,140
Operating profit/(loss)	5	1,730,392	(221,153)
Interest receivable and similar income		5,000	1,050
Interest payable and similar expenses		(52,818)	(29,292)
Amounts written off investments		(31,467)	-
Profit/(loss) on ordinary activities before taxation		1,651,107	(249,395)
Taxation on profit/(loss) on ordinary activities	8	(360,437)	61,194
Profit/(loss) for the financial year		1,290,670	(188,201)
Total comprehensive income/(loss) for the year		1,290,670	(188,201)

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

PENN ELCOM LIMITED
REGISTERED NUMBER: 04768848

BALANCE SHEET
AS AT 31 DECEMBER 2021

	Note	2021 £	2020 £
Fixed assets			
Intangible assets	9	1,581,839	1,807,831
Tangible assets	10	2,758,766	2,659,907
Investments	11	506,022	537,489
		4,846,627	5,005,227
Current assets			
Stocks	12	4,854,279	3,337,191
Debtors	13	10,262,956	7,042,332
Cash at bank and in hand		484,709	1,489,462
		15,601,944	11,868,985
Creditors: amounts falling due within one year	14	(6,424,439)	(4,274,513)
Net current assets	17	9,177,505	7,594,472
Total assets less current liabilities		14,024,132	12,599,699
Creditors: amounts falling due after more than one year	15	(932,751)	(818,223)
Provisions for liabilities			
Deferred taxation		(412,899)	(179,106)
Net assets		12,678,482	11,602,370
Capital and reserves			
Called up share capital	18	1,463,416	1,463,416
Share premium account		9,786,981	9,786,981
Profit and loss account		1,428,085	351,973
Equity shareholders' funds		12,678,482	11,602,370

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 9 November 2022.

R. P. Willems
Director

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

PENN ELCOM LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021

	Called up share capital £	Share premium account £	Profit and loss account £	Total equity £
At 1 January 2020	1,463,415	2,926,829	540,174	4,930,418
Comprehensive loss for the year				
Loss for the year	-	-	(188,201)	(188,201)
Transactions with owners				
Shares issued during the year	1	6,860,152	-	6,860,153
At 1 January 2021	<u>1,463,416</u>	<u>9,786,981</u>	<u>351,973</u>	<u>11,602,370</u>
Comprehensive income for the year				
Profit for the year	-	-	1,290,670	1,290,670
Distributions to owners				
Dividends: Equity capital	-	-	(214,558)	(214,558)
At 31 December 2021	<u>1,463,416</u>	<u>9,786,981</u>	<u>1,428,085</u>	<u>12,678,482</u>

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

PENN ELCOM LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021

	2021	2020
	£	£
Cash flows from operating activities		
Profit/(loss) for the financial year	1,290,670	(188,201)
Adjustments for:		
Amortisation of intangible assets	225,992	225,992
Depreciation of tangible assets	1,101,408	980,402
Loss on disposal of tangible assets	(196,200)	(11,089)
Government grants	(20,968)	(672,136)
Interest paid	52,818	29,292
Interest received	(5,000)	(1,050)
Taxation charge	360,437	(61,194)
(Increase)/decrease in stocks	(1,517,088)	1,260,327
Increase in debtors	(1,792,840)	(244,414)
(Increase)/decrease in amounts owed by groups	(1,478,512)	923,790
Decrease in amounts owed by joint ventures	92,112	26,806
Increase in creditors	1,232,347	154,818
Increase/(decrease) in amounts owed to groups	621,695	(9,487,292)
Corporation tax received	24,645	-
	<hr/>	<hr/>
Net cash generated from operating activities	(8,484)	(7,063,949)
	<hr/>	<hr/>
Cash flows from investing activities		
Purchase of tangible fixed assets	(1,372,078)	(130,345)
Sale of tangible fixed assets	368,011	11,089
Government grants received	20,968	672,136
Sale of share in associates	31,467	-
Interest received	5,000	1,050
	<hr/>	<hr/>
Net cash from investing activities	(946,632)	553,930
	<hr/>	<hr/>

PENN ELCOM LIMITED

STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

	2021 £	2020 £
Cash flows from financing activities		
Issue of ordinary shares	-	6,860,153
New finance leases	217,739	630,753
Dividends paid	(214,558)	-
Interest paid	(52,818)	(29,292)
	<hr/>	<hr/>
Net cash used in financing activities	(49,637)	7,461,614
	<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalents	(1,004,753)	951,595
Cash and cash equivalents at beginning of year	1,489,462	537,867
	<hr/>	<hr/>
Cash and cash equivalents at the end of year	<u>484,709</u>	<u>1,489,462</u>
Cash and cash equivalents at the end of year comprise:		
Cash at bank and in hand	<u>484,709</u>	<u>1,489,462</u>

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

PENN ELCOM LIMITED

ANALYSIS OF NET DEBT
FOR THE YEAR ENDED 31 DECEMBER 2021

	At 1 January 2021 £	Cash flows £	New finance leases £	At 31 December 20 £
Cash at bank and in hand	1,489,462	(1,004,753)	-	484,709
Finance leases	(1,081,159)	258,261	(476,000)	(1,298,898)
	<u>408,303</u>	<u>(746,492)</u>	<u>(476,000)</u>	<u>(814,189)</u>

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

1. General information

Penn Elcom Limited (company number 04768848), having its registered office at 1st Floor Sackville House, 143-149 Fenchurch Street, London, EC3M 6BN, is a private limited company incorporated in England and Wales.

The principal place of business is 9-10 Parsons Road, Parsons Industrial Estate, Washington, NE37 1HB.

2. Accounting policies

2.1 Basis of preparation of financial statements

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

The following principal accounting policies have been applied:

2.2 Investments in associates

Associates and Joint Ventures are held at cost less impairment.

2.3 Turnover

Turnover is recognised to the extent that it is probable that the economic benefits will flow to the Company and the turnover can be reliably measured. Turnover is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before turnover is recognised:

Sale of goods

Turnover from the sale of goods is recognised when all of the following conditions are satisfied:

- the Company has transferred the significant risks and rewards of ownership to the buyer;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of turnover can be measured reliably;
- it is probable that the Company will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

2.4 Intangible assets

Goodwill

Goodwill represents the difference between amounts paid on the cost of a business combination and the acquirer's interest in the fair value of its identifiable assets and liabilities of the acquiree at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is amortised on a straight line basis over 10 - 20 years to the Statement of Comprehensive Income over its useful economic life.

2.5 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

2. Accounting policies (continued)

2.5 Tangible fixed assets (continued)

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Plant and machinery	- 19-25% straight-line
Motor vehicles	- 25% straight-line
Fixtures and fittings	- 25% straight-line/reducing balance
Office equipment	- 20% straight-line
Computer equipment	- 20% straight-line

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of Comprehensive Income.

2.6 Impairment of fixed assets and goodwill

Assets that are subject to depreciation or amortisation are assessed at each Balance Sheet date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets that have been previously impaired are reviewed at each Balance Sheet date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

2.7 Valuation of investments

Investments in associates are measured at cost less accumulated impairment.

2.8 Government grants

Grants are accounted under the accruals model as permitted by FRS 102. Grants of a revenue nature are recognised in the Statement of Comprehensive Income in the same period as the related expenditure.

2.9 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis. Work in progress and finished goods include labour and attributable overheads.

At each Balance Sheet date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in the Statement of Comprehensive Income.

2.10 Debtors

Short-term debtors are measured at transaction price, less any impairment.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

2. Accounting policies (continued)

2.11 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

2.12 Financial instruments

The Company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties and loans to related parties.

Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received.

Investments in non-derivative instruments that are equity to the issuer are measured:

- at fair value with changes recognised in the Statement of Comprehensive Income if the shares are publicly traded or their fair value can otherwise be measured reliably;
- at cost less impairment for all other investments.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of Comprehensive Income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate of the recoverable amount, which is an approximation of the amount that the Company would receive for the asset if it were to be sold at the Balance Sheet date.

Financial assets and liabilities are offset and the net amount reported in the Balance Sheet when there is an 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.

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 income as appropriate. The company does not currently apply hedge accounting for interest rate and foreign exchange derivatives.

2.13 Creditors

Short-term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

2. Accounting policies (continued)

2.14 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is British Pound Sterling (GBP).

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised the Statement of Comprehensive Income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Statement of Comprehensive Income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the Statement of Comprehensive Income within 'other operating income'.

2.15 Finance costs

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.16 Research and development

Research and development costs are expensed to the Statement of Comprehensive Income in the year which they are incurred, since it is not possible to demonstrate that such costs will generate future economic benefits.

2.17 Operating leases: the Company as lessee

Rentals paid under operating leases are charged to the Statement of Comprehensive Income on a straight-line basis over the lease term.

2.18 Pensions

Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in profit or loss when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the Company in independently administered funds.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

2. Accounting policies (continued)

2.19 Interest income

Interest income is recognised in the Statement of Comprehensive Income using the effective interest method.

2.20 Provisions for liabilities

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Statement of Comprehensive Income in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet.

2.21 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income.

The current Corporation tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Balance Sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits;
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and
- Where they relate to timing differences in respect of interests in subsidiaries, associates, branches and joint ventures and the Company can control the reversal of the timing differences and such reversal is not considered probable in the foreseeable future.

Deferred tax balances are not recognised in respect of permanent differences. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date.

3. Turnover

The whole of the turnover is attributable to principal activity of the Company, being that of the manufacture and sale of light engineering products and audio equipment.

The geographical split of turnover has not been disclosed on the grounds that it is prejudicial to the company's interests.

PENN ELCOM LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

4. Other operating income

	2021 £	2020 £
Government grants receivable	20,968	672,136
Sundry income	2,555,408	1,631,004
	<u>2,576,376</u>	<u>2,303,140</u>

The government grants received consist of amounts related to the Coronavirus Job Retention Scheme.

Sundry income includes the following items:

	2021 £	2020 £
Sundry scrap sales	358,832	155,396
Management charges	1,624,140	1,114,140
Distribution, carriage and freight	380,388	308,752
Miscellaneous income	192,048	52,716
	<u>2,555,408</u>	<u>1,631,004</u>

5. Operating profit/(loss)

The operating loss is stated after charging/(crediting):

	2021 £	2020 £
Research & development charged as an expense	82,898	46,015
Exchange differences	(23,743)	(78,296)
Other operating lease rentals	403,535	2,800
Auditors' remuneration	<u>47,500</u>	<u>41,500</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

6. Employees

Staff costs, including directors' remuneration, were as follows:

	2021 £	2020 £
Wages and salaries	4,499,151	4,269,246
Social security costs	440,222	521,049
Cost of defined contribution scheme	114,649	106,301
	<u>5,054,022</u>	<u>4,896,596</u>

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

	2021 No.	2020 No.
Directors	5	5
Office and management	55	61
Factory	109	111
	<u>169</u>	<u>177</u>

7. Directors' remuneration

	2021 £	2020 £
Directors' emoluments	203,169	241,174
Company contributions to defined contribution pension schemes	4,743	6,251
	<u>207,912</u>	<u>247,425</u>

During the year retirement benefits were accruing to 3 directors (2020 - 3) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £72,183 (2020 - £91,206).

The value of the Company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £2,887 (2020 - £2,508).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

8. Taxation

	2021 £	2020 £
Corporation tax		
Current tax on profits for the year	191,864	22,099
Adjustments in respect of previous periods	(65,220)	-
	<u>126,644</u>	<u>22,099</u>
Deferred tax		
Origination and reversal of timing differences	<u>233,793</u>	<u>(83,293)</u>
	<u>360,437</u>	<u>(61,194)</u>

Factors affecting tax charge/(credit) for the year

The tax assessed for the year is lower than (2020 - lower than) the standard rate of corporation tax in the UK of 19% (2020 - 19%). The differences are explained below:

	2021 £	2020 £
Profit/(loss) on ordinary activities before tax	<u>1,651,107</u>	<u>(249,395)</u>
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2020 - 19%)	313,710	(47,385)
Effects of:		
Expenses not deductible for tax purposes	42,921	43,971
Capital allowances for year (in excess of)/less than depreciation	(125,091)	93,271
Pension adjustment	916	41
Book profit on chargeable assets	(37,048)	(2,107)
Group relief	(3,544)	(65,692)
R&D tax credit	(65,220)	-
Deferred tax	233,793	(83,293)
	<u>360,437</u>	<u>(61,194)</u>

Factors that may affect future tax charges

There are non-trade loan relationship deficits of £30,412 (2020: £32,394) which may be utilised against future profits of the same nature.

There capital losses of £10,251 (2020: £10,251) available to offset against future chargeable gains.

PENN ELCOM LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

9. Intangible assets

	Goodwill
	£
Cost	
At 1 January and 31 December 2021	6,526,931
Amortisation	
At 1 January 2021	4,719,100
Charge for the year	225,992
	<hr/>
At 31 December 2021	4,945,092
	<hr/>
Net book value	
At 31 December 2021	<u>1,581,839</u>
<i>At 31 December 2020</i>	<u>1,807,831</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

10. Tangible fixed assets

	Plant and machinery £	Motor vehicles £	Fixtures and fittings £	Office equipment £	Computer equipment £
Cost					
At 1 January 2021	8,629,099	22,842	126,205	11,958	19,499
Additions	1,336,177	29,781	6,120	-	-
Disposals	(608,700)	(29,781)	-	-	-
At 31 December 2021	<u>9,356,576</u>	<u>22,842</u>	<u>132,325</u>	<u>11,958</u>	<u>19,499</u>
Depreciation					
At 1 January 2021	6,035,655	22,842	83,241	3,734	4,224
Charge for the year on owned assets	771,933	-	10,003	1,740	4,550
Charge for the year on financed assets	313,182	-	-	-	-
Disposals	(466,670)	-	-	-	-
At 31 December 2021	<u>6,654,100</u>	<u>22,842</u>	<u>93,244</u>	<u>5,474</u>	<u>8,774</u>
Net book value					
At 31 December 2021	<u>2,702,476</u>	<u>-</u>	<u>39,081</u>	<u>6,484</u>	<u>10,725</u>
<i>At 31 December 2020</i>	<u>2,593,444</u>	<u>-</u>	<u>42,964</u>	<u>8,224</u>	<u>15,275</u>

PENN ELCOM LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

10. Tangible fixed assets (continued)

	Total £
Cost	
At 1 January 2021	8,809,603
Additions	1,372,078
Disposals	(638,481)
	<hr/>
At 31 December 2021	9,543,200
	<hr/>
Depreciation	
At 1 January 2021	6,149,696
Charge for the year on owned assets	788,226
Charge for the year on financed assets	313,182
Disposals	(466,670)
	<hr/>
At 31 December 2021	6,784,434
	<hr/>
Net book value	
At 31 December 2021	<u>2,758,766</u>
<i>At 31 December 2020</i>	<u>2,659,907</u>

The net book value of assets held under finance leases or hire purchase contracts, included above, are as follows:

	2021 £	2020 £
Plant and machinery	<u>764,619</u>	<u>444,800</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

11. Fixed asset investments

	Investments in associates £
Cost	
At 1 January 2021	537,489
Amounts written off	(31,467)
	<hr/>
At 31 December 2021	<u>506,022</u>

Associates

The following were associates of the Company:

Name	Registered office	Class of shares	Holding
Penn Elcom GmbH	Penn Elcom GmbH, Emmerich am Rhein, Groenlandstrasse 2, 46446 Emmerich am Rhein, Germany	Ordinary	43.5 %
Penn Elcom S.R.L	Bartolomé Mitre 226 6° Piso Ciudad Autónoma de Buenos Aires, Argentina	Ordinary	50 %
Penn Elcom Chile	Penn Elcom SpA, Cotapos N°1387, comuna de Recoleta, Región Metropolitana de Santiago, Chile	Ordinary	49 %

12. Stocks

	2021 £	2020 £
Raw materials	597,752	350,698
Finished goods, work in progress and goods for resale	4,256,527	2,986,493
	<hr/>	<hr/>
	<u>4,854,279</u>	<u>3,337,191</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

13. Debtors

	2021 £	2020 £
Due within one year		
Trade debtors	2,378,709	2,419,855
Amounts owed by group undertakings	2,796,485	1,317,973
Amounts owed by undertakings in which the company has a participating interest	202,168	294,280
Other debtors	4,714,582	2,940,053
Prepayments and accrued income	171,012	70,171
	<u>10,262,956</u>	<u>7,042,332</u>

14. Creditors: Amounts falling due within one year

	2021 £	2020 £
Trade creditors	2,498,259	1,263,184
Amounts owed to group undertakings	2,851,432	2,229,737
Corporation tax	214,772	22,099
Other taxation and social security	130,335	182,509
Obligations under finance lease and hire purchase contracts	366,147	262,936
Other creditors	208,646	120,252
Accruals and deferred income	154,848	193,796
	<u>6,424,439</u>	<u>4,274,513</u>

15. Creditors: Amounts falling due after more than one year

	2021 £	2020 £
Net obligations under finance leases and hire purchase contracts	<u>932,751</u>	<u>818,223</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

16. Financial instruments

	2021 £	2020 £
Financial assets		
Financial assets measured at fair value through profit or loss	484,709	1,489,462
Financial assets that are debt instruments measured at amortised cost	10,026,724	7,147,019
	<u>10,511,433</u>	<u>8,636,481</u>
Financial liabilities		
Financial liabilities measured amortised cost	<u>6,964,583</u>	<u>4,606,391</u>

Financial assets measured at amortised cost comprise trade and other debtors and cash and bank in hand totalling £10,511,433 (2020: £8,636,481).

Financial liabilities measured at amortised cost comprise trade creditors, other creditors, amounts owed to group undertakings and amounts owed to other participating interests of £6,964,583 (2020: £4,606,391).

17. Deferred taxation

	2021 £	2020 £
At beginning of year	(179,106)	(262,399)
(Charged)/credited to profit or loss	(233,793)	83,293
At end of year	<u>(412,899)</u>	<u>(179,106)</u>

The provision for deferred taxation is made up as follows:

	2021 £	2020 £
Accelerated capital allowances	(423,064)	(192,851)
Tax losses carried forward	10,165	13,745
	<u>(412,899)</u>	<u>(179,106)</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

18. Share capital

	2021 £	2020 £
Allotted, called up and fully paid		
1,463,415 (2020 - 1,463,415) Ordinary shares of £1.00 each	1,463,415	1,463,415
1 (2020 - 1) Ordinary share of £0.78	1	1
	<u>1,463,416</u>	<u>1,463,416</u>

19. Pension commitments

The company makes payments to a defined contribution pensions scheme. The pension cost charge represents the contributions payable by the group to the fund and amounted to £114,649 (2020: £106,301). The outstanding pension liability at the year end was £30,581 (2020: £25,759).

20. Commitments under operating leases

At 31 December 2021 the Company had future minimum lease payments due under non-cancellable operating leases for each of the following periods:

	2021 £	2020 £
Not later than 1 year	<u>67,765</u>	<u>67,765</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

21. Related party transactions

Included within amounts owed by group undertakings are amounts due from companies with control over the company of £34,395 (2020: £90,100).

During the year sales of £Nil (2020: £68) were made to companies with control over the company.

During the year purchases of £Nil (2020: £838) were made to companies with control over the company.

Included within amounts owed by undertakings in which the company has a participating interest are amounts due from companies over which the company has significant influence of £202,168 (2020: £294,280).

During the year sales of £2,703,366 (2020: £2,325,923) were made to companies over which the company has significant influence.

During the year purchases of £395,639 (2020: £272,577) were made from companies over which the company has significant control.

Included within creditors are amounts due to related parties of £2,851,432 (2020: £2,229,737).

Included within debtors are amounts due from related parties of £2,762,090 (2020: £352,249).

During the year sales of £6,725,906 (2020: £3,322,528) were made to related parties.

During the year purchases of £2,260,914 (2020: £1,381,531) were made to related parties.

Sales and purchases between related parties take place in normal market conditions. Outstanding balances with entities are unsecured and no interest is charged.

22. Ultimate parent undertaking and controlling party

The ultimate parent undertaking and immediate parent company as at 31 December 2021 and 31 December 2020 is Penn Elcom Corporation, a company incorporated in the British Virgin Islands. The ultimate controlling party is R. Willems by virtue of his shareholding in Penn Elcom Corporation.

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.