

Chartered Accountants

Ballard³|Dale|Syree|Watson

LLP



Ballard Dale Syree Watson LLP

Oakmoore Court

Kingswood Road

Hampton Lovett

Droitwich Spa

Worcestershire

WR9 0QH

KOITO EUROPE LIMITED
STRATEGIC REPORT, REPORT OF THE DIRECTORS AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013



Tel: 01905 794504 Fax: 01905 795281 Email: mail@ballardsca.com Web: www.ballardsca.com

Ballard Dale Syree Watson LLP is a limited liability partnership registered in England with registered no: OC302548

Members: GW Ballard EH Peters MA Skellum JA Syree JE Syree MA Watson Consultants: MJ Bolton DB Dale JA Randall

Registered to carry out audit work in the UK and regulated for a range of investment business activities by the Institute of Chartered Accountants in England & Wales

**CONTENTS OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

	Page
Company Information	1
Strategic Report	2
Report of the Directors	7
Report of the Independent Auditors	9
Profit and Loss Account	11
Statement of Total Recognised Gains and Losses	12
Balance Sheet	13
Notes to the Financial Statements	14

KOITO EUROPE LIMITED
COMPANY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2013

DIRECTORS:

K Sato
K Ueki
H Mihara
Y Aoshima

REGISTERED OFFICE:

Kingswood Road
Droitwich
Worcestershire
WR9 0QH

REGISTERED NUMBER:

00945580 (England and Wales)

AUDITORS:

Ballard Dale Syree Watson LLP
11c Kingswood Road
Hampton Lovett
Droitwich
Worcestershire
WR9 0QH

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2013**

The directors present their strategic report for the year ended 31 December 2013.

BUSINESS OVERVIEW & MODEL

The principal activity of the company is the manufacture of vehicle lighting equipment, for original equipment manufacturers (OEMs) of cars within the European territory.

The European automotive market includes all of the leading global passenger car OEMs with in excess of 130 car manufacturing facilities spread over the European sector. European OEM demand for external automotive lighting equipment is serviced by 11 core vehicle lighting suppliers within Europe; with five of these suppliers currently having a combined 75% share of the supply market.

European car production, including Russia and the former Soviet Union countries, is around 17.5 million vehicles per year, which includes 1.4 million (= 8% of market) vehicles per year manufactured by Japanese car manufacturers. Koito Europe Limited's share of the European rear lamp market is 3.4% (2012: 2.5%), and currently 34% (2012: 27%) of the Japanese manufactured cars within Europe have Koito Europe Limited rear lamps fitted.

Koito Europe Limited ("KEL") has been an automotive lighting manufacturer for 45 years, and in 1999 became a wholly owned subsidiary of Koito Manufacturing Co., Ltd., ("Koito Group") a Japan based global manufacturer of automotive lighting product. The Koito Group has extensive manufacturing, and technical facilities, in Japan, North America, China, Asia and Europe; and markets a range of vehicle lighting products which includes headlamps, such as LED headlamps, discharge headlamps, and halogen headlamps; also signalling lamps comprising rear combination lamps, clearance lamps, front turn signal lamps, and fog lamps. KEL is currently Koito Group's main manufacturer of rear lamp, and fog lamp, product in the European automotive market, with Koito Czech s.r.o. ("Koito Czech"), based in the Czech Republic, manufacturing all of Koito Group's headlamp requirements in the same market.

Koito Group's European operations are controlled, and managed, by Koito Europe NV ("KENV") which is based in Belgium, and the said company is responsible for the promotion of local research and development, European market strategy and overall customer service. Operational costs in respect of design, engineering and commercial are recovered directly from KENV as these are deemed to be part of their operational cost; in turn, KENV levies a sales commission against both KEL and Koito Czech in respect of development and support services.

KEL operates out of a modern purpose built single manufacturing site based in Droitwich, West Midlands, UK; with easy access to the UK road network. The manufacturing facility employs injection moulding, and vacuum metalizing processes to produce component product from raw state materials; the then produced components and bought out finished ("BoF") components are assembled into the final finished lamp product. The majority of the BoF components are currently sourced out of the European territory with the electronic element of bulbs and LED circuits amounting to 75% of the total BoF spend. In order to support the KEL injection moulding facility, certain moulded components are outsourced with third party operations, and are supplied to KEL as a BoF component.

KEL currently employs 544 people at the date of this report (September 2014), with 30% of the total workforce employed in technical and administration support. Depending on the specific manufacturing process, the company works either a two shift or three shift operation, with functional support departments mainly working single shift.

The company's cash flows are very much influenced by the Euro currency, with 95% of sales receipts and 78% of material purchases being traded in Euro; resulting in KEL having a significant Euro currency surpluses for GBP conversion each month.

The company continues to hold accreditation in both ISO/TS16949 Quality Management Systems and ISO14001 Environmental Management Systems.

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2013**

COMPANY OBJECTIVES

The company's long term objectives are:

- To achieve a 10% share of the European automotive external lighting market.
- To establish long term strategic partnerships with automotive manufacturers - to become a "preferred supplier" for the European automotive lighting market.
- To build a business model that will sustain, and grow, the company profit margin.

STRATEGY

The company will build upon its already strong relationship with the Japanese OEM's, to further the Koito global Japanese partnerships into the European market. KEL has already secured future rear lamp supply contracts with Japanese car manufacturers in Europe, which will increase Koito's share of that business by 100%, leading to an overall European market share increase of 3.2%.

Securing just the Japanese business in Europe, which the directors believe will be close to saturation, is not enough to meet the company's market share objective, therefore the company must gain market penetration from French and German manufacturers by being their supplier of choice.

Koito will aim to be the preferred European supplier partner for the automotive industry, by delivering the best value, built on innovative products and processes. We will stay true to our basic attitude of constantly adopting the perspective of our customers to supply products and services that meet their expectations.

In furtherance of this aim to preferred status, Koito Group has already started the process to strengthen its European development structures in respect of product concept, design and technical support. By creating a more responsive, and understanding, environment between customer vehicle stylists and Koito lighting engineers, so as to translate styling concepts into feasible realities; to develop innovative designs that meet vehicle stylists' expectations; to offer signature lighting technologies to create unique vehicle designs.

KEL will also strengthen its corporate capabilities under the Koito group direction of DQCDS. This entails implementing safe and environmentally friendly product development (Development), striving to improve quality (Quality), cost (Cost), and delivery periods (Delivery), as well as focusing on speedy responses to customers (Speed). By attaining a high customer recognition of our performance on each of these issues, will only go to serve our goal of becoming a supplier of choice amongst the European OEMs.

KEL will continue with its initial cost reduction strategy to create a simplified mass production lean cost rear lamp manufacturing facility. Maintaining, and optimising, a single site operation; focusing on only producing rear lamp and fog lamp product; reducing or outsourcing spares production; and to work jointly with our fellow subsidiary Koito Czech to create the most effective manufacturing base for Koito in Europe.

The furtherance of this strategy has seen the progressive transfer of the Headlamp business to Koito Czech with the cessation of direct supply from KEL to be completed by mid-2015, also the successful transfer into KEL from Koito Czech of the front fog lamp business, and the development of new technologies for this product, opens up the opportunity for further sales growth with new customers.

In compliance to create a lean cost operation the company strives to maximise the efficiency of its available space and to keep the physical "footprint" of the plant to a minimum. As a direct result of this objective the company vacated one of its leased sites at the beginning of 2010. The challenge to meet all of the company's manufacturing operational requirements from one site has been great, but with the improved efficiency from revised plant layouts, especially the efficiency of product flow from "up stream" processes, multiple product assembly cells, improved stock management and new equipment investment to improve operational capacity and capability, the company has succeeded in meeting the output requirement of its growing order book both for the current position and the immediate future.

Given that all the automotive lighting suppliers in the European market will all possess the requisite factors to attain preferred supplier status, the company believes that the cost of the lighting product will be very influential in the OEM's decision to place business. Therefore KEL will embrace its cost control policy, striving to review every aspect of its product cost at all stages of the product development on a continuous basis. The company must work to make its product cost the most competitive in Europe.

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2013**

STRATEGY RISK

The directors consider the major risks to the successful implementation of the strategy are:

- Unable to achieve the required corporate capabilities DQCDs within a reasonable time frame.
- A further weakening of the European Euro against UK GBP - a widening of economic performance and continued political unrest.
- European automotive market demand.
- Capacity and space restraints from a single site operation.
- Employee retention and the availability of technical personnel in the UK labour market.

FINANCIAL YEAR 2013 PERFORMANCE

The 2013 trading performance resulted in an loss of £1.5m (2012: £4.2m loss). This improvement year on year of £2.7m was mainly due to the addition of new business income, the effect of foreign exchange gains, and fixed asset sales. Rear lamp and fog lamp sales were very much in line with the company's budget predictions at £32m, and even though the headlamp sales were lower than budget by £5.1m the overall final trading loss was close to budget.

The most significant fact about 2013 was the return to profitability in the last quarter 2013, with an operating profit of £223k; this result was a confirmation that the first stage of the company's business plan to sustainable profitability is on course. The successful introduction of new business in the second half of 2013 and the achievement of the new operating cost structure opens an optimistic gateway into the future.

The turnover for the year was £46,259,227 (2012: £38,370,989) an overall sales turnover increase 20.6% against 2012, the increase being a combination of several factors, which included headlamp product transferred out, new front fog lamp product transferred in, introduction of new rear lamp business, effects of changing market demand and the significant effect of a strengthening Euro vs. GBP exchange rate on sales pricing.

European automobile production remained level year on year, at around 17.5 million vehicles due to the protracted stagnation of regional economic growth, despite increased demand in Middle and Eastern Europe. The market remains in this condition because of concerns about the debt crises in the European economies and the unstable situation in Ukraine.

Headlamp sales reduced by 28.2% against 2012, although 10% of this reduction was in line with the company's budget plan; unfortunately the market demand further declined by 18%, and remains at this reduced level into 2014.

Rear lamp sales increased by 28.9% against 2012, which mainly included the introduction of four new products with a sales turnover impact on 2013 of £4.9m, and an ongoing annualised turnover effect of £29m per year; background market demand for rear lamp product increased by 6% year on year.

During February 2013 the manufacture of front fog lamps was transferred from Koito Czech to KEL, and as a result increased the sales turnover by £4.3m for 2013.

The impact of a strengthening Euro vs. GBP exchange rate during 2013, created a £1.75m sales value improvement when compared with 2012. Also, after considering the increased purchase cost due to the Euro movement, the net gain to 2013 profitability against 2012 was £0.9m, although the net effect in the 2013 P&L was cost neutral.

Operational costs increased in line with activity, with average employee headcount at 423 people an increase over 2012 of 68 people; the closing headcount at December 2013 was 451 people. One area of concern during the period was the increase in unit energy cost of 14.5%, equating to an additional cost of £168k over 2012; although from the end of 2013 to current date (September 2014) we have seen unit energy costs fall 11.7%. Also process losses (scrap), after allowing for activity, have increased by £373k against the previous year.

Throughout its operation during 2013 the company has applied continuous Kaizen improvement objectives and sets out formal programmes of control and action on many activities which include improvement on inefficiencies such as downtime, scrap, labour working practices and specific actions on overhead cost reduction. These programmes of Kaizen improvement are monitored and reported monthly, with new targets being set bi-annually.

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2013**

The company net assets decreased by £1.9m from 2012, the significant movements being operating loss of £1.5m and actuarial losses on the pension scheme, taken through the statement of total recognised gains and losses of £0.4m.

During 2013 the company committed to £5.7m of capital investment, with a further planned investment of £7.0m over the next two years.

Cash outflow during 2013 amounted to £3.6m (2012: £6.4m), which basically equates to the capital equipment funding required during the year.

FUTURE

Company expectations are that Headlamp sales will remain at the 2013 level throughout 2014, with the cessation of original equipment headlamp business taking place within the first half of 2015. This will mark the completion of the Headlamp transfer process to Koito Czech, and only see limited Headlamp spares sales remaining into the future; amounting to about 5% of total sales output.

At the date of this report KEL have already secured additional rear lamp business amounting to £62m per annum above the 2013 base turnover level; with the introduction of seven new products (£45m) and increased product content in respect of LED, and light guide technology, to develop customer signature lighting (£17m).

Current European market predictions, both from a economical and political assessment, indicates that the Euro vs. GBP exchange rate will considerably weaken into early 2015. The impact of the worsening Euro exchange rate will effectively devalue sales prices by 9.3% (@ 1.30 Euro to GBP) against the 2013 position, with a negative net impact to future profitability of approximately £3.5m per annum.

During the next two years, due to increased activity, it is expected that employee numbers will increase to approximately 650 people, and will remain at that level for the mid-term plan.

Based on the latest five year plan, starting with 2014, the company will achieve good net margin profitability, even after allowing for foreign exchanges losses at the levels already discussed. With this profitability income, net of capital expenditure, the company will reach a cash positive position by end of 2017, eliminating all borrowings.

With a growing confirmed order book based on strengthening existing trade and new customer business, the company will achieve a strong profitability over the next few years. Koito Group has confirmed its long term commitment to KEL, and the importance of KEL to its global strategy and expansion in the European market, both from its action to invest in new capital equipment and from its global programme to secure new business.

RESEARCH AND DEVELOPMENT

The company, with the support of its group and European operations, will continue to invest in research and development. Further developments have been completed subsequent to the year end, which the directors believe will enhance the portfolio of products manufactured by the company.

PRINCIPAL RISKS AND UNCERTAINTIES

The company's activities expose it to a number of financial risks including cash flow, credit, liquidity and price risk. The use of financial derivatives is governed by the company's policies approved by the board of directors. The company does not use derivative financial instruments for speculative purposes.

Cash flow risk

The company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The company does not enter into foreign exchange hedge contracts and settlements are made on spot.

Credit risk

The company's principal financial assets are bank balance and cash, trade and other debtors.

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2013**

The company's credit risk is primarily attributable to its trade debtors. The amounts presented in the balance sheet are net of allowances for doubtful debts. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the company uses short-term debt finance from banks.

Price risk

The company is exposed to commodity price risk. The company does not manage its exposure to commodity price risk due to cost benefit considerations.

ON BEHALF OF THE BOARD:


.....
Y Aoshima - Director

Date: 29-9-2014

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2013**

The directors present their annual report on the affairs of the company together with the financial statements and auditor's report, for the year ended 31 December 2013.

DIVIDENDS

The audited financial statements for the year ended 31 December 2013 are set out on pages 11 to 25. The loss for the year after taxation amounted to £1,518,906 (2012: £4,209,845 loss). No dividend can be paid (2012: £nil) and therefore the loss for the year has been transferred from reserves.

DIRECTORS

The directors who served the company during the year and subsequently are listed below:

H Mihara
K Ueki
Y Aoshima
K Sato - resigned 2 June 2014
T Yoshinaga - appointed 2 June 2014

The company has granted indemnity to its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force at the date of approving the directors' report.

GOING CONCERN

The company is financed by its own working capital and a bank loan as well as borrowings from fellow group companies. The directors of the ultimate parent company have concluded that it is appropriate that the group's financial statements are prepared and presented using the going concern principle. The directors of the company have made enquiries of the directors of the ultimate parent and as a result of these enquiries believe that funding will continue to be made available to the company for the foreseeable future.

Having taken into account the improved financial performance experienced to date (September 2014), together with forecast revenues, the company's ongoing operational expenditure, and the likely capital additions and likely capital repayments, the company's directors have concluded that it is appropriate that these financial statements are prepared and presented using the going concern principle.

DISABLED EMPLOYEES

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

EMPLOYEE CONSULTATION

The company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the company. This is achieved through formal sessions of the Koito Forum, the company newsletter magazine, plasma screen communication, company intranet, quarterly workforce communication and a continuous cascade of financial information through the management reporting network. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2013**

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Report of the Directors and the financial statements in accordance with applicable law and regulations.

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

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

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

AUDITORS

Each of the persons who are directors at the date of the approval of this report confirm that

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself / herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Ballard Dale Syree Watson LLP, have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

ON BEHALF OF THE BOARD:


.....
Y Aoshima - Director

Date: 29-9-2014

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF KOITO EUROPE LIMITED

We have audited the financial statements of Koito Europe Limited for the year ended 31 December 2013 on pages eleven to twenty five. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 a Report of the Auditors 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.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic Report and the Report of the Directors to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2013 and of its loss 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.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

**REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF
KOITO EUROPE LIMITED**

Matters on which we are required to report by exception

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

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



Mark Skellum BSc(Hons) FCA (Senior Statutory Auditor)
for and on behalf of Ballard Dale Syree Watson LLP
11c Kingswood Road
Hampton Lovett
Droitwich
Worcestershire
WR9 0QH

Date: 29 September 2014

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2013**

	Notes	2013		2012	
		£	£	£	£
TURNOVER	2		46,259,227		38,370,989
Cost of sales			45,604,292		40,940,357
GROSS PROFIT/(LOSS)			654,935		(2,569,368)
Distribution costs		429,888		53,709	
Administrative expenses		1,512,775		1,521,038	
			1,942,663		1,574,747
OPERATING LOSS	5		(1,287,728)		(4,144,115)
Interest payable and similar charges	6		231,178		65,730
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION			(1,518,906)		(4,209,845)
Tax on loss on ordinary activities	7		-		-
LOSS FOR THE FINANCIAL YEAR			(1,518,906)		(4,209,845)

CONTINUING OPERATIONS

Turnover and operating loss arise from the company's continuing operations.

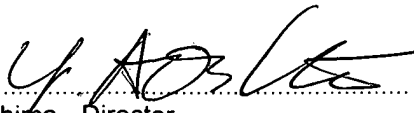
**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2013**

	2013 £	2012 £
LOSS FOR THE FINANCIAL YEAR	(1,518,906)	(4,209,845)
Actuarial (loss)/gain	<u>(427,000)</u>	<u>(412,000)</u>
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR	<u><u>(1,945,906)</u></u>	<u><u>(4,621,845)</u></u>

BALANCE SHEET
31 DECEMBER 2013

	Notes	2013 £	2012 £
FIXED ASSETS			
Tangible assets	8	11,420,428	9,193,975
CURRENT ASSETS			
Stocks	9	2,921,303	2,414,944
Debtors	10	13,052,333	10,886,162
Cash at bank and in hand		3,368,992	296,365
		<u>19,342,628</u>	<u>13,597,471</u>
CREDITORS			
Amounts falling due within one year	11	<u>21,871,103</u>	<u>11,795,758</u>
NET CURRENT (LIABILITIES)/ASSETS		<u>(2,528,475)</u>	<u>1,801,713</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		8,891,953	10,995,688
PROVISIONS FOR LIABILITIES	13	<u>303,597</u>	<u>461,426</u>
NET ASSETS		<u><u>8,588,356</u></u>	<u><u>10,534,262</u></u>
CAPITAL AND RESERVES			
Called up share capital	14	65,000,000	65,000,000
Profit and loss account	15	<u>(56,411,644)</u>	<u>(54,465,738)</u>
SHAREHOLDERS' FUNDS	21	<u><u>8,588,356</u></u>	<u><u>10,534,262</u></u>

The financial statements were approved by the Board of Directors on 29-9-2014 and were signed on its behalf by:


Y Aoshima - Director

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

1. ACCOUNTING POLICIES

Basis of accounting

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

The directors have prepared the financial statements on a going concern basis. During the period of the company's expected expansion it has prepared cash-flow projections and has arranged overdraft facilities to fund its increased working capital requirement. Additionally, the parent company, Koito Manufacturing Co. Limited, has demonstrated its continued support of the company throughout the period to 31 December 2013, and has agreed to continue the support should it be necessary for the foreseeable future.

Having taken into account the improved financial performance experienced to date (September 2014), together with forecast revenues, the company's ongoing operational expenditure, and the likely capital additions and likely capital repayments, the company's directors have concluded that it is appropriate that these financial statements are prepared and presented using the going concern principle.

The accounts have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

Cash flow statement

Under Financial Reporting Standard 1 (Revised) the company is exempt from the requirement to prepare a cash flow statement as it is a wholly owned subsidiary of Koito Manufacturing Co. Limited whose financial statements are publicly available.

Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes.

Revenue is recognised at the point at which goods are dispatched.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is calculated on cost on a straight line basis to write off the tangible fixed assets over their expected useful lives. The principal annual rates used are as follows:

Freehold property	2.5%
Plant & equipment	10% - 33.33%

Where there is evidence of impairment, fixed assets are written down to their recoverable amount.

Assets in the course of construction are not depreciated during the construction phase. On completion these assets will be transferred into the appropriate asset category and will be depreciated per the stated accounting policy.

Stocks

Stocks are stated at the lower of cost and estimated net realisable value. Cost includes materials, direct labour and an attributable portion of manufacturing overheads based on normal levels of activity.

Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2013**

1. ACCOUNTING POLICIES - continued

Taxation

UK corporation tax is provided at amounts expected to be paid (or recovered) using tax rates and laws which have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Research and development

Expenditure on research is written off in the year in which it is incurred. Expenditure on development is also written off, except where the directors are satisfied as to the technical, commercial and financial viability of specific projects. In these cases the costs are capitalised and amortised over the life of the project. Provision is made for any impairment.

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate.

Pension costs and other post-retirement benefits

The company operates a defined benefit pension scheme, the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the company, in separate trustee administered funds. Pension schemes assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet.

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contribution payable in the year. Differences between contributions payable in the year and the contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Finance income and cost

Interest income and costs are recognised on an accruals basis.

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2013

2. **TURNOVER**

The turnover and loss before taxation are attributable to the one principal activity of the company.

An analysis of turnover by geographical market is given below:

	2013 £	2012 £
United Kingdom	24,081,217	15,961,706
Rest of Europe	895,976	21,654,780
Rest of World	21,282,034	754,503
	<u>46,259,227</u>	<u>38,370,989</u>

3. **STAFF COSTS**

	2013 £	2012 £
Wages and salaries	10,145,544	8,232,759
Social security costs	684,127	657,055
Other pension costs	114,488	168,686
	<u>10,944,159</u>	<u>9,058,500</u>

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

	2013	2012
Production	406	338
Administration	17	17
	<u>423</u>	<u>355</u>

4. **DIRECTORS' REMUNERATION**

Remuneration

	2013 £	2012 £
Emoluments	18,526	17,015
Fees paid to third parties in respect of directors' services	<u>116,097</u>	<u>129,357</u>

No directors are accruing retirement benefits under defined benefit schemes (2012: None).

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2013

5. OPERATING LOSS

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

	2013 £	2012 £
Depreciation - owned assets	1,888,119	1,469,543
Profit on disposal of fixed assets	(119,920)	-
Auditors remuneration - fees payable to the company's auditor for the audit of the company's annual accounts	19,700	17,000
Auditors remuneration - fees payable to the company's auditor for other services related to tax	2,500	2,500
Operating lease rentals - plant and machinery	65,983	65,906
Operating lease rentals - other	1,101,796	1,081,468
Foreign exchange loss/(gain)	344,246	247,144
	<u> </u>	<u> </u>

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2013 £	2012 £
Interest payable on bank loans and overdrafts	98,653	27,730
Foreign exchange (loss)/gain on borrowings	105,525	-
Other finance income/(loss) - net return on pension scheme	27,000	38,000
	<u>231,178</u>	<u>65,730</u>

7. TAXATION**Analysis of the tax charge**

No liability to UK corporation tax arose on ordinary activities for the year ended 31 December 2013 nor for the year ended 31 December 2012.

Factors affecting the tax charge

The tax assessed for the year is higher than the standard rate of corporation tax in the UK. The difference is explained below:

	2013 £	2012 £
Loss on ordinary activities before tax	<u>(1,518,906)</u>	<u>(4,209,845)</u>
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 23.250% (2012 - 24.500%)	(353,146)	(1,031,412)
Effects of:		
Expenses not deductible for tax purposes	6,796	12,740
Depreciation in excess of capital allowances	410,574	360,332
Short term timing differences	(150,394)	(91,252)
Tax loss not recognised	86,170	749,592
	<u> </u>	<u> </u>
Current tax charge	<u> </u>	<u> </u>

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2013

7. TAXATION - continued

The company has a potential deferred tax asset related to accelerated capital allowances of £4.0m (2012 - £4.0m). In addition, the company has a potential deferred tax asset relating to allowable losses and other timing differences of £8.9m (2012 - £9.6m). Therefore the company has a gross unrecognised deferred tax asset of £12.9m (2012 - £13.6m), which has not been recorded (2012 - none) due to the uncertainty of future profits in the foreseeable future against which the asset may be recovered.

The calculation of the deferred tax provision as at 31 December 2013 has been calculated at 21.5% (2012 - 23.25%) in line with the current Budget reducing the main rate of corporation tax to 21% from 1 April 2014.

Factors that may affect future tax charges

The company have significant tax losses carried forward as detailed above and hence future tax charges will be reduced by the value of losses available.

8. TANGIBLE FIXED ASSETS

	Freehold property £	Plant and machinery £	Totals £
COST			
At 1 January 2013	1,100,047	46,069,382	47,169,429
Additions	-	4,127,746	4,127,746
Disposals	-	(3,278,922)	(3,278,922)
	<hr/>	<hr/>	<hr/>
At 31 December 2013	1,100,047	46,918,206	48,018,253
	<hr/>	<hr/>	<hr/>
DEPRECIATION			
At 1 January 2013	301,180	37,674,274	37,975,454
Charge for year	26,991	1,861,128	1,888,119
Eliminated on disposal	-	(3,265,748)	(3,265,748)
	<hr/>	<hr/>	<hr/>
At 31 December 2013	328,171	36,269,654	36,597,825
	<hr/>	<hr/>	<hr/>
NET BOOK VALUE			
At 31 December 2013	771,876	10,648,552	11,420,428
	<hr/>	<hr/>	<hr/>
At 31 December 2012	798,867	8,395,108	9,193,975
	<hr/>	<hr/>	<hr/>

9. STOCKS

	2013 £	2012 £
Raw materials and consumables	1,520,074	968,236
Work in progress	655,509	698,963
Finished goods	745,720	747,745
	<hr/>	<hr/>
	2,921,303	2,414,944
	<hr/>	<hr/>

There is no material difference between the balance sheet value of stocks and their replacement cost.

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2013

10. **DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	2013 £	2012 £
Trade debtors	6,732,464	3,894,948
Amounts owed by group undertakings	164,469	1,269,634
Other debtors - customer tooling	5,521,697	5,278,060
Prepayments and accrued income	633,703	443,520
	<u>13,052,333</u>	<u>10,886,162</u>

'Other debtors - customer tooling' includes amounts incurred by the company in the sourcing and development of tools that are the property of the customer, but for which reimbursement has not yet been sought.

'Other debtors - customer tooling' includes £732,272 (2012: £Nil) of tooling debt falling due after one year.

11. **CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	2013 £	2012 £
Bank loans and overdrafts (see note 12)	9,485,000	2,854,114
Trade creditors	8,410,662	5,808,317
Amounts owed to group undertakings	2,666,418	2,371,662
Social security and other taxes	712,526	316,078
Accruals and deferred income	596,497	445,587
	<u>21,871,103</u>	<u>11,795,758</u>

12. **LOANS**

An analysis of the maturity of loans is given below:

	2013 £	2012 £
Amounts falling due within one year or on demand:		
Bank loans	<u>9,485,000</u>	<u>2,854,114</u>

13. **PROVISIONS FOR LIABILITIES**

	2013 £	2012 £
Other provisions	<u>303,597</u>	<u>461,426</u>
		Other provisions
		£
Balance at 1 January 2013		461,426
Charged to profit and loss		189,971
Provisions utilised		<u>(347,800)</u>
Balance at 31 December 2013		<u>303,597</u>

The provision is for anticipated warranty charges in respect of historical sales.

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2013

14. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:

Number:	Class:	Nominal value:	2013 £	2012 £
65,000,000	Ordinary	£1	<u>65,000,000</u>	<u>65,000,000</u>

15. RESERVES

	Profit and loss account £
At 1 January 2013	(54,465,738)
Deficit for the year	(1,518,906)
Actuarial (loss) / gain on pension scheme	(427,000)
At 31 December 2013	<u>(56,411,644)</u>

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2013

16. EMPLOYEE BENEFIT OBLIGATIONS**Defined benefit scheme**

The company operates a defined benefit scheme, based upon final basic salary, for certain of its employees.

The assets of the scheme are held in a separately administered fund, of which the sole sponsoring employer is this company. A full actuarial valuation of the scheme took place on 6 April 2012 and was updated to 31 December 2013 by an independent professionally qualified actuary. The service cost has been calculated using the Projected Unit method.

The scheme was closed to future accrual of benefits with effect from 31 December 2009. In 2013 the company made a direct contribution of £454,000 towards the on going funding of the scheme. The company expects to make a direct contribution of £455,000 in 2014.

The pension creditor in the balance sheet as at 31 December 2013, representing employee and employer contributions awaiting payment into the pension scheme, amounted to £nil (2012: £nil).

The actuarial valuation described above has been updated at 31 December 2013 by a qualified actuary using revised assumptions that are consistent with the requirements of FRS 17. Investments have been valued, for this purpose, at fair value.

	2013	2012
	£ '000s	£ '000s
Change in benefit obligation		
Benefit obligation at beginning of year	6,053	5,554
Current service cost	-	-
Interest cost	269	256
Actuarial (gain) / loss	280	463
Benefits paid from plan/company	(171)	(220)
	<u>6,431</u>	<u>6,053</u>
Benefit obligation at end of year		

Change in plan assets

Fair value of plan assets at the beginning of the year	7,191	6,912
Expected return on plan assets	242	218
Actuarial gain / (loss) on plan assets	(353)	(169)
Employer contributions	454	450
Benefits paid from plan	(171)	(220)
	<u>7,363</u>	<u>7,191</u>
Fair value of plan assets at end of year		

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2013

	2013 £ '000s	2012 £ '000s
Amounts recognised in the balance sheet		
Plans that are wholly unfunded and plans that are wholly or partly funded		
Present value of wholly or partly funded obligations	(6,431)	(6,053)
Fair value of plan assets	7,363	7,191
	<u>932</u>	<u>1,138</u>
Surplus/(deficit) for funded plans	(932)	(1,138)
Effect of asset restriction on scheme surplus		
	<u>-</u>	<u>-</u>
Net (liability)/asset		
	<u>-</u>	<u>-</u>
 Amounts in the balance sheet		
Liabilities	-	-
	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>
 Components of pension cost		
Amounts recognised in the profit and loss account		
Interest cost	269	256
Expected return on plan assets	(242)	(218)
	<u>27</u>	<u>38</u>
Total pension cost recognised in the profit and loss account		
	<u>27</u>	<u>38</u>
 Actual return / (loss) on plan assets	(111)	49
Less expected return on plan assets	(242)	(218)
	<u>(353)</u>	<u>(169)</u>
Actuarial gain / (loss) on plan assets	(353)	(169)
Other actuarial gains / (losses)	(280)	(463)
Effect of asset limit	206	220
	<u>(427)</u>	<u>(412)</u>
Total pension gain / (cost) recognised in the STRGL		
	<u>(427)</u>	<u>(412)</u>
 Cumulative amount of actuarial (gains) / losses recognised	741	107
	<u>741</u>	<u>107</u>

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2013

Principal actuarial assumptions	2013	2012
Weighted average assumptions used to determine benefit obligations		
Discount rate	4.50%	4.50%
Rate of salary increase	N/A	N/A
Rate of price inflation (CPI)	2.50%	2.40%
Rate of pensions increases	2.20%	2.00%
Weighted average assumptions to determine net pension cost		
Discount rate	4.50%	4.70%
Expected long-term return on plan assets	3.30%	3.10%
Rate of salary increase	N/A	N/A
Rate of price inflation (CPI)	2.90%	2.30%
Rate of pensions increases	2.00%	2.10%
Weighted average life expectancy on post retirement mortality table used to determine benefit obligation		
Male member aged 65 (future life expectancy)	24.3 years	24.1 years
Male member aged 40 (future life expectancy at age 65)	28.2 years	28.1 years
Female member aged 65 (future life expectancy)	26.1 years	26.0 years
Female member aged 40 (future life expectancy at age 65)	29.1 years	29.0 years
Plan assets	2013	2012
Percentage of plan assets by asset allocation		
Equity Securities	0.00%	0.00%
Debt Securities	100.00%	100.00%
Bonds	0.00%	0.00%
Other	0.00%	0.00%
	<u>100.00%</u>	<u>100.00%</u>
Expected return on assets by asset allocation		
Equity Securities	0.00%	0.00%
Government Gilts	3.60%	3.30%
Bonds	0.00%	0.00%
Other	0.00%	0.00%
	<u>3.60%</u>	<u>3.30%</u>

Expected return on assets by asset allocation

To develop the long-term expected rate of return on asset assumption, the Company considered the current level of expected returns of risk-free investments (primarily government bonds), the historical level of risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The Scheme assets are invested in 100% government bonds, which resulted in the selection of 3.6% at 31 December 2013 (2012: 3.3%).

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2013**

History of experience gains and losses

	2013 £ '000s	2012 £ '000s	2011 £ '000s	2010 £ '000s	2009 £ '000s
Defined benefit obligation	(6,431)	(6,053)	(5,554)	(5,206)	(5,415)
Fair value of plan assets	7,363	7,191	6,912	5,335	4,973
Surplus/(deficit)	932	1,138	1,358	129	(442)
Difference between the expected and actual return on plan assets					
Amount (£,000's)	353	169	(1,057)	(126)	(321)
Percentage of plan assets	5%	2%	(15%)	(2%)	(6%)
Experience (gain) / loss on plan liabilities					
Amount (£'000s)	-	(48)	-	(125)	(153)
Percentage of present value of plan liabilities	0%	(1%)	0%	(2%)	(3%)

Defined contribution scheme

The Company operates a defined contribution scheme for certain of its employees. The assets of the scheme are held separately from those of the company and are under the control of the Trustees. Where there are employees who leave the scheme prior to vesting fully in the contributions, the contributions payable by the company are reduced by the amount of forfeited contributions.

The total cost charged to income of £176,004 (2012: £168,686) represents contributions payable to the scheme by the company at agreed rates. As at 31 December 2013, contributions of £44,693 (2012: £20,686) due in respect of the current reporting period had not been paid over to the scheme.

17. CAPITAL COMMITMENTS

	2013 £	2012 £
Contracted but not provided for in the financial statements	<u>932,839</u>	<u>712,033</u>

18. OTHER FINANCIAL COMMITMENTS

Annual commitments under non-cancellable operating leases are as follows:

	Land & buildings		Other	
	2013 £	2012 £	2013 £	2012 £
Expiry date:				
- within one year	86,000	-	11,186	52,493
- between two and five years	998,354	58,083	99,781	65,730
- over five years	-	914,368	-	-
	<u>1,084,354</u>	<u>972,451</u>	<u>111,967</u>	<u>118,223</u>

19. RELATED PARTY DISCLOSURES

As a subsidiary undertaking of Koito Manufacturing Co., Limited, the company has taken advantage of the exemption in FRS 8 "Related party disclosures" from disclosing transactions with other members of the group headed by Koito Manufacturing Co., Limited.

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2013

20. ULTIMATE CONTROLLING PARTY

The directors regard Koito Manufacturing Co., Limited, a company incorporated in Japan, as the immediate and ultimate parent company and ultimate controlling party

Koito Manufacturing Co., Limited is the parent company of the largest and smallest group of which the company is a member and for which group accounts are drawn up. Copies of its accounts are available from 4-8-3 Tokanawa, Minato-Ku, Tokyo, 108-8711, Japan.

21. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2013 £	2012 £
Loss for the financial year	(1,518,906)	(4,209,845)
Other recognised gains and losses relating to the year (net)	(427,000)	(412,000)
Capital subscribed		
Net reduction of shareholders' funds	(1,945,906)	(4,621,845)
Opening shareholders' funds	10,534,262	15,156,107
Closing shareholders' funds	8,588,356	10,534,262