

Company Registration No. 945580

KOITO EUROPE LIMITED

Report and Financial Statements

31 December 2006

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KOITO EUROPE LIMITED

REPORT AND FINANCIAL STATEMENTS 2006

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KOITO EUROPE LIMITED

DIRECTORS' REPORT

The directors present their annual report on the affairs of the company together with the financial statements and auditors' report, for the year ended 31 December 2006

PRINCIPAL ACTIVITY

The principal activity of the company continues to be the manufacture of vehicle lighting equipment

BUSINESS REVIEW AND FUTURE PROSPECTS

The turnover for the year was £73,613,799 (2005 - £65,212,092) which reflects a 61% increase in rear lamp product specifically into the UK and other European markets, this increase was offset by a 5% reduction of headlamp sales in the UK. The full effect of introducing several new rear lamp products during Q4 2005 was realised during 2006, with the company achieving a balanced and growing product range. The increase in rear lamp sales has significantly changed the overall sales profile, with rear lamp sales now representing 36% (2005 25%) of the total sales.

Koito Europe N V ("KENV"), continues to control and manage Koito's European operations, including the promotion of local research and development, European market strategy and overall customer service from its base in Belgium, Europe. KENV is also responsible for certain customer invoicing, such that 86% of company sales are now made intra group. During 2006 certain operational costs in respect of design, engineering and commercial were recovered directly from KENV as deemed to be part of their operational cost, and in turn KENV levied a sales commission against Koito Europe Limited in respect of development and support services. These commissions setoff against sales turnover.

The cost ratio to sales of raw materials and associated bought in finished product improved significantly during 2006 due mainly to a more balanced profile of rear lamp sales to head lamp sales, and an aggressive continuing drive on material cost down, the effect of both these factors was to improve the cost ratio by 5.3%. With 77% of the company's material and component purchases being traded in foreign currencies (Yen 47%, Euro and others 30%), the effect of a 15% weakening of the Yen to GBP rate during 2006 has resulted in a £1.1m gain to material cost of sales. Energy costs increased by 38% during the year but a new supply agreement secured in Q4 2006 has reduced the unit price of consumption with the full cost reduction effect being taken in 2007.

The weakening Yen rate has had a major impact on reducing the liability in respect of Yen borrowings payable to Group undertakings, and as a result a £1.9m exchange gain was released to profit and loss.

The company throughout its operation during 2006 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.

The company, with the support of its group and European operations, will continue to invest in research and development. This has resulted in a number of new products being launched during the current year, which have made a significant contribution to the growth of the business. Further developments have been completed subsequent to the year end, which the directors believe will enhance the portfolio of products manufactured by the company.

Overall the company made an operating profit of £1,633,803 (2005 - loss £2,644,375). The company remains dependent on the financial support of its ultimate parent company.

DIRECTORS' REPORT (continued)

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The company's activities expose it to a number of financial risks including price risk, cash flow risk and liquidity 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 uses foreign exchange forward contracts to hedge these exposures.

Interest bearing assets and liabilities are held at fixed rate to ensure certainty of cash flows.

Credit risk

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

The company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. 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 and derivative financial instruments 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 a mixture of long-term and short-term debt finance from banks and group undertakings.

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.

RESULTS AND DIVIDENDS

The audited financial statements for the year ended 31 December 2006 are set out on pages 8 to 21. The profit for the year after taxation amounted to £1,508,683 (2005 - £4,078,516 loss). No dividend can be paid (2005 - £nil) and therefore the profit for the year has been transferred to reserves.

DIRECTORS

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

Y Furuyama	Resigned 01/07/07
T Ohtake	
J Toyota	
N Arakawa	Appointed 01/01/06
H Ochiai	Resigned 01/07/07

KOITO EUROPE LIMITED

DIRECTORS' REPORT (continued)

SUPPLIER PAYMENT POLICY

The company's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by these. Trade creditors of the company at 31 December 2006 were equivalent to 64.8 (2005: 62.8) days' purchases, based on the average daily amount invoiced by suppliers during the year.

CHARITABLE AND POLITICAL CONTRIBUTIONS

During the year the company made charitable donations of £273 (2005: £1,230).

No political donations were made during the year (2005: Nil).

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 Europe Consultation Forum, informal meetings, the company newsletter magazine, plasma screen communication, intranet 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.

AUDITORS

Each of the persons who is a director at the date of approval of this report confirms that

- so far as they are aware, there is no relevant audit information of which the company's auditors are 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 information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

KOITO EUROPE LIMITED

DIRECTORS' REPORT (continued)

Approved by the Board and signed on its behalf by



N Arakawa
Managing Director

Kingswood Road
Hampton Lovett Industrial Estate
Droitwich
Worcestershire
WR9 0QH

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial instruments 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). The financial statements are required by law to 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 estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, 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 proper accounting records that 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 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KOITO EUROPE LIMITED

We have audited the financial statements of Koito Europe Limited for the year ended 31 December 2006, which comprise of the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 22. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the relevant framework and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

KOITO EUROPE LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KOITO EUROPE LIMITED (continued)

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of the company's profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and,
- the information given in the directors' report is consistent with the financial statements.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Birmingham, UK

Date *3 September 2007*

KOITO EUROPE LIMITED

PROFIT AND LOSS ACCOUNT

Year ended 31 December 2006

	Notes	2006 £	2005 £
Turnover	2	73,613,799	65,212,092
Cost of sales		(69,972,426)	(65,918,624)
Gross profit / (loss)		3,641,373	(706,532)
Distribution costs		(157,418)	(169,947)
Administrative expenses		(1,850,152)	(1,767,896)
Operating profit / (loss)		1,633,803	(2,644,375)
Finance charges, net	3	(125,120)	(1,434,141)
Profit /(loss) on ordinary activities before and after taxation, being retained profit for the year	4,15,16	1,508,683	(4,078,516)

Turnover and operating profit / (loss) arise from the company's continuing operations

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Year ended 31 December 2006

	Notes	2006 £	2005 £
Profit / (loss) for the financial year		1,508,683	(4,078,516)
Actuarial gain	20	146,000	431,000
Total recognised gains and losses relating to the year		1,654,683	(3,647,516)

The accompanying notes are an integral part of this profit and loss account and statement of total recognised gains and losses

KOITO EUROPE LIMITED

BALANCE SHEET

31 December 2006

	Notes	2006 £	2005 £
Fixed assets			
Tangible assets	8	13,503,819	15,545,462
Current assets			
Stocks	9	7,112,601	6,969,819
Debtors	10	19,523,970	17,536,905
Cash at bank and in hand		2,880,300	2,108,153
		29,516,871	26,614,877
Creditors: Amounts falling due within one year	11	(45,853,970)	(49,917,603)
Net current liabilities		(16,337,099)	(23,302,726)
Total assets less current liabilities		(2,833,280)	(7,757,264)
Creditors: Amounts falling due after more than one year	12	(13,068,117)	(10,192,816)
Provisions for liabilities and charges	13	(1,391,000)	(791,000)
Net liabilities excluding pension liabilities		(17,292,397)	(18,741,080)
Pension deficit	20	(570,000)	(776,000)
Net liabilities including pension liabilities		(17,862,397)	(19,517,080)
Capital and reserves			
Called-up share capital	14	15,000,000	15,000,000
Share premium account	15	4,962,673	4,962,673
Profit and loss account	15	(37,825,070)	(39,479,753)
Shareholder's deficit	16	(17,862,397)	(19,517,080)

The financial statements were approved by the board of directors on
and signed on its behalf by



N Arakawa

Managing Director

2/7/08

The accompanying notes are an integral part of this balance sheet

KOITO EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2006

1 ACCOUNTING POLICIES

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

Basis of accounting

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

The directors have concluded that it is appropriate to prepare the accounts for Koito Europe Limited on the going concern basis. In reaching this opinion, the directors have taken account of the confirmation of continued support from the company's ultimate parent company.

The company has taken advantage of the exemption afforded by FRS 1 "Cash flow statements" from preparing a cash flow statement because it is a wholly owned subsidiary of Koito Manufacturing Co Limited which prepares consolidated accounts which are publicly available.

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 and office equipment	10%
Computer hardware and software	20% - 33.33%

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.

Operating leases

Costs in respect of operating leases are charged to the profit and loss account on a straight-line basis over the term of the lease.

Taxation

UK corporation tax is provided on taxable profits at the current rate.

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 net 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
Year ended 31 December 2006

1. ACCOUNTING POLICIES (continued)

Taxation (continued)

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.

Pension costs

The company operates a defined benefit pension scheme, the amounts charged to the 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.

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.

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.

KOITO EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 31 December 2006

2. TURNOVER

The analysis of turnover by geographical destination is as follows

	2006 £	2005 £
United Kingdom	51,781,600	47,374,767
Rest of Europe	20,415,877	15,429,821
United States of America	1,204,439	2,172,522
Rest of World	211,883	234,982
	<u>73,613,799</u>	<u>65,212,092</u>

3. FINANCE CHARGES NET

	2006 £	2005 £
Bank loans and overdrafts	(1,810,588)	(1,509,124)
Interest payable to fellow group companies	(233,981)	(245,425)
Foreign exchange gain on borrowings	1,939,449	364,408
Other finance cost - net return on pension scheme (see note 20)	(20,000)	(44,000)
	<u>(125,120)</u>	<u>(1,434,141)</u>

4. PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit/(Loss) on ordinary activities before taxation is stated after charging/(crediting)

	2006 £	2005 £
Profit on disposal of tangible fixed assets	(236,227)	(125,199)
Depreciation of tangible fixed assets		
- owned assets	3,134,641	3,115,425
Auditor's remuneration		
- audit of the company's annual accounts	40,000	32,000
- tax services	34,500	17,000
Operating lease rentals		
- plant and machinery	983	2,626
- other	<u>1,341,894</u>	<u>1,373,758</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 31 December 2006

5. STAFF COSTS

The average monthly number of employees (including executive directors) was

	2006 no.	2005 no.
Production	814	784
Administration	30	32
	<u>844</u>	<u>816</u>

Their aggregate remuneration comprised

Wages and salaries	16,672,267	15,718,476
Social security costs	1,541,891	1,396,072
Pension costs (note 20)	215,591	273,578
	<u>18,429,749</u>	<u>17,388,126</u>

6. DIRECTORS' REMUNERATION

Remuneration

	2006 £	2005 £
Emoluments	33,058	36,248
Fees paid to third parties in respect of directors' services	<u>124,608</u>	<u>124,608</u>

Retirement benefits are accruing to no directors (2005 - no directors) under defined benefit schemes

NOTES TO THE FINANCIAL STATEMENTS (continued)
Year ended 31 December 2006

7. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

The tax charge comprises

	2006 £	2005 £
UK corporation tax	-	-
Total current tax	-	-
Deferred tax - timing differences	-	-
Deferred tax - prior period adjustment	-	-
Total deferred tax	-	-
Total tax	-	-

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit/(loss) before tax is as follows

	2006 £	2005 £
Profit/(loss) on ordinary activities before tax	1,508,683	(4,078,516)
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2005 - 30%)	452,605	(1,223,555)
Effects of		
Expenses not deductible for tax purposes	31,615	246,096
Capital allowances in excess of depreciation	899,182	858,472
Movement in short term timing differences	442,707	-
Losses (utilised)/carried forward	(1,826,109)	103,745
Losses carried back	-	15,242
Current tax charge for year	-	-

The company has a potential deferred tax asset related to accelerated capital allowances of £2.2m (2005 - £1.7m). In addition, the company has a potential deferred tax asset relating to allowable losses and other timing differences of £7.6m (2005 - £9.4m). Therefore the company has a net unrecognised deferred tax asset of £9.8m (2005 - £11.1m), which has not been recorded due to the uncertainty of future profits in the foreseeable future against which the asset may be recovered.

A change in the corporation tax rate for future accounting periods from 30% to 28% and the abolition of Industrial Building Allowances ("IBAs") were announced after the balance sheet date. These changes in the tax legislation have now been substantively enacted and will impact on accounting periods ending 31 December 2007 and onwards. Under UK GAAP, the deferred tax balances for periods ending 31 December 2007 and onwards will be calculated at the newly enacted rates and the abolition of balancing allowances/charges will result in the removal of the deferred tax asset in relation to IBAs. These changes would have reduced the deferred tax asset by £1,233k to £10,023k in the current period.

KOITO EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2006

8. TANGIBLE FIXED ASSETS

	Freehold property £	Plant and equipment £	Total £
Cost			
At 1 January 2006	1,333,372	41,544,255	42,877,627
Additions	2,475	1,387,793	1,390,268
Disposals	(299,549)	(622,592)	(922,141)
At 31 December 2006	1,036,298	42,309,456	43,345,754
Depreciation			
At 1 January 2006	210,720	27,121,445	27,332,165
Charge for year	29,156	3,105,485	3,134,641
Disposals	(68,531)	(556,340)	(624,871)
At 31 December 2006	171,345	29,670,590	29,841,935
Net book value			
At 31 December 2006	864,953	12,638,866	13,503,819
At 31 December 2005	1,122,652	14,422,810	15,545,462

9. STOCKS

	2006 £	2005 £
Raw materials and consumables	4,329,974	5,386,413
Work in progress	1,929,970	817,217
Finished goods	852,657	766,189
	7,112,601	6,969,819

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

10. DEBTORS

	2006 £	2005 £
Trade debtors	2,221,592	6,921,431
Amounts owed by group undertakings	13,610,585	6,506,892
Prepayments	770,639	678,781
Other debtors - customer tooling	2,921,154	3,429,801
	19,523,970	17,536,905

All debtors are due within one year

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
Year ended 31 December 2006

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2006	2005
	£	£
Bank loans and overdrafts (note 12)	32,834,308	29,654,037
Trade creditors	8,066,111	7,755,352
Amounts owed to group undertakings	2,960,580	5,794,614
Loans payable to group undertakings	-	4,939,003
Other taxation, social security and VAT	1,320,100	1,019,472
Accruals and deferred income	672,871	755,125
	<u>45,853,970</u>	<u>49,917,603</u>

12. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2006	2005
	£	£
Bank loans	197,000	314,809
Loans payable to group undertakings	12,871,117	9,878,007
	<u>13,068,117</u>	<u>10,192,816</u>

Bank loans due within and after more than one year amounting to £314,875 (2005 - £426,427) are secured by a first legal charge over six (2005 - six) residential properties owned by the company. Interest is payable at 2.5% above base rate.

Other bank loans and overdrafts are secured by guarantee arrangements. Under these arrangements the company's ultimate parent company has written a guarantee in favour of a Japanese bank, who have in turn guaranteed this company's indebtedness to its UK bank. The costs of these guarantee arrangements are borne by this company. Interest is payable at a combination of LIBOR rates and 0.9% above base rates.

Interest is payable on the loans from group undertakings at the rate of between 1.434% and 1.658% per annum.

KOITO EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2006

12. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (CONTINUED)

Borrowings are repayable as follows

	2006 £	2005 £
Bank loans and overdrafts		
Between one and two years	90,456	248,964
Between two and five years	96,058	44,583
After five years	10,486	21,262
	<u>197,000</u>	<u>314,809</u>
On demand or within one year	32,834,308	29,654,037
	<u>33,031,308</u>	<u>29,968,846</u>
Loans payable to group undertakings		
Between one and two years	12,871,117	9,878,007
Within one year	-	4,939,003
	<u>12,871,117</u>	<u>14,817,010</u>
Total borrowings		
Between one and two years	12,961,573	10,126,971
Between two and five years	96,058	44,583
After five years	10,486	21,262
	<u>13,068,117</u>	<u>10,192,816</u>
On demand or within one year	32,834,308	34,593,040
	<u>45,902,425</u>	<u>44,785,856</u>

13. PROVISIONS FOR LIABILITIES AND CHARGES

	Total £
Balance at 1 January 2006	791,000
Additions	600,000
Balance at 31 December 2006	<u>1,391,000</u>

The entire balance represents a provision for warranty. The provision covers future expected expenditure arising from product warranties given and is expected to be settled within the next 2 years.

14. CALLED-UP SHARE CAPITAL

	2006 £	2005 £
<i>Authorised</i>		
15,000,000 ordinary shares of £1 each	<u>15,000,000</u>	<u>15,000,000</u>
<i>Issued, allotted, called-up and fully paid</i>		
15,000,000 ordinary shares of £1 each	<u>15,000,000</u>	<u>15,000,000</u>

KOITO EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 31 December 2006

15. RESERVES

	Share premium account £	Profit and loss account £	Total £
At 1 January	4,962,673	(39,479,753)	(34,517,080)
Actuarial gain on pension scheme	-	146,000	146,000
Retained profit for the financial year	-	1,508,683	1,508,683
At 31 December	4,962,673	(37,825,070)	(32,862,397)

16. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' DEFICIT

	2006 £	2005 £
At 1 January	(19,517,080)	(15,869,564)
Retained profit / (loss) for the financial year	1,508,683	(4,078,516)
Other recognised gains	146,000	431,000
Closing shareholders' deficit	(17,862,397)	(19,517,080)

17. CAPITAL COMMITMENTS

Capital commitments are as follows

	2006 £	2005 £
Contracted but not provided for	543,679	111,855

18. FINANCIAL COMMITMENTS

Annual commitments under non-cancellable operating leases are as follows

	Land and buildings		Other	
	2006 £	2005 £	2006 £	2005 £
Expiry date				
- within one year	-	2,758	3,836	10,457
- between two and five years	1,188,416	1,188,416	114,065	141,193
	1,188,416	1,191,174	117,901	151,650

19. CONTINGENT LIABILITIES

The company is party to legal actions and claims by third parties, regulatory and fiscal authorities. While the outcome of these matters cannot be readily foreseen, the directors believe that they will not have a material effect on the net asset position as shown in the accounts.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2006

20. PENSIONS

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 5 April 2006 and was updated to 31 December 2006 by an independent professionally qualified actuary. The service cost has been calculated using the Projected Unit method.

The company contributed to the Scheme at the rate of 13.2% of total Pensionable Earnings, plus a fixed contribution of £6,400 per month up to 5 April 2006, and then at the rate of 19.1% of total Pensionable Earnings for the rest of the year.

The pension creditor in the balance sheet as at 31 December 2006, representing employee and employer contributions awaiting payment into the pension scheme, amounted to £nil (2005: £34,565).

The actuarial valuation described above has been updated at 31 December 2006 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.

The major actuarial assumptions used by the actuary were as follows:

	2006	2005	2004	2003
	% per annum	% per annum	% per annum	% per annum
Rate of increase in salaries	4.10%	3.80%	4.75%	4.75%
Rate of increase of pensions in payment				
Pre 6 April 2006	3.10%	2.80%	2.75%	2.75%
Post 6 April 2006	2.25%	n/a	n/a	n/a
Rate of increase of pensions in deferment	3.10%	2.80%	2.75%	2.75%
Discount rate	5.00%	4.75%	5.30%	5.50%
Inflation assumption	3.10%	2.80%	2.75%	2.75%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

The fair value of the assets in the scheme, long-term expected rates of return (net of expenses), the Scheme's liabilities calculated in accordance with FRS 17 and the resulting Scheme deficit were:

	Value at 31 December 2006	Rate of Return	Value at 31 December 2005	Rate of Return	Value at 31 December 2004	Rate of Return
	£	%	£	%	£	%
Equities	4,425,000	5.40	3,717,000	5.40	2,793,000	6.00
Bonds	399,000	2.70	380,000	2.70	312,000	5.00
Other	38,000	2.40	122,000	2.40	116,000	4.00
Total fair value of assets	4,862,000		4,219,000		3,221,000	
Present value of scheme liabilities	(5,432,000)		(4,995,000)		(4,430,000)	
Deficit in the scheme	(570,000)		(776,000)		(1,209,000)	
Related deferred tax asset	-		-		-	
Net pension liability	(570,000)		(776,000)		(1,209,000)	

NOTES TO THE FINANCIAL STATEMENTS (continued)
Year ended 31 December 2006

20. PENSIONS (continued)

The movement in the deficit in the scheme during the year was as follows

	2006	2005
	£	£
Deficit in scheme at 1 January	(776,000)	(1,209,000)
Current service cost	(216,000)	(274,000)
Contributions	296,000	320,000
Net return on assets	(20,000)	(44,000)
Actuarial gain	146,000	431,000
Deficit in scheme at 31 December	(570,000)	(776,000)

Analysis of amounts charged to operating profit

	2006	2005
	£	£
Current service cost	216,000	274,000

Analysis of net return on Scheme

	2006	2005
	£	£
Expected return on pension scheme assets	221,000	200,000
Interest on pension scheme liabilities	(241,000)	(244,000)
	(20,000)	(44,000)

Analysis of amount recognised in statement of total recognised gains and losses

	2006	2005
	£	£
Actual return less expected return on pension scheme assets	212,000	495,000
Experience gains and losses arising on the scheme liabilities	464,000	-
Changes in assumptions underlying the present value of the scheme liabilities	(530,000)	(64,000)
Actuarial gain recognised in statement of total recognised gains and losses	146,000	431,000

History of experience gains and losses

	2006	2005	2004	2003
Difference between the expected and actual return on scheme assets:				
Amount (£)	212,000	495,000	194,000	166,000
Percentage of scheme assets	4 0%	12 0%	6 0%	6 0%
Experience gains and losses on scheme liabilities:				
Amount (£)	464,000	-	(21,000)	292,000
Percentage of the present value of scheme liabilities	9 0%	0 0%	-0 5%	8 0%
Total actuarial gain/(loss) recognised in the statement of total recognised gains and				
Amount (£)	146,000	431,000	(33,000)	247,000
Percentage of the present value of scheme liabilities	3 0%	9 0%	-0 7%	6 0%

NOTES TO THE FINANCIAL STATEMENTS (continued)
Year ended 31 December 2006

21. RELATED PARTY TRANSACTIONS

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

22. 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