

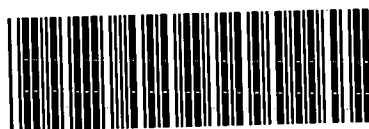
Registration number: 00945580

Koito Europe Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2022

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Koito Europe Limited
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Koito Europe Limited
Company Information

Directors	Mr K Arima
	Mr A Cotter
	Mr Y Aoshima
	Mr M Choji
	Mr N Misawa
Company secretary	Mr D Bevan
Registered office	Kingswood Road Droitwich Worcs WR9 0QH
Auditors	Ballards LLP Chartered Accountants 11c Kingswood Road Hampton Lovett Droitwich Worcestershire WR9 0QH

Koito Europe Limited

Strategic Report for the Year Ended 31 December 2022

The directors present their strategic report for the year ended 31 December 2022.

Principal activity

The principal activity of the company is the manufacture of medium cost rear lamp lighting for the original equipment manufacturers ("OEMs") of cars within the European territory.

Review of the Business

2022 Economic Environment

Although the ever ongoing presence of Coronavirus still remained within our social and business environment throughout 2022, the UK vaccination programme helped to greatly stem the threat to life and reduced the disruption effect to daily activities. The company returned to a normal level of operation, but continued to maintain the diligence of preventive measures so as to create the best Coronavirus safe working environment for its employees as possible.

The shortage of semiconductor chip supply continued to impact the automotive industry during 2022, with a resulting reduction in affected customer sales amounting to approximately 9% of total potential sales turnover.

The catalyst of energy price increase factors arising in 2021 continued with growing impact throughout 2022, with the company experiencing electricity unit supply costs 253% above the 2020 position.

During 2022 the UK labour market remained difficult, with limitations on available people and the effect of demand increasing market pay rates. Under this labour market condition the company found it extremely difficult to recruit and retain people, with the company recruiting 455 people during the year and having 420 leavers in the same period. With inflation on the increase and the resultant increase in the "cost of living", the company had to increase pay rates to strengthen labour retention.

2022 Trade

The results for the financial year as presented in the company's profit and loss account on page 18 show the sales turnover for 2022 at £67.3m, and the previous year 2021 at £53.9m. This significant increase in sales of £13.4m is mainly due to the easing of the semiconductor chip supply problem at OEM customers, and the full annual impact of new business introduced in 2021. Although the semiconductor chip supply issue was greatly improved the balance of problems experienced during the year amounted to a negative effect to sales of approximately -£7m. Overall sales increased against the company budget for 2022, by +9.8% (+£6.0m). The gross loss of £1.2m was marginally greater against the 2021 nil (break-even); and was a combination of increased sales (+£13.4m) gross contribution £7.2m, offset by increased labour cost -£3.0m and energy increases -£2.2m, reduced other expenses £0.6m, and the difference on tooling profits year on year -£1.6m (2021).

With distribution and administration costs amounting to £1.3m (2021 £2.0m), and negligible interest receivable, the loss before tax amounted to £1.7m (2021: Loss £2.1m). The tax for the year is a debit of £1,353k (2021: credit of £58k) due to the derecognition of the deferred tax asset that can be offset against future profits.

To meet the additional capacity requirements and the ongoing development of improved process capability, the company invested a further £1.9m in capital equipment (2021: £0.8m).

The company continues to hold accreditation in both ISO/TS16949 Quality Management Systems and ISO14000 Environmental Management Systems.

Koito Europe Limited

Strategic Report for the Year Ended 31 December 2022

Future Developments

Global Economy

The global economic recovery from the Covid-19 pandemic was expected to continue in 2023, helped by continued progress with global vaccination efforts, supportive macro-economic policies in the major economies, and favourable financial conditions.

The war in Ukraine will however hinder global growth and aggravate inflationary pressures, creating a new negative supply shock for the world economy. Included in that negative supply is the restricted gas supply from Russia, which will mean many governments will need to cushion the blow of higher energy prices, diversify energy sources and increase efficiency wherever possible.

Geopolitical instability is the top-cited threat to the global economy, followed by inflation and the impact on "cost of living", supply chain disruptions, volatile energy prices and rising interest rates.

Future Trade

Looking beyond 2023, total sales turnover for 2023 is currently forecast to be about +10% above the 2022 result, and +4% above the company's initial budget for 2023. Cash flow remains very strong with a current cash holding of £26.2m (Dec-22: £25.3m).

Unfortunately the company has been unsuccessful in securing future renewal business on one of its core products, which obviously sets the company many challenges for its medium term business projections. The company is actively pursuing new opportunities and continues to closely evaluate the impact on the medium-term plan

The company is committed to supporting its customers, and company development, by further capital investment amounting to £15.8m over the five-year period 2023 to 2027.

Strategy

The company's aim is to be the "Number One Lighting Supplier in Europe", and 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 core attitude of constantly adopting the perspective of our customers to supply products and services that meet their expectations.

The core components of the strategy are

- Create a high quality, highly efficient manufacturing factory
 - Develop the mindset of all team members to identify the challenges and issues within their working sphere.
 - Improve productivity
 - Improve quality
 - Improve new product launch
- Secure stable profit
 - Reduce cost of purchased parts and expenses
 - Improve new product competitiveness
 - Acquire new business
- Strengthen Organisation / Management
 - Improve compliance visualisation and management
 - Strengthen organisation

Koito Europe Limited
Strategic Report for the Year Ended 31 December 2022

Immediate Risks

Secure new mid-term business

Impact: Reduced business sales

Inflation

Impact: "cost of living" increases impacting on employees, creating employee unrest and impedes retention.

Labour shortages

Impact: difficulty to retain current member employees, difficulty to recruit new member employees, labour market pressure on member pay rates.

Increased wholesale electricity and gas prices

Impact: Significant electricity cost increase (Sep-23 +94% from Q1 2021)

Research and Development

The company, with the support of its group and European operations will continue to invest in research and development.

Koito Group continues to strengthen its European development structures in respect of product concept, design and technical support. This is to be achieved 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 and to offer signature lighting technologies to create unique vehicle designs.

Koito Europe Limited
Strategic Report for the Year Ended 31 December 2022

Principal risks and uncertainties

The company's activities expose it to a number of financial risks including cash flow, credit, liquidity and price risk.

Cash flow risk

The company has low exposure to the financial risks of changes in foreign currency exchange rates. The company does not utilise any foreign exchange contracts or any other hedging instruments.

Credit risk

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

Financial instrument risks

The company has established a risk and financial management framework whose primary objectives are to protect the company from events that hinder the achievement of the company's performance objectives. The objectives aim to limit undue foreign exchange exposure, ensure sufficient working capital exists and monitor the management risk at a business unit level.

The use of financial derivatives is governed by the company's policies approved by the board of directors, and all foreign currency settlements are made at the prevailing spot rate. The company does not adopt hedge accounting, and the company does not use derivative financial instruments for speculative purposes.

Koito Europe Limited
Strategic Report for the Year Ended 31 December 2022

Section 172(1) statement

Board duties

The board of directors ('the Board') confirm it has performed its duties in respect of section 172 of The Companies Act 2006. Specifically, the Board has considered the long-term factors affecting the company and its strategic direction. The Board has engaged with the company's stakeholders which assists the Board in its decision-making process and in fulfilling its duty to promote the success of the company as set out in section 172.

The Board has fulfilled his duties as follows:

On an ongoing basis the Board assesses the major risks affecting the company and develops appropriate responses to address those risks in an efficient and effective manner. This is taken into consideration when setting goals, budgets and forecasting financial performance. This ensures that the company understands the financial impact of such risks and can respond to these given situations on a timely basis.

Employees

Employees are key to our success. 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 small group consultation, plasma screen communication, direct communication by personal email, half yearly workplace communication, and a continuous cascade of information through the management reporting network. Employees are consulted on a wide range of matters affecting their current and future interests, such as health and safety, financial performance, outlook and training opportunities. On certain matters the company surveys all employee members by use of an online survey software, so that member opinion and view can be collated on the matter in question. The company monitors member turnover to understand the reasons why members leave the company.

Business relationships

We aim to exceed our customers' expectations. The company seeks to achieve this through regular communication and delivering high quality products and services to our customers. We continually try to enhance our products and services to maintain our strong business relationships with our existing and potential customers.

Suppliers

All of our suppliers are integral to the success of the company and we have regular ongoing dialogue with our supply chain. We are committed to the UK Prompt Payment Code.

Communities

The company is committed to making a positive contribution to local and country environmental matters. A key priority is the health and well-being of our employees through training and development programmes. We also aim to reduce the company's impact on the environment, for example, through energy-saving initiatives and waste reduction.

Regulators

The Board ensures the company is in compliance with all regulatory requirements. In particular in compliance with health and safety regulation and the Modern Slavery Act. The company also holds ISO/TS 16949 Certification in quality management system and ISO 14001 Certification in Environmental Management and ensures that this measure of quality is embedded throughout the organisation.

Shareholders

The company is a member of the Koito Manufacturing Company Limited global group. The Board maintains regular ongoing dialogue with our parent and fellow group undertakings.

Koito Europe Limited
Strategic Report for the Year Ended 31 December 2022

Gender report

The gender split as of 31 December 2022 is as follows:

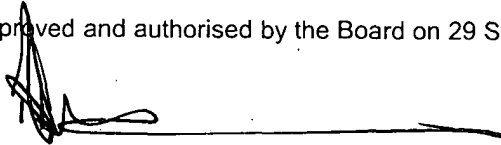
	Male	Female
Directors of the company	3	-
Employees in other senior positions	20	2
Other employees	381	150
Total employees	404	152

Key Performance Indicators

The company's key performance indicators used to measure the effectiveness of its operations are as follows:

	2022	2021	Change
Turnover	£67.3m	£53.9	24.86%
Gross Margin	-1.8%	-0.07%	-1.73 percentage points
Operating Margin	-2.5%	-3.8%	+1.3% percentage points
Cash	£25.3m	£22.0m	+£3.3m

Approved and authorised by the Board on 29 September 2023 and signed on its behalf by:



.....
Mr D Bevan
Company secretary

Koito Europe Limited
Directors' Report for the Year Ended 31 December 2022

The directors present their report and the financial statements for the year ended 31 December 2022.

Directors of the company

The directors who held office during the year were as follows:

Mr K Arima

Mr A Cotter

Mr Y Aoshima

Mr M Choji

Mr N Misawa

Information included in the Strategic Report

The company has chosen in accordance with Companies Act 2006, s. 414C(11) to set out in the company's strategic report information required by Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, Sch. 7 to be contained in the directors' report. It has done so in respect of review of business, principal risks and uncertainties and future developments.

Employment of disabled persons

The company gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion.

Where existing employees become disabled, it is the company's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

Going concern

The company is financed by its own working capital. Having taken into account the continued financial performance experienced to date (August 2023) together with forecast revenues, the company's ongoing operational expenditure, and the likely capital additions and 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.

This review has included a revision up to the date of signing this report to include the latest information relating to Covid-19.

Although the future remains uncertain, Koito Europe Limited has a strong balance sheet, with cash reserves of £25.3m at the balance sheet date and £23.7m as of August 2023 and the directors believe the company is able to sustain the current period of uncertainty as required.

Dividends

The audited financial statements for the year ended 31 December 2022 are set out on pages 19 to 38. The loss for the year after taxation amounted to £3,053,920 (2021: £2,005,590 loss). No dividend was paid (2021: £nil) and therefore the loss for the year has been transferred to reserves.

Koito Europe Limited
Directors' Report for the Year Ended 31 December 2022

Energy and carbon report

This report meets the climate-related financial disclosure requirements per the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022 and is in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), which was established by the Financial Stability Board with the aim of improving the reporting of climate-related risks and opportunities.

Governance

UK energy use and associated greenhouse gas emissions

Current UK based annual energy usage and associated annual greenhouse gas ("GHG") emissions are reported pursuant to the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 ("the 2018 Regulations") that came into force 1 April 2019.

Organisational boundary

In accordance with the 2018 Regulations, the energy use and associated GHG emissions are for those assets owned or controlled within the UK only as defined by the operational control boundary. This includes Kingswood Road manufacturing site and the Mercury House storage facility in Worcestershire along with the mandatory inclusion of scope 3 business travel in employee-owned or rental vehicles (grey fleet).

Reporting period

The annual reporting period is 1 January to 31 December each year and the energy and carbon emissions are aligned to this period.

Quantification and reporting methodology

The 2019 UK Government Environmental Reporting Guidelines and the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) were followed. The 2021 UK Government GHG Conversion Factors for Company Reporting were used in emission calculations as these relate to the reporting period. The report has been reviewed independently by Briar (Briar Consulting Engineers Limited).

Electricity and gas consumption were based on invoice records, with Briar monitoring the Company's Kingswood Road site's energy consumption from a Climate Change Agreement. Fuel and mileage records were used to calculate energy and emissions from fleet vehicles and grey fleet respectively. Gross calorific values were used except for mileage energy calculations as per Government GHG Conversion Factors.

The emissions are divided into mandatory and voluntary emissions according to the 2018 Regulations, then further divided into the direct combustion of fuels and the operation of facilities (scope 1), indirect emissions from purchased electricity (scope 2) and further indirect emissions that occur as a consequence of company activities but occur from sources not owned or controlled by the organisation (scope 3).

Koito Europe Limited
Directors' Report for the Year Ended 31 December 2022

Strategy

Intensity Ratio

The intensity ratio is total gross emissions in metric tonnes CO₂e (mandatory emissions) per total tonne of polymer produced. This metric relates to UK operations only to align with the energy and emission reporting boundary. This metric is considered the most relevant to the Company's energy consuming activities and provides a good comparison of performance over time and across different organisations and sectors.

Energy efficiency action prior to the current financial year

No energy efficiency actions have been undertaken during the reporting year.

Koito Europe Limited
Directors' Report for the Year Ended 31 December 2022

Emissions and energy consumption

Estimations

The electricity and natural gas energy use was compiled from a mix of supplier invoice reports and meter reading data where available. Estimates were made based on previous consumption where actual data was not available, with a factor applied to show the reduction due to the COVID-19 pandemic, where appropriate..

Summary of greenhouse gas emissions and energy consumption for the year ended 31 December 2022:

Name description	Unit of measurement	2022	2021
Natural gas	mWh	2,144.80	5,538.30
Grid electricity	mWh	14,684.10	14,949.10
Fuel purchased for business use in company vehicles	mWh	111.80	92.40
Fuel re-imbursements for business use in private vehicles	mWh	1.90	3.70
Total gross energy consumed	mWh	16,942.70	20,583.50
Natural gas	tCO2e	336.70	1,014.40
LPG purchases for Fork-Lift Trucks	tCO2e	54.80	56.00
Fuel purchased for business use in company vehicles	tCO2e	25.70	21.30
Total scope 1	tCO2e	417.20	1,035.70
Electricity (grid)	tCO2e	2,839.60	3,174.10
Total scope 2	tCO2e	2,839.60	3,174.10
Fuel re-imbursements for business use in private vehicles	tCO2e	0.50	0.90
Total scope 3	tCO2e	0.50	0.90
Total gross emissions	tCO2e	<u>3,257.30</u>	<u>4,210.80</u>

Intensity ratio

Tonnes of CO2e per tonne of total polymer produced	2022	2021
Kingswood Road	1.29	1.92
Mercury House	0.05	0.05
Company cars	0.00	0.00
Grey Fleet	0.01	0.01
LPG (forklift trucks)	0.00	0.00
Total	1.35	1.98

Koito Europe Limited
Directors' Report for the Year Ended 31 December 2022

Disclosure of information to the auditors

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditors are unaware.

Reappointment of auditors

In accordance with section 485 of the Companies Act 2006, a resolution for the re-appointment of Ballards LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

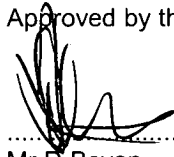
Financial instruments

Details of financial instruments are provided in the strategic report.

Directors' liabilities

Indemnity insurance for the benefit of the directors was in place during the year and as at the date of approval of the financial statements.

Approved by the Board on 29 September 2023 and signed on its behalf by:



.....
Mr D Bevan
Company secretary



Koito Europe Limited
Statement of Directors' Responsibilities

The directors acknowledge their responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

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

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 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.

Koito Europe Limited
Independent Auditor's Report to the Members of Koito Europe Limited

Opinion

We have audited the financial statements of Koito Europe Limited (the 'company') for the year ended 31 December 2022, which comprise the Profit and Loss Account, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, and Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including 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 the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2022 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the director's 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 original financial statements were 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.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Koito Europe Limited
Independent Auditor's Report to the Members of Koito Europe Limited

Opinion on other matter 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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and 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 our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and the Directors' Report.

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

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

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 13, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor Responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Koito Europe Limited
Independent Auditor's Report to the Members of Koito Europe Limited

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance;
- results of our enquiries of management about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: revenue recognition and calculation of expense accruals. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. We also obtained an understanding of the legal and regulatory frameworks that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, UK Bribery Act as well as pensions legislation and tax legislation.

Audit response to risks identified

As a result of performing the above, we identified the following key audit matters: revenue recognition and calculation of expense accruals as key audit matters related to the potential risk of fraud.

In addition to the above, our procedures to respond to risks identified included the following:

- agreeing a sample of revenue to supporting invoices ensuring the correct recognition and allocation;
- reviewing management's calculation of expense accruals and agreeing supporting documentation to assess accuracy of the risk identified;
- enquiring of management concerning revenue recognition and calculation of expense accruals;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Koito Europe Limited
Independent Auditor's Report to the Members of Koito Europe Limited

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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



.....
Mark Skellum BSc(Hons) FCA (Senior Statutory Auditor)
For and on behalf of Ballards LLP, Statutory Auditor
Chartered Accountants

11c Kingswood Road
Hampton Lovett
Droitwich
Worcestershire
WR9 0QH

29 September 2023

Koito Europe Limited
Profit and Loss Account for the Year Ended 31 December 2022

	Note	2022 £	2021 £
Turnover	2	67,282,980	53,942,629
Cost of sales		<u>(68,500,884)</u>	<u>(53,985,918)</u>
Gross loss		(1,217,904)	(43,289)
Distribution costs		(80,593)	(99,910)
Administrative expenses		(1,302,159)	(1,974,139)
Other operating income		<u>752,965</u>	<u>50,600</u>
Operating loss	3	(1,847,691)	(2,066,738)
Other interest receivable and similar income	4	<u>146,771</u>	<u>3,148</u>
Loss before tax		(1,700,920)	(2,063,590)
Taxation	7	<u>(1,353,000)</u>	<u>58,000</u>
Loss for the financial year		<u><u>(3,053,920)</u></u>	<u><u>(2,005,590)</u></u>

The above results were derived from continuing operations.


Koito Europe Limited
Statement of Comprehensive Income for the Year Ended 31 December 2022

	Note	2022 £	2021 £
Loss for the year		(3,053,920)	(2,005,590)
Actuarial gain/(loss) on defined benefit pension schemes		<u>-</u>	<u>245,000</u>
Total comprehensive income for the year		<u><u>(3,053,920)</u></u>	<u><u>(1,760,590)</u></u>

Koito Europe Limited
(Registration number: 00945580)
Balance Sheet as at 31 December 2022

	Note	2022 £	2021 £
Fixed assets			
Intangible assets	8	2,318,695	3,438,597
Tangible assets	9	<u>14,656,494</u>	<u>16,570,386</u>
		<u>16,975,189</u>	<u>20,008,983</u>
Current assets			
Stocks	10	3,901,208	4,120,571
Debtors	11	9,853,376	10,371,392
Cash at bank and in hand		<u>25,286,317</u>	<u>21,954,019</u>
		39,040,901	36,445,982
Creditors: Amounts falling due within one year	12	<u>(13,255,743)</u>	<u>(10,666,088)</u>
Net current assets		<u>25,785,158</u>	<u>25,779,894</u>
Total assets less current liabilities		42,760,347	45,788,877
Provisions for liabilities	13	<u>(229,651)</u>	<u>(204,261)</u>
Net assets		<u>42,530,696</u>	<u>45,584,616</u>
Capital and reserves			
Called up share capital		65,000,000	65,000,000
Retained earnings		<u>(22,469,304)</u>	<u>(19,415,384)</u>
Shareholders' funds		<u>42,530,696</u>	<u>45,584,616</u>

Approved and authorised by the Board on 29 September 2023 and signed on its behalf by:



 Mr Y Aoshima
 Director

Koito Europe Limited
Statement of Changes in Equity for the Year Ended 31 December 2022

	Share capital £	Profit and loss account £	Total £
At 1 January 2022	65,000,000	(19,415,384)	45,584,616
Loss for the year	-	(3,053,920)	(3,053,920)
Total comprehensive income	-	(3,053,920)	(3,053,920)
At 31 December 2022	65,000,000	(22,469,304)	42,530,696

	Share capital £	Profit and loss account £	Total £
At 1 January 2021	65,000,000	(17,654,794)	47,345,206
Loss for the year	-	(2,005,590)	(2,005,590)
Other comprehensive income	-	245,000	245,000
Total comprehensive income	-	(1,760,590)	(1,760,590)
At 31 December 2021	65,000,000	(19,415,384)	45,584,616

Koito Europe Limited
Notes to the Financial Statements for the Year Ended 31 December 2022

1 Accounting policies

Statement of compliance

Koito Europe Limited is a limited liability company incorporated in England. The Registered Office is Kingswood Road, Droitwich, Worcestershire, WR9 0QH.

These financial statements were prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

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 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 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', the company is exempt from the requirement to prepare a cash flow statement as the company is a member of a group where the parent of that group, Koito Manufacturing Co. Limited, prepares publicly available consolidated financial statements.

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.

Judgements

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

Functional currency

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

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.

Tax

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.

Koito Europe Limited
Notes to the Financial Statements for the Year Ended 31 December 2022

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 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.

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.

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.

The principle annual rates used are as follows:

Asset class	Depreciation method and rate
Freehold property	2.5%
Plant & equipment	10% - 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.

Koito Europe Limited
Notes to the Financial Statements for the Year Ended 31 December 2022

Intangible assets

Development expenditure is capitalised in accordance with the accounting policy given below. Initial capitalisation of costs is based on management's judgement that technical and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised management makes assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits.

Intangible assets acquired separately from a business are capitalised at cost. Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred.

Subsequent to initial recognition, intangible assets are stated at cost less accumulated amortisation and accumulated impairment. Intangible assets are amortised on a straight line basis over their estimated useful lives. The carrying value of intangible assets is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

The useful economic lives of intangible assets are as follows:

Development costs – Each asset is amortised over the predicted lifespan of the OEM product, plus an additional 2 months to represent the transition to the spares lifespan of the project.

If there are indicators that the residual value or useful life of an intangible asset has changed since the most recent annual reporting period previous estimates shall be reviewed and, if current expectations differ the residual value, amortisation method or useful life shall be amended. Changes in the expected useful life or the expected pattern of consumption of benefit shall be accounted for as a change in accounting estimate.

The company assesses at each reporting date whether an asset may be impaired. If any such indication exists the company estimates recoverable amount of the asset. If it is not possible to estimate the recoverable amount of the individual asset, the company estimates the recoverable amount of the cash generating unit to which the asset belongs. The recoverable amount of an asset or cash generating unit is the higher of its fair value less costs to sell and its value in use. If the recoverable amount is less than its carrying amount, the carrying amount of the asset is impaired and it is reduced to its recoverable amount through an impairment in profit and loss unless the asset is carried at a revalued amount where the impairment loss of a revalued asset is a revaluation decrease.

Leasing and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the company, and hire purchase contracts are capitalised in the balance sheet and are depreciated over the shorter of the lease term and the asset's useful lives. A corresponding liability is recognised for the lower of the fair value of the leased asset and the present value of the minimum lease payments in the balance sheet. Lease payments are apportioned between the reduction of the lease liability and finance charges in the income statement so as to achieve a constant rate of interest on the remaining balance of the liability.

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term. Lease incentives are recognised over the lease term on a straight line basis.

Koito Europe Limited
Notes to the Financial Statements for the Year Ended 31 December 2022

Provisions

A provision is recognised when the company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions for the expected costs of maintenance under guarantees are charged against profits when products have been invoiced. The effect of the time value of money is not material and therefore the provisions are not discounted.

Defined contribution pension obligation

A defined contribution plan is a pension plan under which fixed contributions are paid into a pension fund and the company has no legal or constructive obligation to pay further contributions even if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Contributions to defined contribution plans are recognised as employee benefit expense when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as a prepayment.

Koito Europe Limited
Notes to the Financial Statements for the Year Ended 31 December 2022

Pension costs and other post-retirement benefits

The company operated 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 costs and the expected return on assets are shown as a net amount of other financial costs of credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of comprehensive income.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the company, in separate trustee administered funds. Pension scheme 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 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.

The defined benefit Pension Scheme has been de-risked with the purchase of a Bulk Annuity with a reputable insurer. The majority of the premium was paid in the year with the final balancing premium being paid after the year end. The re-measurements of the pension scheme assets and liabilities following the purchase, including the change to the asset ceiling, was recorded in other comprehensive income.

Koito Europe Limited
Notes to the Financial Statements for the Year Ended 31 December 2022

Financial instruments

Classification

The company occasionally uses forward foreign exchange contracts to reduce exposure to foreign exchange rates.

Recognition and measurement

Derivative financial instruments are initially measured at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value through profit or loss. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of the forward currency contracts is calculated by reference to current forward exchange contracts with similar maturity profiles.

Impairment

Financial instruments are assessed for impairment, and impairment losses are recognised only if there is objective evidence as a result of one or more events that occurred after the initial recognition of the asset.

Koito Europe Limited
Notes to the Financial Statements for the Year Ended 31 December 2022

2 Revenue

The analysis of the company's turnover for the year by market is as follows:

	2022	2021
	£	£
UK	32,685,360	30,990,978
Europe	32,319,487	20,793,727
Rest of world	<u>2,278,133</u>	<u>2,157,924</u>
	<u><u>67,282,980</u></u>	<u><u>53,942,629</u></u>

3 Operating loss

Arrived at after charging/(crediting)

	2022	2021
	£	£
Depreciation - owned assets	3,568,004	3,193,345
(Profit)/Loss on disposal of fixed assets	(40,547)	36,324
Development costs amortisation	1,119,902	1,220,112
Auditors remuneration - fees payable to the company's auditor for the audit of the company's annual accounts	30,000	25,000
Auditors remuneration - fees payable to the company's auditor for other services related to tax	5,383	5,000
Operating lease rentals - plant and machinery	132,404	137,291
Operating lease rentals - other	1,024,580	1,018,195
Foreign exchange loss/(gain)	<u>(667,730)</u>	<u>228,491</u>

4 Other interest receivable and similar income

	2022	2021
	£	£
Other finance income	<u><u>146,771</u></u>	<u><u>3,148</u></u>

Koito Europe Limited
Notes to the Financial Statements for the Year Ended 31 December 2022

5 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	2022	2021
	£	£
Wages and salaries	16,152,211	13,452,726
Social security costs	1,389,223	1,091,700
Pension costs, defined contribution scheme	385,559	333,971
	<u>17,926,993</u>	<u>14,878,397</u>

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

	2022	2021
	No.	No.
Production	510	454
Administration and support	17	20
	<u>527</u>	<u>474</u>

6 Directors' remuneration

Remuneration

	2021	2020
	£	£
Emoluments	216,142	192,837
Fees paid to third parties in respect of directors' services	<u>205,975</u>	<u>221,817</u>

Koito Europe Limited
Notes to the Financial Statements for the Year Ended 31 December 2022

7 Taxation

Tax charged/(credited) in the profit and loss account

	2022 £	2021 £
Deferred taxation		
Arising from changes in tax rates and laws	<u>1,353,000</u>	<u>(58,000)</u>

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2021 - lower than the standard rate of corporation tax in the UK) of 19% (2021 - 19%).

The differences are reconciled below:

	2022 £	2021 £
Loss before tax	<u>(1,700,920)</u>	<u>(2,063,590)</u>
Corporation tax at standard rate	(323,175)	(392,082)
Effect of expense not deductible in determining taxable profit (tax loss)	-	6,513
Increase from tax losses for which no deferred tax asset was recognised	<u>1,676,175</u>	<u>327,569</u>
Total tax charge/(credit)	<u>1,353,000</u>	<u>(58,000)</u>

Deferred tax

Deferred tax assets and liabilities

	Asset £	Liability £
2022	<u>-</u>	<u>-</u>
	Asset £	Liability £
2021	1,353,000	-
Tax losses and decelerated capital allowances	<u>1,353,000</u>	<u>-</u>

The company has a potential deferred tax asset related to decelerating capital allowances of £3,507,000 (2021- £1,328,000) In addition, the company has a potential deferred tax asset relating to allowable losses and the timing differences of £2,209,000 (2021- £3,423,000). Therefore the company has a gross deferred tax asset of £5,716,000 (2021- £4,752,000) the directors have reviewed future taxable profits of the company and have not deemed it appropriate to recognise a deferred tax asset in 2022.

Koito Europe Limited
Notes to the Financial Statements for the Year Ended 31 December 2022

8 Intangible assets

	Development costs £	Total £
Cost or valuation		
At 1 January 2022	11,060,489	11,060,489
At 31 December 2022	11,060,489	11,060,489
Amortisation		
At 1 January 2022	7,621,892	7,621,892
Amortisation charge	1,119,902	1,119,902
At 31 December 2022	8,741,794	8,741,794
Carrying amount		
At 31 December 2022	2,318,695	2,318,695
At 31 December 2021	3,438,597	3,438,597

9 Tangible assets

	Freehold property £	Plant and machinery £	Total £
Cost or valuation			
At 1 January 2022	1,100,048	63,932,699	65,032,747
Additions	-	1,865,200	1,865,200
Disposals	(318,449)	(1,675,995)	(1,994,444)
At 31 December 2022	781,599	64,121,904	64,903,503
Depreciation			
At 1 January 2022	543,885	47,918,476	48,462,361
Charge for the year	21,485	3,546,518	3,568,003
Eliminated on disposal	(119,550)	(1,663,805)	(1,783,355)
At 31 December 2022	445,820	49,801,189	50,247,009
Carrying amount			
At 31 December 2022	335,779	14,320,715	14,656,494
At 31 December 2021	556,163	16,014,223	16,570,386

Koito Europe Limited
Notes to the Financial Statements for the Year Ended 31 December 2022

10 Stocks

	2022	2021
	£	£
Raw materials and consumables	2,217,082	3,005,746
Work in progress	781,748	640,998
Finished goods	902,378	473,827
	<u>3,901,208</u>	<u>4,120,571</u>

11 Debtors

	2022	2021
	£	£
Current		
Trade debtors	8,401,849	6,734,123
Amounts owed by related parties	18 2,741	34,119
Other debtors	680,930	1,299,476
Prepayments	767,856	950,674
Deferred tax assets	7 -	1,353,000
	<u>9,853,376</u>	<u>10,371,392</u>

'Other debtors' 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 of £680,930 (2021: £1,299,477). Of this amount £Nil (2020: £nil) is falling due after one year.

Deferred tax is the net asset recognised relating to allowable losses in excess of decelerated capital allowances. Of this amount £Nil (2021: £1,353,000) is falling due after one year.

12 Creditors

	2022	2021
	£	£
Due within one year		
Trade creditors	9,492,254	7,913,253
Social security and other taxes	1,753,922	755,026
Accrued expenses	1,665,398	1,391,660
Amounts owed to group undertakings	344,168	606,149
	<u>13,255,742</u>	<u>10,666,088</u>

Koito Europe Limited
Notes to the Financial Statements for the Year Ended 31 December 2022

13 Provisions for liabilities

	Other provisions £	Total £
At 1 January 2022	204,261	204,261
Increase (decrease) in existing provisions	<u>25,390</u>	<u>25,390</u>
At 31 December 2022	<u>229,651</u>	<u>229,651</u>

14 Pension and other schemes

Defined contribution pension scheme

The company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the company to the scheme and amounted to £385,559 (2021 - £333,971).

Defined benefit pension schemes

Koito Europe Pension Scheme

The company has previously operated a defined benefit pension scheme, based on final basic salary, for certain employees. This scheme was closed to future accrual of benefits from 31 December 2009 and the company completed a 'buy-out' of the obligations arising under this scheme by purchasing a bulk annuity through a reputable insurer. This process was completed in the prior year.

As a result of this buy-out, the company's obligations arising under the scheme will be met by the bulk annuity. The only assets the pension scheme has, other than the bulk annuity, is a negligible balance of cash.

This transaction has resulting in a de-risking of the company's defined benefit pension fund, and it's liabilities are fully matched by the bulk annuity. Therefore the net asset / liability of the pension scheme is £nil, and there has been no payments made by the company to the scheme in the year.

No further payments are required to be made by the company to the defined benefit pension scheme.

Koito Europe Limited
Notes to the Financial Statements for the Year Ended 31 December 2022

15 Share capital

Allotted, called up and fully paid shares

	2022		2021	
	No.	£	No.	£
Ordinary shares of £1 each	<u>65,000,000</u>	<u>65,000,000</u>	<u>65,000,000</u>	<u>65,000,000</u>

Rights, preferences and restrictions

Ordinary shares have the following rights, preferences and restrictions:

The ordinary shares have a right to vote, a right to participate in dividends and the right to participate in a distribution on a wind up.

Koito Europe Limited
Notes to the Financial Statements for the Year Ended 31 December 2022

16 Obligations under leases and hire purchase contracts

Operating leases

The total of future minimum lease payments is as follows:

	2022	2021
	£	£
Not later than one year	1,102,878	936,784
Later than one year and not later than five years	3,433,224	3,419,337
Later than five years	4,947,000	5,771,500
	<u>9,483,102</u>	<u>10,127,621</u>

17 Commitments

Capital commitments

The total amount contracted for but not provided in the financial statements was £88,357 (2021 - £295,987).

18 Related party transactions

Transactions with group companies

As a subsidiary of Koito Manufacturing Co., Limited, the company has taken advantage of the exemption in FRS 102 Section 33.1A from disclosing transactions with other wholly-owned members of the group headed by Koito Manufacturing Co., Limited.

19 Parent and ultimate parent undertaking

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

Koito Manufacturing Co., Limited is the parent 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.