Registration number: 00945580

# Koito Europe Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2021

# 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<br>Droitwich<br>Worcs<br>WR9 0QH |
| **Auditors** | Ballards LLP<br>Chartered Accountants<br>11c Kingswood Road<br>Hampton Lovett<br>Droitwich<br>Worcestershire<br>WR9 0QH |

The directors present their strategic report for the year ended 31 December 2021.

**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**
2021 Economic Environment
During 2021 the distribution, and application, of Covid-19 vaccines spread progressively across the vulnerable groups of the UK population; and this combined with other preventive measures like social distancing, mask wearing and better ventilation helped to ease the intense restrictive pressure on social and business life. With this improving condition during 2021 the company returned to some level of operational normality, but continued to maintain the diligence of preventive measures so as to create the best Covid-19 safe working environment for its employees as possible.

The Covid-19 pandemic triggered severe social and economic disruption around the world, including a global recession, widespread supply shortages caused by supply chain disruption and the intensification of political tensions. A significant incident of that supply chain disruption, was the impact the pandemic had in exposing the fragility of the global semiconductor chip manufacturing capacity, with demand significantly exceeding supply. The shortage of semiconductor chip supply had a major impact on the automotive industry during 2021, which saw several automotive manufacturers close their production lines temporarily.

From the second quarter of 2021, gas and electricity wholesale prices increased by a factor of 550% by Dec-21, which had the effect of increasing both domestic and business energy costs to unprecedented levels. The causes for this rise were a combination of power station failures, gas supply lines out of action, a bad winter in 2020/21 reducing gas holding reserves, uncertainty over the gas supply from Russia, Asian countries monopolising supply of LNG and the ongoing effect of the Covid-19 pandemic on logistic supply routes.

The effect of Brexit, the Covid-19 pandemic and now the energy crisis have made the UK labour market extremely tight and insecure over the last two years. There has been a significant contraction in the labour force, with a high reduction in the number of non-UK nationals following the Brexit referendum; the effect of the pandemic reducing the number of older people available and a significant increase in people out of work with long term health conditions. As a consequence of this exodus of labour from the employment labour pool, there has been an increased demand in job vacancies from a normal aggerate of around 800,000 as reported by the ONS to over 1,250,000 by the end of 2021. Therefore, across the UK labour demand quite clearly exceeds availability and requires a stronger competitive package from recruiting companies to secure people. Under this labour market condition the company has found it extremely difficult to recruit, but more importantly is actively battling to retain people; and is aware with inflation on the increase and the resultant increase in the "cost of living", the pressure to increase labour pay to retain people is always evident.

2021 Trade

The company successfully achieved six new product launches during the year; but when comparing the actual 2021 new product sales against the original budget, it unfortunately fell short of expectations by £12m, and was a direct result of semiconductor processing chip shortages at some of our customers. This new product introduction amounted to 23% of the 2021 total sales turnover, and forms part of the new product programme over the next three years, culminating with an 78% change in total product by 2024. The company also continued to develop its core strategy of creating a highly efficient, high quality manufacturing plant, with secure stable profits and a strong management organisation.

The results for the financial year as presented in the company's profit and loss account on page 19 show the sales turnover for 2021 at £53.9m, and the previous year 2020 at £54.0m. Although the sales turnover was very similar for the two years, the year 2020 was directly affected by the Covid-19 pandemic; whereas the year 2021 was directly affected by the semiconductor chip supply problem causing reduced demand from some of our OEM customers. Overall sales reduced against the company budget for 2021, by -18.9% (-£12.6m), which was mainly attributed to the semiconductor supply issue; with the main reduction impact hitting the second half of 2021 (-£10.1m). The gross loss was effectively nil (break-even) compared with the 2020 loss of £1.5m, and was a combination of higher product material content -£1.3m due to changed product content, lower labour cost +£1.4m, increased energy costs -£0.7m, increased tooling profits +1.6m and reduced other expenses +£0.5m. With distribution and administration costs amounting to £2.1m (2020 £2.5m), and other operating income claims under the Coronavirus Job Retention Scheme (CJRS) amounting to 51k (2020: £1.4m), the loss before tax amounted to £2.0m (2020: Loss £2.5m). The tax for the year is a credit of £58k (2020: debit of £11k) due to the increase 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 £0.8m in capital equipment (2020: £2.3m).

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

**Future Developments**
Global Economy
The global economic recovery from the Covid-19 pandemic was expected to continue in 2022 and 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
Total sales turnover for 2022 is currently forecast to be about +21% above the 2021 result, and +7% above the company's initial budget for 2022; this improved position does also reflect the reduction of sales (-3%) to Russia, following the trade sanctions imposed on Russia in respect of the war in Ukraine. Also, the forecast sales turnover for 2022, reflects a continuation of the semiconductor supply issue into 2022 with a negative impact to potential sales of -11%. Cash flow remains very strong with a current cash holding of £21.0m (Dec-21: £22.0m).

With the continued new product introduction in 2023 & 2024 (5 new projects); the company will see new product content grow to 80% (£60m) of total sales turnover by 2025, which will further strengthen the company profile.

Subject to the global semiconductor chip shortage and no sales to the Russian market; the sales turnover is expected to return to an average of £75m per annum from 2023. The introduction of the new/replacement model product will yield strong profit contributions but this will be countered by expected economic cost increases on material commodities, energy and other operational expenses. Profitability for the year 2022 is expected to be subdued but from 2023 is expected to achieve a return on sales of 4.5%.

The company is committed to supporting its customers, and company development, by further capital investment amounting to £13.4m over the four-year period 2022 to 2026.

**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

**Immediate Risks**

Increased wholesale electricity and gas prices
Impact: significant electricity cost increase (Sep-22 +550% from Q1 2021)

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.

Automotive semiconductor chip shortage
Impact: electronic component supplies and customer production disruptions.

Supply chain disruption
Impact: maintaining continuity of production commodities, increased shipping costs

Covid-19
The Covid-19 pandemic continues to be a global threat to life and people's welfare; and its impact on global economies reverberates as strongly today than at any other time. Unfortunately, Covid-19 will remain with the world for many years and although economic issues will find an equilibrium in time, it is difficult to define that time at this date.

UK exit from European Union ('Brexit'):
European automotive market demand - reluctance to trade with UK; UK not EU Country of Origin - non-EU content too high on vehicle.
The company considers that Brexit, is also an opportunity, in that Koito Europe is in a unique position of being the only UK based supplier manufacturing automotive lighting of a significant size to meet the demands of the UK based automotive car manufacturers.

**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.

**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's exposure to the financial risks of changes in foreign currency exchange rates has been greatly reduced as a result of changes to the trading currency with some customers. 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.

**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.

**Gender report**

The gender split as of 31 December 2021 is as follows:

| | Male | Female |
|---|---|---|
| Directors of the company | 3 | - |
| Employees in other senior positions | 15 | 1 |
| Other employees | 367 | 143 |
| Total employees | 385 | 144 |

**Key Performance Indicators**

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

| | 2021 | 2020 | Change |
|---|---|---|---|
| Turnover | £53.9m | £54.0m | -0.1% |
| Gross Margin | -0.07% | -2.7% | -17.9% |
| Operating Margin | -3.8% | -4.7% | +18.3% |
| Cash | £22.0m | £18.6m | +£3.4m |

Approved and authorised by the Board on 29/9/2022 and signed on its behalf by:

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Mr D Bevan
Company secretary

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

**Director 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 2022) 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 £22.0m at the balance sheet date and £20.9m as of August 2022 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 2021 are set out on pages 19 to 38. The loss for the year after taxation amounted to £1,998,479 (2020: £2,530,549 loss). No dividend was paid (2020: £nil) and therefore the loss for the year has been transferred to reserves.

**Environmental report**
We have considered the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) when preparing this report. These recommendations encourage businesses to increase disclosure of climate-related information, with an emphasis on financial disclosure. Koito Europe Limited supports these recommendations and are committed to disclosing the relevant information which can be found below.

**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, with the mandatory inclusion of scope 3 business travel in employee-owned vehicles (grey fleet). Included within this are two premises found at Hampton Lovett Industrial Estate, Droitwich Spa, one of which is a manufacturing facility and the other storage, as well as Scope 1 and Scope 2 business travel.

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 for the manufacturing facility at Kingswood Road, and on landlord recharges at Mercury House. In both instances a full and accurate data set aligning to the reporting period has been available. Fuel use for Scope 1 travel has been calculated from expense records, while mileage was used to calculate energy and emissions from grey fleet. Gross calorific values were used except for mileage energy calculations as per Government GHG Conversion Factors.

According to the 2018 Regulations, emissions should be divided into mandatory and voluntary emissions, however there are no voluntary emissions to be included within this report. Emissions are 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).

**Strategy**
Intensity Ratio

The intensity ratio chosen is total gross emissions in metric tonnes $CO_2e$ (mandatory emissions) per total tonne of polymer produced. The production figure 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. This metric is chosen as it is the most readily available and complete data set over the period and aids in 'normalising' the data.

Energy efficiency action prior to the current financial year

The management of resources is an important issue for Koito Europe Ltd. Energy management issues fall within the remit of the Facilities Management Teams. In the calendar year 2020 the opportunities for energy efficiency investment have been limited due to the impact of Covid-19, however the Company have undertaken the following actions to improve energy efficiency:

• Increased use of video conference facilities to avoid business travel.
• Energy management operations to reduce energy consumption as far as possible in reduced occupancy facilities.
• On 15 Oct 2021 the solvent abatement system (gas fired solvent incinerator) was terminated; an improved management of solvent consumption / emissions enabled the company to reduce solvent usage below the government threshold for abatement, and so eliminate the need for the abatement system. This will reduce overall gas consumption by nearly 70%, which is equivalent to 3,800 mWh per annum.

**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.

Summary of greenhouse gas emissions and energy consumption for the year ended 31 December 2021:

| **Name description** | **Unit of measurement** | **2021** | **2020** |
|---|---|---|---|
| Natural gas | mWh | 5,538.30 | 5,377.80 |
| Grid electricity | mWh | 14,949.10 | 15,079.30 |
| LPG for Fork-Lift Trucks | mWh | 0.00 | 0.00 |
| Fuel purchased for business use in company vehicles | mWh | 92.40 | 214.90 |
| Fuel re-imbursments for business use in private vehicles | mWh | 3.70 | 6.80 |
| Total gross energy consumed | mWh | 20,583.50 | 20,940.10 |
| Natural gas | tCO2e | 1,014.40 | 988.80 |
| LPG purchases for Fork-Lift Trucks | tCO2e | 56.00 | 0.00 |
| Fuel purchased for business use in company vehicles | tCO2e | 21.30 | 50.30 |
| Total scope 1 | tCO2e | 1,035.70 | 1,095.10 |
| Electicity (grid) | tCO2e | 3,174.10 | 3,515.60 |
| Total scope 2 | tCO2e | 3,174.10 | 3,515.60 |
| Fuel re-imbursements for business use in private vehicles | tCO2e | 0.90 | 1.70 |
| Total scope 3 | tCO2e | 0.90 | 1.70 |
| Total gross emissions | tCO2e | 4,210.80 | 4,612.40 |

**Intensity ratio**

| **Tonnes of CO2e per tonne of total polymer produced** | **2021** | **2020** |
|---|---|---|
| Kingswood Road | 2.02 | 1.92 |
| Mercury House | 0.05 | 0.05 |
| Company cars | 0.00 | 0.00 |
| Grey Fleet | 0.00 | 0.01 |
| LPG (forklift trucks) | 0.03 | 0.00 |
| Total | 2.21 | 1.98 |

**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 29/9/2022 and signed on its behalf by:

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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.

**Opinion**

We have audited the financial statements of Koito Europe Limited (the 'company') for the year ended 31 December 2021, 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 2021 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.

**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 14, 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:

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.

**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.

Ballards LLP
.........................................
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

Date: 29/9/2022

## Koito Europe Limited

## Profit and Loss Account for the Year Ended 31 December 2021

| | Note | 2021 £ | 2020 £ |
|---|---|---|---|
| Turnover | 2 | 53,942,629 | 53,998,433 |
| Cost of sales | | (53,985,918) | (55,474,496) |
| Gross loss | | (43,289) | (1,476,063) |
| Distribution costs | | (99,910) | (107,371) |
| Administrative expenses | | (1,974,139) | (2,350,801) |
| Other operating income | | 50,600 | 1,401,171 |
| Operating loss | 3 | (2,066,738) | (2,533,064) |
| Other interest receivable and similar income | 4 | 3,148 | 13,515 |
| Loss before tax | | (2,063,590) | (2,519,549) |
| Taxation | 7 | 58,000 | (11,000) |
| Loss for the financial year | | (2,005,590) | (2,530,549) |

The above results were derived from continuing operations.

## Koito Europe Limited

## Statement of Comprehensive Income for the Year Ended 31 December 2021

| | Note | 2021<br>£ | 2020<br>£ |
|---|---|---|---|
| Loss for the year | | (2,005,590) | (2,530,549) |
| Actuarial gain/(loss) on defined benefit pension schemes | | 245,000 | - |
| Total comprehensive income for the year | | (1,760,590) | (2,530,549) |

The notes on pages 23 to 38 form an integral part of these financial statements.

## Koito Europe Limited

## (Registration number: 00945580)
## Balance Sheet as at 31 December 2021

| | Note | 2021<br>£ | 2020<br>£ |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible assets | 8 | 3,438,597 | 1,090,666 |
| Tangible assets | 9 | 16,570,386 | 19,039,666 |
| | | 20,008,983 | 20,130,332 |
| **Current assets** | | | |
| Stocks | 10 | 4,120,571 | 4,388,441 |
| Debtors | 11 | 10,371,392 | 17,767,033 |
| Cash at bank and in hand | | 21,954,019 | 18,638,399 |
| | | 36,445,982 | 40,793,873 |
| **Creditors**: Amounts falling due within one year | 12 | (10,666,088) | (13,404,146) |
| **Net current assets** | | 25,779,894 | 27,389,727 |
| **Total assets less current liabilities** | | 45,788,877 | 47,520,059 |
| **Provisions for liabilities** | 13 | (204,261) | (174,853) |
| **Net assets** | | 45,584,616 | 47,345,206 |
| **Capital and reserves** | | | |
| Called up share capital | | 65,000,000 | 65,000,000 |
| Profit and loss account | | (19,415,384) | (17,654,794) |
| Shareholders' funds | | 45,584,616 | 47,345,206 |

Approved and authorised by the Board on 29-9-2022 and signed on its behalf by:

.........................................
Mr Y Aoshima
Director

## Koito Europe Limited

## Statement of Changes in Equity for the Year Ended 31 December 2021

| | 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 |

| | Share capital £ | Profit and loss account £ | Total £ |
|---|---|---|---|
| At 1 January 2020 | 65,000,000 | (15,124,245) | 49,875,755 |
| Loss for the year | - | (2,530,549) | (2,530,549) |
| Total comprehensive income | - | (2,530,549) | (2,530,549) |
| At 31 December 2020 | 65,000,000 | (17,654,794) | 47,345,206 |

The notes on pages 23 to 38 form an integral part of these financial statements.

## 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.

**Going concern**
The directors have prepared the financial statements on a going concern basis. Having taken into account the continued financial performance experienced to date, together with forecast revenues, the company's ongoing operational expenditure, and the likely capital additions and likely capital repayments, the company's directors have concluded that it is appropriate that these financial statements are prepared and presented using the going concern principle.

**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 neared £.

**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.

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.

**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.

**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.

**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.

**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.

## 2 Revenue

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

| | 2021<br>£ | 2020<br>£ |
|---|---|---|
| UK | 30,990,978 | 30,694,395 |
| Europe | 20,793,727 | 20,956,518 |
| Rest of world | 2,157,924 | 2,347,520 |
| | 53,942,629 | 53,998,433 |

## 3 Operating loss

Arrived at after charging/(crediting)

| | 2021<br>£ | 2020<br>£ |
|---|---|---|
| Depreciation - owned assets | 3,193,345 | 3,161,258 |
| (Profit)/Loss on disposal of fixed assets | 36,324 | 55,635 |
| Development costs amortisation | 1,220,112 | 912,847 |
| Auditors remuneration - fees payable to the company's auditor for the audit of the company's annual accounts | 25,000 | 25,000 |
| Auditors remuneration - fees payable to the company's auditor for other services related to tax | 5,000 | 5,000 |
| Operating lease rentals - plant and machinery | 137,291 | 128,911 |
| Operating lease rentals - other | 1,018,195 | 1,058,567 |
| Foreign exchange loss/(gain) | 228,491 | (193,918) |

## 4 Other interest receivable and similar income

| | 2021<br>£ | 2020<br>£ |
|---|---|---|
| Other finance income | 3,148 | 13,515 |

## 5 Staff costs

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

| | 2021 £ | 2020 £ |
|---|---|---|
| Wages and salaries | 13,452,726 | 14,890,337 |
| Social security costs | 1,091,700 | 1,163,428 |
| Pension costs, defined contribution scheme | 333,971 | 357,978 |
| | 14,878,397 | 16,411,743 |

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

| | 2021 No. | 2020 No. |
|---|---|---|
| Production | 454 | 494 |
| Administration and support | 20 | 20 |
| | 474 | 514 |

## 6 Directors' remuneration

### Remuneration

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

## 7 Taxation

Tax charged/(credited) in the income statement

| | 2021 £ | 2020 £ |
|---|---|---|
| **Deferred taxation** | | |
| Arising from changes in tax rates and laws | (58,000) | 11,000 |

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2020 - lower than the standard rate of corporation tax in the UK) of 19% (2020 - 19%).

The differences are reconciled below:

| | 2021 £ | 2020 £ |
|---|---|---|
| Loss before tax | (2,063,590) | (2,519,549) |
| Corporation tax at standard rate | (392,082) | (478,714) |
| Effect of expense not deductible in determining taxable profit (tax loss) | 5,162 | 5,993 |
| Increase from tax losses for which no deferred tax asset was recognised | 327,569 | 483,721 |
| Total tax (credit)/charge | (59,351) | 11,000 |

**Deferred tax**

Deferred tax assets and liabilities

| **2021** | **Asset £** |
|---|---|
| Tax losses and decelerated capital allowances | 1,353,000 |

| **2020** | **Asset £** |
|---|---|
| Tax losses and decelerated capital allowances | 1,295,000 |

The company has a potential deferred tax asset related to decelerating capital allowances of £1,328,000 (2020- £1,824,000) in addition, the company has a potential deferred tax asset relating to allowable losses and the timing differences of £3,423,000 (2020- £2,541,000). Therefore the company has a gross deferred tax asset of £4,752,000 (2020- £4,366,000) the directors have reviewed future taxable profits of the company and have deemed it appropriate to recognise a deferred tax asset of £1,353,000 in 2021. The remaining £3,399,000 has not been recorded due to the uncertainty of future profits against which the asset may be recovered.

The deferred tax asset is recognised in the financial statements at 25%, being the rate substantively enacted at the balance sheet date. There is a current proposal by the government for corporation tax to remain at 19% which would reduce the recognised deferred tax asset to £996,000, were this to become substantively enacted.

## 8 Intangible assets

| | Development costs £ | Total £ |
|---|---|---|
| **Cost or valuation** | | |
| At 1 January 2021 | 7,492,446 | 7,492,446 |
| Additions | 3,568,043 | 3,568,043 |
| At 31 December 2021 | 11,060,489 | 11,060,489 |
| **Amortisation** | | |
| At 1 January 2021 | 6,401,780 | 6,401,780 |
| Amortisation charge | 1,220,112 | 1,220,112 |
| At 31 December 2021 | 7,621,892 | 7,621,892 |
| **Carrying amount** | | |
| At 31 December 2021 | 3,438,597 | 3,438,597 |
| At 31 December 2020 | 1,090,666 | 1,090,666 |

## 9 Tangible assets

| | Freehold property £ | Plant and machinery £ | Total £ |
|---|---|---|---|
| **Cost or valuation** | | | |
| At 1 January 2021 | 1,100,048 | 64,860,327 | 65,960,375 |
| Additions | - | 752,240 | 752,240 |
| Disposals | - | (1,679,868) | (1,679,868) |
| At 31 December 2021 | 1,100,048 | 63,932,699 | 65,032,747 |
| **Depreciation** | | | |
| At 1 January 2021 | 517,111 | 46,403,598 | 46,920,709 |
| Charge for the year | 26,774 | 3,166,571 | 3,193,345 |
| Eliminated on disposal | - | (1,651,693) | (1,651,693) |
| At 31 December 2021 | 543,885 | 47,918,476 | 48,462,361 |
| **Carrying amount** | | | |
| At 31 December 2021 | 556,163 | 16,014,223 | 16,570,386 |
| At 31 December 2020 | 582,937 | 18,456,729 | 19,039,666 |

## 10 Stocks

| | 2021 £ | 2020 £ |
|---|---|---|
| Raw materials and consumables | 3,005,746 | 2,716,950 |
| Work in progress | 640,998 | 498,145 |
| Finished goods | 473,827 | 1,173,346 |
| | 4,120,571 | 4,388,441 |

## 11 Debtors

| | Note | 2021 £ | 2020 £ |
|---|---|---|---|
| Trade debtors | | 6,734,123 | 6,286,964 |
| Amounts owed by related parties | | 34,119 | 13,742 |
| Other debtors | | 1,299,476 | 9,115,233 |
| Prepayments | | 950,674 | 1,056,094 |
| Deferred tax assets | 7 | 1,353,000 | 1,295,000 |
| | | 10,371,392 | 17,767,033 |

'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 £1,299,477 (2020: £8,917,573). 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 £1,353,000 (2020: £1,136,428) is falling due after one year.

## 12 Creditors

| | Note | 2021 £ | 2020 £ |
|---|---|---|---|
| **Due within one year** | | | |
| Trade creditors | | 7,913,253 | 10,763,473 |
| Social security and other taxes | | 755,026 | 376,466 |
| Accrued expenses | | 1,391,660 | 1,546,567 |
| Amounts owed to group undertakings | | 606,149 | 717,640 |
| | | 10,666,088 | 13,404,146 |

## 13 Provisions for liabilities

| | Other provisions £ | Total £ |
|---|---|---|
| At 1 January 2021 | 174,853 | 174,853 |
| Increase (decrease) in existing provisions | 29,408 | 29,408 |
| At 31 December 2021 | 204,261 | 204,261 |

## 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 £333,971 (2020 - £357,978).

### Defined benefit pension schemes
### Koito Europe Pension Scheme

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

The assets of the scheme are held in a separately administered fund, of which the sole sponsoring employer is this company. A full actuarial valuation of the scheme took place on 6 April 2017 and was updated 31 December 2021 by an independent, professionally qualified actuary using revised assumptions that are consistent with the requirements of FRS 102. The service cost has been calculated using the Projected Unit Credit method.

The scheme was closed to future accrual of benefits with effect from 31 December 2009. In 2021 the company made a direct contribution of £5,000 as an acceleration of future contributions.

The pension creditor in the balance sheet as at 31 December 2021, representing employee and employer contributions awaiting payment into the pension scheme, amounted to £nil (2020: £nil).

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 prior year with the final balancing premium being paid during the year. 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.

The buy-out was completed in December 2021. The remaining asset at the year end consists of the trustees bank balance. This is assumed to be held in order to meet the company's recharge for expenses it previously met directly prior to wind up.

***Reconciliation of scheme assets and liabilities to assets and liabilities recognised***

The amounts recognised in the statement of financial position are as follows:

| | 2021<br>£ | 2020<br>£ |
|---|---|---|
| Fair value of scheme assets | 208,000 | 9,808,000 |
| Defined benefit obligation | - | (9,808,000) |
| | 208,000 | - |
| Asset restriction | (208,000) | - |
| Defined benefit pension scheme surplus/(deficit) | - | - |

As at 31 December 2021, the pension fund had cash balances of £208k. This asset is not recognised in the financial statements as the company does not have the right to have this asset returned to it.

| **Components of pension cost** | **2021** | **2020** |
|---|---|---|
| Amounts recognised in the profit and loss account | £ | £ |
| Interest cost | 144,000 | 184,000 |
| Interest income on plan assets | (143,000) | (184,000) |
| Admin expenses and loss on settlement | 41,000 | - |
| Cost / (income) included in the profit and loss account | 42,000 | - |
| Effect of changes in assumptions | - | 1,010,000 |
| Effect of experience adjustments | - | - |
| (Return) on plan assets (excluding interest income) | (245,000) | (998,000) |
| Changes in asset ceiling (excluding interest income) | - | - |
| Total remeasurements included in other comprehensive income | (245,000) | 12,000 |
| Total cost related to defined benefit plans recognised in profit and loss and other comprehensive income | (203,000) | 12,000 |

***Defined benefit obligation***

Changes in the defined benefit obligation are as follows:

| | 2021<br>£ |
|---|---|
| Present value at start of year | 9,808,000 |
| Interest cost | 144,000 |
| Costs - loss on settlement | 6,000 |
| Benefits paid | (462,000) |
| Liabilities extinguished on settlements | (9,496,000) |
| Present value at end of year | - |

***Fair value of scheme assets***

Changes in the fair value of scheme assets are as follows:

| | 2021<br>£ |
|---|---|
| Fair value at start of year | 9,808,000 |
| Interest income | 143,000 |
| Employer contributions | 5,000 |
| Admin expenses | (35,000) |
| Benefits paid | (462,000) |
| Return | 245,000 |
| Assets distributed on settlements | (9,496,000) |
| Fair value at end of year | 208,000 |

'Return on plan assets' includes changes in asset value in relation to the purchase of the bulk annuity contract as part of the de-risking of the pension scheme.

***Analysis of assets***

The major categories of scheme assets are as follows:

| | 2021<br>£ | 2020<br>£ |
|---|---|---|
| Cash and cash equivalents | 208,000 | 258,000 |
| Other | - | 9,550,000 |
| | 208,000 | 9,808,000 |

'Other' includes the bulk annuity contract acquired as part of the de-risking of the pension scheme.

***Return on scheme assets***

| | 2021<br>£ | 2020<br>£ |
|---|---|---|
| Return on scheme assets | 388,000 | 1,182,000 |

Expected return on assets by asset allocation

To develop the long-term expected rate of return on asset assumption, the company considered the current level of expected returns of risk-free investments (primary government bonds), the historical level of risk premium associated with the other asset classes in which portfolio is invested and the expectations for future returns of each asset class. The scheme assets, with the exception of cash, are invested in 100% government bonds.

The pension scheme has not invested in any of the company's own financial instruments or in properties or other assets used by the company.

***Principal actuarial assumptions***

The principal actuarial assumptions at the statement of financial position date are as follows:

| Weighted-average assumptions to determine defined benefit obligations | 2021 | 2020 |
|---|---|---|
| Discount rate | 1.80% | 1.50% |
| RPI inflation | N/A | 2.80% |
| CPI inflation | N/A | 2.10% |

| Weighted-average assumptions to determine cost relating to defined benefit plans | | |
|---|---|---|
| Discount rate | 1.80% | 1.50% |
| RPI inflation | N/A | 2.80% |
| CPI inflation | N/A | 2.10% |

***Post retirement mortality assumptions***

| Weighted average life expectancy on post retirement mortality table used to determine benefit obligation | 2021 | 2020 |
|---|---|---|
| Male member aged 65 (future life expectancy) | N/A | 22.5 years |
| Male member aged 40 (future life expectancy at age 65) | N/A | 24.8 years |
| Female member aged 65 (future life expectancy) | N/A | 24.4 years |
| Female member aged 40 (future life expectancy at age 65) | N/A | 26.7 years |

**15 Share capital**

**Allotted, called up and fully paid shares**

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | No. | £ | No. | £ |
| Ordinary shares of £1 each | 65,000,000 | 65,000,000 | 65,000,000 | 65,000,000 |

**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.

## 16 Obligations under leases and hire purchase contracts

**Operating leases**
The total of future minimum lease payments is as follows:

| | 2021<br>£ | 2020<br>£ |
|---|---|---|
| Not later than one year | 936,784 | 998,742 |
| Later than one year and not later than five years | 3,419,337 | 3,542,190 |
| Later than five years | 3,298,000 | 2,473,500 |
| | 7,654,121 | 7,014,432 |

## 17 Commitments

**Capital commitments**

The total amount contracted for but not provided in the financial statements was £295,987 (2020 - £103,097).

## 18 Contingent assets

During the year, a machine was damaged by fire. This was not agreed to be reimbursed by the insurance company until after the year end. The total amount of the insurance claim was £752,965 which was received in April 2022. As at 31 December 2021, this was therefore a contingent asset.

## 19 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.

## 20 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.