

KENTEC ELECTRONICS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

KENTEC ELECTRONICS LIMITED

COMPANY INFORMATION

Directors	Mr K Swann Mr T Seki Mr P Agbakpe Mr J Uozumi Mr H Hosoi (appointed 10 June 2020)
Company secretary	Ms R Schembri Ishita
Registered number	01937570
Registered office	Unit 25&26 Fawkes Avenue Questor Dartford Kent DA1 1JQ
Independent auditors	Greenback Alan LLP Chartered Accountant & Statutory Auditor 89 Spa Road London SE16 3SG
Bankers	HSBC Bank plc 38 High St Dartford DA1 1DG

KENTEC ELECTRONICS LIMITED

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**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2020**

Introduction

The directors present their strategic report on the Company for the year ended 31 December 2020.

The strategic report is consistent with the size and non complex nature of the business and is written in the context of the risks and uncertainties the Company faces. The principal activity of the Company continues to be that of manufacturing, supplying and distributing life safety control systems. The Company develops and manufactures high quality and reliable life safety related control systems for commercial and industrial applications which are sold through professional system integrators and specialist distribution channels. The Company has developed manufacturing and support systems which allow greatly reduced lead times to customers compared with the industry norm yet maintaining the businesses ability to provide bespoke and OEM products to major users. To remain competitive, the directors have planned to expand business with wireless solutions and system sales approach.

Business review

Under Covid-19 crisis, the company has had a challenging year with turnover decreasing to £17,547,305 (2019: £20,045,433) 12.5% down compared to 2019, although 2020 started well and on target until mid-March when Covid-19 started impacting global economy. The UK market has struggled with constant lockdown measures but saw a gradual recovery. An increased demand in extinguishant products required by new hospitals and data centre had helped business to sustain under these difficult times. Export sales have also declined as a whole, however growth has been individually achieved through Africa and Rest of the World regions with local BDMS contributed to the great success. Group sales had never recovered since March whilst Latitude sales have grown as well as Taktis benefitted from a strong focus.

The company has seen Gross Profit Margins reduced to 30.4% in 2020 from 32.9% in 2019. The deterioration of the profitability is simply attributable to reduced volume of production caused by ongoing business contraction under the crisis. Labour costs, which continue to face pressure by an increase in the national minimum wage, have been managed well under flexible resource allocation combined with usage of Coronavirus Job Retention Scheme. Overheads came under significant pressure from new lease agreements signed for a warehouse and stores, which was expected to increase productivity and efficiencies with increased sales. Our sales price review and cost savings programme had helped to maintain profit margins and we believe that new business initiatives with wireless/wired device sales as a system sales provider to KIP partners will help us shift to further lucrative business model in the near future.

The company has made significant savings in administrative expenses in 2020 with Travel and Advertisement costs materially reduced due to travel bans and cancelled exhibitions under the crisis. Salaries have also seen a significant reduction with minimum heads. Despite economic uncertainty, the company strategically continued to invest in Research and Development to support a whole group business and spent £1.9m higher than £1.8m for 2019.

The savings in administrative expenses were not enough to recover the decline in turnover reducing Gross Profit. As a result, the operating profit margin has been significantly reduced from 6.72% in 2019 to 3.1% in 2020. Directors believe this will recover in 2021 along with new business launch.

The grant income from the UK Government Coronavirus Job Retention Scheme has been included in Other income. The company had made a flexible use of the scheme during the year to protect cashflow.

The company's financial position continues to remain healthy with major capital expenditure on hold and tight cost control throughout the year. Liquidity has decreased principally due to decreases in cash for dividend payment and receivables from reduced sales, whilst solvency has improved with profits for the year and strict control of expenditures. Stock turnover has increased in response to uncertainties from Brexit and Covid-19 to avoid potential short term delays in receiving components and cost ups, and increased WIP to create efficiencies. The company's aged debt profile remained normal but collection days slightly increased due to Brexit causing disruption increased charges and time. The directors believe that this was a short-term effect and will be resolved shortly after customers become familiar with new trade rules and arrangements.

STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2020

Principal risks and uncertainties

The directors, who are responsible for internal control systems which identify and manage various risks that pose a threat to achieving the Company's objectives, have identified the principal risks as follows:

- The current general economic and political environment in the world. There is uncertainty around any new trade agreements that will be entered into by the UK and how this will impact on the Company's export trade. The Company is continually monitoring political environment and its impact on the economic climate so that it can react to any fundamental changes.
- The current economic environment in the world under Covid-19 pandemic. There is uncertainty around when the economy will return to its pre-pandemic peak. During the pandemic Management team have been doing all they can to keep staff safe and business running solidly. The Company is continuously monitoring the environment to minimise its impact on the Company's business.
- There is uncertainty about the regulatory framework that the Company currently operates within. Changes in the political environment may possibly lead to revisions to the current European and US fire regulations. The company feels that it is well placed to adapt to any changes in regulations as significant investment has been made to create a larger Research and Development (R&D) department.
- The Company is exposed to the counterparty solvency risks impacting its customers, subcontractors and other suppliers.
- The Company continues to face pressure to recruit, train and retain highly skilled and motivated members of staff. The Company will continue to review its Human Resources policies in 2021 to further mitigate this risk.
- The Company is at risk from foreign currency fluctuations particularly between USD and GBP. The majority of the exposure is managed by natural hedging and will continue to exist within 2021. Any surplus of USD cash is kept to a minimum to reduce exposure.
- Compliance with Health, Safety and Environmental matters is fundamental to the Company's reputation, existence and the safety of its employees, subcontractors and the general public at large. It is therefore paramount that the Company maintains and stays abreast of current legislation as well as best practice within this area. The company strengthened its compliance team in the prior year to ensure it continues to prioritise these three key areas as well as quality assurance.
- The Company has become increasingly reliant on Information Technology (IT) and our ERP system is central to the business. The Company will continue to upgrade its IT infrastructure within 2021 as part of a disaster recovery overhaul to mitigate against business interruption. As part of this upgrade the Company is also prioritising network security to ensure it can tackle the increasing rise of Cyber security threats. The Company is also sufficiently insured to cover any business interruption.
- The Company operates within a highly regulated and technical industry. There is an ongoing threat from competition in terms of pricing, product innovations and service which may lead to a loss in market share to competitors. The company is investing heavily in R&D to ensure that it is at the forefront of product innovations. By maintaining a technical support department, the Company can deal directly with product issues but also maintain communication with our customers so that we can understand the market needs and be best placed to react to the changes.

The directors themselves and through delegated management, periodically review the effectiveness of the Company's internal control systems to ensure that the principal risks faced by the businesses are adequately managed and controlled.

STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2020

Financial key performance indicators

The directors use a number of performance measures to assess the Company's success in meeting its objectives. The key performance indicators are:

- Comparison of actual sales against budget
- Gross profit margins
- Variances between actual and budgeted standard costing
- Operating profit percentage
- Aged debtors
- Working capital cycle

The directors consider the key performance indicators for the year to be satisfactory.

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

.....
Mr K Swann
Director

Date: 24 February 2021

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2020**

The directors present their report and the financial statements for the year ended 31 December 2020.

Principal activity

The principal activity of the Company in the year under review was that of manufacturing, supplying and distributing life safety control systems.

Results and dividends

The profit for the year, after taxation, amounted to £485,121 (2019 - £1,158,864).

The results for the year and financial position of the Company are as shown in the annexed financial statements.

The Company reduced its sales for 2020 but managed to protect business as sustainable. With constant lockdown measures, the company struggled particularly with sales growth for Taktis/Latitude, which should be supported by on-site trainings under loyalty partner programme but saw a reasonable growth in the strategic products for the year and benefitted from high demand in extinguishant products.

In 2021, Taktis/Latitude will be confidently positioned as a core product to System sales approach driven by Group business strategy. New business includes wireless/wired device sales, which will increase sales to KIP partners and fill in the gap of the product portfolio, as well as improve profitability.

The sales made by the Company vary from small customers in the UK to large organisations both within the UK and the regions outside the UK. In line with this, the sales in the accounts have been split geographically as follows – in the UK, Europe and Rest of the World.

An interim dividend of £581,000 was voted for during the year.

Going Concern

The Company's business activities, together with the factors likely to affect its future development, its financial position, financial risks management objectives and its exposure to foreign currency, price, credit and liquidity risk are described in the Strategic Report on page 1.

The Company has adequate financial resource through support from its ultimate parent undertaking, Hochiki Corporation together with long term contacts with a number of customers and suppliers across different geographic areas and industries. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully.

After making enquiries, the directors have a reasonable expectation that they have adequate resources to continue in operational existence for the foreseeable future. The management of Hochiki Group in Japan is expecting growth from expansion in overseas business. Therefore, the Japanese management has set a higher target for 2021. Accordingly, it is felt appropriate to adopt the going concern basis in preparing the financial statements.

KENTEC ELECTRONICS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

Directors

The directors who served during the year were:

Mr K Swann

Mr T Seki

Mr T Ikeda (resigned 10 June 2020)

Mr P Agbakpe

Mr J Uozumi

Mr H Hosoi (appointed 10 June 2020)

Future developments

We are aware that any plans for the future development of the business may be subject to unforeseen events outside of our control. However, to remain competitive, we will plan to invest and develop our undeveloped export markets.

Disclosure of information to auditors

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

- so far as that director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Post balance sheet events

There have been no significant events affecting the Company since the year end.

Auditors

The auditors, Greenback Alan LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

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

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Mr K Swann
Director

Date: 24 February 2021

**DIRECTORS' RESPONSIBILITIES STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2020**

The directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies for the company's financial statements and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KENTEC ELECTRONICS LIMITED

Opinion

We have audited the financial statements of Kentec Electronics Limited (the 'Company') for the year ended 31 December 2020, which comprise the Statement of income and retained earnings, the Statement of financial position and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KENTEC ELECTRONICS LIMITED (CONTINUED)

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 Auditors' 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 matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KENTEC ELECTRONICS LIMITED (CONTINUED)

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement set out on page 6, 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.

Auditors' responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We obtained a general understanding of the Company's legal and regulatory framework through enquiry of management concerning: their understanding of relevant laws and regulations; the entity's policies and procedures regarding compliance; and how they identify, evaluate and account for litigation claims. We also drew on our existing understanding of the company's industry and regulation.

We understand that the Company complies with the framework through having in place robust procedures and policies that are developed with and monitored by the parent company and the wider group, and by outsourcing and taking external professional legal, tax and accounting advice on relevant specialist functions and areas including the preparation of financial statements and corporate tax compliance.

In the context of the audit, we considered those laws and regulations: which determine the form and content of the financial statements; which are central to the Company's ability to conduct its business; and where failure to comply could result in material penalties. We identified the following laws and regulations as being of significance in the context of the Company:

- The Companies Act 2006, FRS 102, UK corporate tax laws.

The senior statutory auditor led a discussion with all members of the engagement team regarding the susceptibility of the entity's financial statements to material misstatement, including how fraud might occur. The areas identified in this discussion were:

- Debtor recoverability arising from overstating the debtors balance and not impairing for debtors that cannot/do not pay post yearend;
- Manipulation or error in revenue recognition leading to overstatement of revenue (and debtors) to inflate the results, and reversing these following the yearend close;
- Manipulation or error in setting standard costs leading to over- or under-valuation of stock, resulting in profits being recognised either later or earlier (respectively) than appropriate;

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KENTEC ELECTRONICS LIMITED (CONTINUED)

- Manipulation or error in raising accruals and provisions for costs incurred but not invoiced before the balance sheet date that often entail a significant degree of judgment;

The procedures we carried out to gain sufficient appropriate audit evidence in the above areas included:

- Identifying and assessing the design effectiveness of controls management has in place to prevent and detect fraud and error;
- Understanding the potential for override of these controls on the financial reporting process, and how those charged with governance address these override potentials.
- Performing tests of controls and substantive testing on appropriate samples, and investigating any discrepancies identified;
- Documenting the assumptions and judgements made by management in their significant accounting estimates and challenging these with management;
- Identifying and testing journal entries, in particular those around yearend, and involving unusual postings, account combinations, or amounts;

Overall, the senior statutory auditor was satisfied that the engagement team collectively had the appropriate competence and capabilities to identify or recognise irregularities. In particular, both the senior statutory auditor and the audit manager have a number of years' experience in dealing with similar manufacturing companies, and prepare accounts under FRS 102.

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

Use of our report

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

Jonathan Richard Fisher (Senior statutory auditor)

for and on behalf of

Greenback Alan LLP

Chartered Accountant

Statutory Auditor

89 Spa Road

London

SE16 3SG

24 February 2021

KENTEC ELECTRONICS LIMITED

STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 £	2019 £
Turnover	4	17,547,305	20,045,434
Cost of sales		(12,218,736)	(13,449,815)
Gross profit		5,328,569	6,595,619
Administrative expenses		(5,142,918)	(5,247,769)
Other operating income	5	351,495	-
Operating profit	6	537,146	1,347,850
Interest receivable and similar income	9	3,726	11,761
Interest payable and expenses	10	(50,556)	(55,622)
Profit before tax		490,316	1,303,989
Tax on profit	11	(5,195)	(145,125)
Profit after tax		485,121	1,158,864
Retained earnings at the beginning of the year		7,956,399	6,797,535
Profit for the year		485,121	1,158,864
Dividends declared and paid		(581,000)	-
Retained earnings at the end of the year		7,860,520	7,956,399

The notes on pages 14 to 28 form part of these financial statements.

KENTEC ELECTRONICS LIMITED
REGISTERED NUMBER:01937570

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

	Note	2020 £	2019 £
Fixed assets			
Tangible assets	13	2,556,854	2,733,108
		<u>2,556,854</u>	<u>2,733,108</u>
Current assets			
Stocks	14	2,514,472	2,083,576
Debtors: amounts falling due within one year	15	3,917,515	4,261,426
Cash at bank and in hand	16	3,069,802	3,240,982
		<u>9,501,789</u>	<u>9,585,984</u>
Creditors: amounts falling due within one year	17	(2,837,303)	(2,804,385)
Net current assets		<u>6,664,486</u>	<u>6,781,599</u>
Total assets less current liabilities		<u>9,221,340</u>	<u>9,514,707</u>
Creditors: amounts falling due after more than one year	18	(581,756)	(883,637)
Provisions for liabilities			
Deferred tax	20	(161,724)	(78,120)
Other provisions	21	(598,740)	(577,951)
		<u>(760,464)</u>	<u>(656,071)</u>
Net assets		<u><u>7,879,120</u></u>	<u><u>7,974,999</u></u>
Capital and reserves			
Called up share capital	22	18,600	18,600
Profit and loss account	23	7,860,520	7,956,399
		<u><u>7,879,120</u></u>	<u><u>7,974,999</u></u>

KENTEC ELECTRONICS LIMITED
REGISTERED NUMBER:01937570

STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 31 DECEMBER 2020

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:

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Mr K Swann
Director

Date: 24 February 2021

The notes on pages 14 to 28 form part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

1. General information

Kentec Electronics Limited is a private company limited by shares which was incorporated in the United Kingdom.

2. Accounting policies

2.1 Basis of preparation of financial statements

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

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 3).

The following principal accounting policies have been applied:

2.2 Financial reporting standard 102 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of Hochiki Corporation as at 31 March 2020 and these financial statements may be obtained from 2-10-43 Kamiosaki, Shinagawa-ku, Tokyo 141-8660 Japan.

2.3 Revenue

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

Sale of goods

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

2. Accounting policies (continued)

2.4 Tangible fixed assets

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

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

Depreciation is provided on the following basis:

Plant and machinery	- 7 years straight line basis
Motor vehicles	- 4 years straight line basis
Fixtures and fittings	- 7 years straight line basis
Computer equipment	- 3 years straight line basis

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

2.5 Stocks

Stock is valued using a standard costing method. All parts and sub-assemblies are attributed a standard material cost which is reviewed and adjusted where necessary at the beginning of each financial period. Raw materials are allocated to production jobs on a FIFO basis to create work in progress. Labour and overhead percentages are added to the work in progress figure as part of the standard costing method. Any difference between the actual purchase price of raw materials and the standard cost is written off to the statement of income and is treated as a production price variance.

Finished goods are valued using the total work in progress figure which includes the additional labour and overhead percentages as determined from the standard costing.

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

2.6 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2.7 Creditors

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

2. Accounting policies (continued)

2.8 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP.

Transactions and balances

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

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

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss except when deferred in other comprehensive income as qualifying cash flow hedges.

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

2.9 Finance costs

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

2.10 Operating leases: Lessee

Rentals paid under operating leases are charged to profit or loss on a straight line basis over the lease term.

2.11 Pensions

Defined contribution pension plan

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

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

2.12 Interest income

Interest income is recognised in profit or loss using the effective interest method.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

2. Accounting policies (continued)

2.13 Provisions for liabilities

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

Provisions are charged as an expense to profit or loss in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the Statement of financial position date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Statement of financial position.

2.14 Government grants

Grants of a revenue nature are recognised in the Statement of income and retained earnings in the same period as the related expenditure.

2.15 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

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

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

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

2. Accounting policies (continued)

2.16 Research and development

In the research phase of an internal project it is not possible to demonstrate that the project will generate future economic benefits and hence all expenditure on research shall be recognised as an expense when it is incurred. Intangible assets are recognised from the development phase of a project if and only if certain specific criteria are met in order to demonstrate the asset will generate probable future economic benefits and that its cost can be reliably measured. The capitalised development costs are subsequently amortised on a straight line basis over their useful economic lives, which range from 3 to 6 years.

If it is not possible to distinguish between the research phase and the development phase of an internal project, the expenditure is treated as if it were all incurred in the research phase only.

2.17 Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

3. Judgments in applying accounting policies and key sources of estimation uncertainty

The preparation of financial statements in conformity with FRS 102 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The results of these form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

In respect of estimates and assumptions, and judgements made as a result, made by management in preparing these financial statements, the following are considered to have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities presented:

Provisions – see Note 21

In respect of other significant management judgements in applying the accounting policies of the Company, the following have the most significant effect on the financial statements:

Carrying value of stock – (see Note 2.5) management consider that there is no impairment to stock

Recoverability of debtors – (see Note 2.6) management consider that there is no impairment to debtors

KENTEC ELECTRONICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

4. Turnover

An analysis of turnover by class of business is as follows:

	2020 £	2019 £
Life Safety Control Systems	17,547,305	20,045,434
	<u>17,547,305</u>	<u>20,045,434</u>

Analysis of turnover by country of destination:

	2020 £	2019 £
United Kingdom	7,414,500	8,004,607
Rest of Europe	2,200,202	2,410,415
Rest of the world	7,932,603	9,630,412
	<u>17,547,305</u>	<u>20,045,434</u>

5. Other operating income

	2020 £	2019 £
Coronavirus job retention scheme government grant receivable	351,495	-
	<u>351,495</u>	<u>-</u>

KENTEC ELECTRONICS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

6. Operating profit

The operating profit is stated after charging:

	2020 £	2019 £
Research & development charged as an expense	1,962,237	1,826,997
Depreciation of tangible fixed assets	578,636	573,754
Exchange differences	18,754	3,057
Operating lease rentals	<u>478,572</u>	<u>385,678</u>

7. Employees

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

	2020 £	2019 £
Wages and salaries	7,410,158	7,494,746
Cost of defined contribution scheme	202,557	194,058
	<u>7,612,715</u>	<u>7,688,804</u>

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

	2020 No.	2019 No.
Technical	19	22
Production	141	156
Sales and Distribution	9	10
Administration	53	51
	<u>222</u>	<u>239</u>

KENTEC ELECTRONICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

8. Directors' remuneration

	2020 £	2019 £
Directors' emoluments	275,170	267,152
Company contributions to defined contribution pension schemes	17,589	18,786
	<u>292,759</u>	<u>285,938</u>

During the year retirement benefits were accruing to 1 director (2019 - 1) in respect of defined contribution pension schemes.

The highest paid director received remuneration for qualifying services of £175,838 (2019 - £188,737).

9. Interest receivable

	2020 £	2019 £
Other interest receivable	3,726	11,761
	<u>3,726</u>	<u>11,761</u>

10. Interest payable and similar expenses

	2020 £	2019 £
Bank charges	11,782	10,620
Finance leases and hire purchase contracts	38,774	45,002
	<u>50,556</u>	<u>55,622</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

11. Taxation

	2020 £	2019 £
Corporation tax		
Current tax on profits for the year	1,115	114,443
Adjustments in respect of previous periods	(79,524)	-
Total current tax	<u>(78,409)</u>	<u>114,443</u>
Deferred tax		
Origination and reversal of timing differences	83,604	30,682
Total deferred tax	<u>83,604</u>	<u>30,682</u>
Taxation on profit on ordinary activities	<u>5,195</u>	<u>145,125</u>

Factors affecting tax charge for the year

The tax assessed for the year is the same as (2019 - *the same as*) the standard rate of corporation tax in the UK of 19% (2019 - 19%) as set out below:

	2020 £	2019 £
Profit on ordinary activities before tax	<u>490,316</u>	<u>1,303,989</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2019 - 19%)	93,160	247,758
Effects of:		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	146	488
Capital allowances for year in excess of depreciation	10,192	(3,539)
Adjustments to tax charge in respect of prior periods	(79,524)	(14,587)
Short term timing difference leading to an increase (decrease) in taxation	83,604	30,830
Adjustment in research and development tax credit leading to an increase (decrease) in the tax charge	(116,301)	(116,497)
Changes in provisions leading to an increase (decrease) in the tax charge	4,538	672
Other differences leading to an increase (decrease) in the tax charge	9,380	-
Total tax charge for the year	<u>5,195</u>	<u>145,125</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

11. Taxation (continued)

Factors that may affect future tax charges

The UK government announced on 11 March 2020 that the rate will be maintained at 19% rather than reduced to 17% from 1 April 2020. The legislation will be introduced in the Finance Bill 2020. Therefore deferred taxes at the balance sheet date will be measured at the tax rate of 19%, the rate at which the deferred balances are expected to reverse.

12. Dividends

	2020 £	2019 £
Interim dividend of 3,124 pence (2019: £Nil) per Ordinary share paid during the period	581,000	-
	<u>581,000</u>	<u>-</u>

The directors have not proposed a final dividend (2019: £Nil).

KENTEC ELECTRONICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

13. Tangible fixed assets

	Plant and machinery £	Motor vehicles £	Fixtures and fittings £	Computer equipment £	Total £
Cost or valuation					
At 1 January 2020	3,834,856	389,201	758,400	412,240	5,394,697
Additions	82,547	-	326,194	9,716	418,457
Disposals	-	(45,015)	-	-	(45,015)
At 31 December 2020	3,917,403	344,186	1,084,594	421,956	5,768,139
Depreciation					
At 1 January 2020	1,818,158	174,964	324,616	343,851	2,661,589
Charge for the year on owned assets	361,664	49,117	131,448	36,407	578,636
Disposals	-	(28,940)	-	-	(28,940)
At 31 December 2020	2,179,822	195,141	456,064	380,258	3,211,285
Net book value					
At 31 December 2020	<u>1,737,581</u>	<u>149,045</u>	<u>628,530</u>	<u>41,698</u>	<u>2,556,854</u>
At 31 December 2019	<u>2,016,698</u>	<u>214,237</u>	<u>433,784</u>	<u>68,389</u>	<u>2,733,108</u>

KENTEC ELECTRONICS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

13. Tangible fixed assets (continued)

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

	2020 £	2019 £
Plant and machinery	1,126,951	1,355,467
	<u>1,126,951</u>	<u>1,355,467</u>

14. Stocks

	2020 £	2019 £
Raw materials and consumables	1,895,859	1,817,123
Work in progress (goods to be sold)	389,485	62,757
Finished goods and goods for resale	161,911	150,134
Finished goods purchased	67,217	53,562
	<u>2,514,472</u>	<u>2,083,576</u>

Stock recognised in cost of sales during the year as an expense was £12,218,736 (2019 - £13,449,815).

15. Debtors

	2020 £	2019 £
Trade debtors	2,706,020	2,336,196
Amounts owed by group undertakings	737,515	1,369,438
VAT recoverable	20,233	55,008
Prepayments and accrued income	358,309	400,543
Supplier payments paid on account	95,438	100,241
	<u>3,917,515</u>	<u>4,261,426</u>

KENTEC ELECTRONICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

16. Cash and cash equivalents

	2020 £	2019 £
Cash at bank and in hand	3,069,802	3,240,982
	<u>3,069,802</u>	<u>3,240,982</u>

17. Creditors: Amounts falling due within one year

	2020 £	2019 £
Customer payments received on account	115,167	96,539
Trade creditors	1,675,142	1,885,685
Amounts owed to group undertakings	112,835	201,510
Corporation tax	1,117	45,692
Other taxation and social security	142,335	163,466
Net obligations under finance leases and hire purchase contracts	302,633	288,856
Accruals and deferred income	488,074	122,637
	<u>2,837,303</u>	<u>2,804,385</u>

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

	2020 £	2019 £
Net obligations under finance leases and hire purchase contracts	581,756	883,637
	<u>581,756</u>	<u>883,637</u>

KENTEC ELECTRONICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

19. Hire purchase and finance leases

	2020 £	2019 £
Within one year	302,633	288,856
Between 1-5 years	581,756	883,637
	<u>884,389</u>	<u>1,172,493</u>

20. Deferred taxation

	2020 £
At beginning of year	(78,120)
Charged to Statement of Income	(83,604)
At end of year	<u><u>(161,724)</u></u>

The provision for deferred taxation is made up as follows:

	2020 £	2019 £
Accelerated capital allowances	(173,687)	(78,120)
Pension surplus	11,963	-
	<u><u>(161,724)</u></u>	<u><u>(78,120)</u></u>

21. Provisions

	Dilapidation Provision £
At 1 January 2020	577,951
Charged to profit or loss	20,789
At 31 December 2020	<u><u>598,740</u></u>

KENTEC ELECTRONICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

22. Share capital

	2020 £	2019 £
Authorised, allotted, called up and fully paid		
18,600 (2019 - 18,600) Ordinary shares of £1 each	<u>18,600</u>	<u>18,600</u>

23. Reserves

Profit and loss account

The profit and loss account reserve consists of the cumulative total of all current and prior period profits and losses.

24. Commitments under operating leases

At 31 December 2020 the Company had future minimum lease payments due under non-cancellable operating leases for each of the following periods:

	2020 £	2019 £
Not later than 1 year	412,723	405,256
Later than 1 year and not later than 5 years	663,277	1,065,244
	<u>1,076,000</u>	<u>1,470,500</u>

25. Controlling party

Kentec Electronics Limited is a private limited company registered in England and Wales. The address of the registered office is Unit 25&26 Fawkes Avenue, Questor, Dartford, Kent, DA1 1JQ.

The immediate and ultimate parent undertaking is Hochiki Corporation, a company incorporated in Japan. Hochiki Corporation is the parent undertaking of the largest and smallest group of undertakings to consolidate these financial statements at 31 March 2021. The consolidated financial statements of Hochiki Corporation are available from 2-10-43 Kamiosake Shinagawa-Ku, Tokyo, 141-8660, Japan.

This document was delivered using electronic communications and authenticated in accordance with the registrar's rules relating to electronic form, authentication and manner of delivery under section 1072 of the Companies Act 2006.