

Kenwood Limited

Registered No. 872044

Report and Financial Statements

for the year ended

31 December 2021

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COMPANIES HOUSE

Kenwood Limited

Corporate Information

Directors

Silvia de' Longhi

Stefano Biella

Mark Welch

Secretary

Alan Cummings

Independent Auditors

PricewaterhouseCoopers LLP

Savannah House

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Ocean Village

Southampton

SO14 3TJ

United Kingdom

Registered Office

1 Kenwood Business Park

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Havant

Hampshire

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Strategic Report

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

Principal Activities

The Company's principal activity during the year was the selling and marketing of small domestic appliances.

Business Review

The profit for the financial year is £5,007,000 (2020: £15,093,000). The Company paid no interim ordinary dividends during the year (2020: 73.85p per ordinary A share amounting to £18,500,000).

The Company presents its financial statements under FRS 101 - Reduced Disclosure Framework and has taken advantage of the disclosure exemptions allowed under this standard, as outlined in note 2.

The Company's key financial and other performance indicators during the year were as follows:

	2021 £000	2020 £000	Change %
Turnover	129,117	112,087	+15.2%
Operating profit	5,613	5,246	+7.0%
Profit before taxation for the financial year	5,356	16,863	(68.2)%
Total equity	130,196	124,449	+4.6%
	No.	No.	
New Kenwood products launched in the year	18	13	+38.5%

The financial year of 2021 saw the continuing impact of Covid-19 with periods of lockdown, working from home continuations and travel restrictions. A level of stability was established towards the end of the year with various vaccination programmes enabling the return to a more "normal" life. The retail market in the UK and Republic of Ireland continued to adjust with many retailers investing further in online consumer trading and reducing their high street presence. Consumers, in comparison to 2020, have seen more choice around the spend of their disposable income with the reduction in restrictive Covid-19 measures.

The Company has continued to benefit from this time at home, both in food preparation and home coffee consumption and this has combined to produce a 15.2% increase in the Turnover.

Operating profit for the year at £5,613,000 compares to £5,246,000 in the previous year, a 7.0% absolute increase in the value, which is a direct benefit of increased turnover, with operating margin % being slightly below previous year of 4.7%, at 4.3% of Turnover. This growth came despite the background of continued supply chain disruption, increasing product cost base, particularly from sea freight and components, and also the requirement to increase pricing to the customer base.

Profit before taxation at £5,356,000 highlights a considerable reduction in the previous year of £16,863,000 with the impact of exchange having a significant impact on the year. The company holds part of its liquidity in Euros in order to limit the impact of foreign currency risk from the fluctuations of the GBP vs Euro rate, in the interest of the Group. This can lead to foreign currency exchange gains or losses in the company's income statement. Consequently during the year there was an exchange loss of £5,528,000 in comparison to the previous year gain of £4,162,000.

Strategic Report (continued)

Business Review (continued)

Other notable differences in the year relate to the dividends from the Company's investment in De'Longhi Kenwood MEIA F.Z.E., with 2021 seeing £5,779,000 received in comparison to the previous year of £7,675,000.

The year saw continued investment in advertising and promotion, with a high-profile celebrity being at the centre of extensive TV advertising within the Coffee category. Direct selling activities saw investment in both process and infrastructure to ensure we continue this key growth pillar of the business. Cost control was a key element to the year and was key to supporting the business outcome above.

As the year progressed, out of the restrictions of the Covid-19 measures, it was clear that consumer spend was being diverted to areas that had not been available for a year or two. This resulted in a steadying of market growth and in some cases a reduction in market sizes. In some cases, this combined with the continued supply issues and left the business seeing a reduction, later in the year, of Turnover growth. The business remains in a strong leading position in many categories whilst facing the challenges of the coming months when consumers disposable income is being impacted by inflation or other wants and desires.

The focus remains in ensuring consumers understanding and needs of our products are satisfied and we offer better solutions than our competitors. Strong growth categories like coffee are seeing significant competitor activity and it is vital our best-in-class products receive the correct consumer understanding to ensure continued growth. Inflation around the world is increasing the cost of our products and consequently pricing to the consumer is also increasing, this is key to the ongoing profitability. The challenge remains to ensure the consumer spends their reducing disposable income on our products and markets are already under growth pressure.

During 2021 18 new products were launched (2020: 13) globally as a result of new product development by the Company. This included the launch of several new versions of flagship products including the new titanium chef baker range and KMix editions standmixers focusing on new trend colours. There was also the launch of the multipro express weigh and family sized food processor. Several other products were launched in the blending, chopping and breakfast categories. The Directors are satisfied that this is in line with the Company's new product roadmap.

Statement of Directors' Duties

Overview

The Directors of Kenwood Limited must act in accordance with a set of general duties. These duties are detailed in section 172 of the UK's Companies Act 2006 and include a duty to promote the success of the Company which is summarised below.

The Directors are briefed on their duties and they can access professional advice on these – either through the Company and wider Group or, if they judge necessary, from an independent provider.

Strategic Report (continued)

Statement of Directors' Duties (continued)

The Directors fulfil their duties partly through a governance framework that delegates day-to-day decision making to employees of the Company.

The Board recognises that such delegation needs to be much more than simple financial authorities and in this section of the report we have summarised our governance structure, which covers: the values and behaviours expected of our employees, the standards they must adhere to; how we engage with stakeholders; and how the Board looks to ensure that we have a robust system of control and assurance processes.

Shareholders | Employees | Customers | Suppliers | Community and Environment

A Board should communicate effectively with its shareholders and understand their views, and act fairly as between different members. Employees are central to the long-term success of a Company, as such a Board should consider their interests, and, to assist in doing so, have means of engaging with and understanding their views. Fostering business relationships with key stakeholders, such as customers and suppliers, is also important to a Company's success. A Board should have visibility of these relationships so that is able to take stakeholder considerations into account when making decisions. In their decision-making, Directors need to have regard to the impact of a Company's operations on the community and environment.

Overview of how the Board performed its duties

- **Shareholders**

The Company is 100% owned by Kenwood Appliances Limited, part of the De'Longhi Group. As such, the Board maintain close working relations with the De'Longhi Group head office and the strategies of Kenwood Limited are closely aligned with the larger Group. Across many departments a matrix reporting structure is maintained ensuring that information flows freely within the Group to promote congruence.

- **Employees**

The Company has a well-developed structure through which it engages regularly with all its employees. Employees are kept abreast of operational news and business performance via the internal intranet, e-mails, fortnightly business review briefings as well as a bi-annual "All Hands" conference where longer-term objectives, project and results are discussed. This also includes ensuring employees are aware of the wider financial and economic factors that influence the performance of the Company.

As part of the De'Longhi Group, employees are able to utilise a Group portal "Plus" to keep informed of developments in the wider De'Longhi Group.

Regular meetings are held in departments and also on a one to one basis between line managers and employees to take into consideration views of the employees. This encourages an open two way relationship between managers and employees providing the opportunity for them to be engaged with the direction of the Company.

In addition, every two years, an employee engagement survey is performed using an independent Company to gather information regarding employee views on leadership, wellbeing, personal growth, "my manager", social conscience and fair deal.

The survey allows each employee to provide anonymous feedback and insight on these categories and the results of each survey (which is undertaken throughout the De'Longhi Group) is reviewed by the Board and provides significant influence for the development of value adding initiatives.

Strategic Report (continued)

Statement of Directors' Duties (continued)

Overview of how the Board performed its duties (continued)

One of these initiatives that have been borne out of this review include a wellbeing committee being made up of a broad range of employees. This committee has been supported by the Board and has focused on providing additional facilities and knowledge to all employees through workshops and events designed to provide a tangible long-term improvement to the employees physical and mental wellbeing.

- **Customers**

The Company trades into the UK and Ireland and as such the Board delegate the ownership of Customer relations to the Country Manager who co-ordinates the activities through their national sales team. This allows the Company to understand and work efficiently with its local customers and maintain high levels of service.

The Company also operates a service and warranty function which aims to respond to the needs of the customer in a quick and efficient manner.

- **Suppliers**

The Board delegates the maintenance and building of supplier relations to a central supply chain hierarchy, which works with suppliers in the areas of quality, reliability, lead times, working conditions and costs to ensure that our products and manufacturing origins are maintained a high level. These levels are monitored and if shortfalls are discovered they are rectified through consultation with the supplier. If improvements cannot be achieved, then alternative suppliers would be sourced.

- **Community and Environment**

Over the previous years the Board has supported various ongoing initiatives which are designed to support local community projects. In 2015 the "Giving Something Back" committee was formed within the Company, with the aim of raising awareness and funding for local projects and causes. In 2021 this included various fundraising events for the registered charity Havant & East Hants Mind, the local branch of a national charity that works to promote good mental health within the locality. They provide advice and support to empower anyone experiencing a mental health problem and campaign to improve services, raise awareness and promote understanding. In addition, the Company supports other local causes through the Kenwood Community project.

The Board also works with the regional government commerce groups to help grow and support trade within the local area.

Sustainability continues to be an area that the Board has particular interest in, and the Company continues to invest time and energy to reduce on site waste and work with suppliers to source environmentally friendly packaging and reduce/remove non-recyclable elements.

Strategic Report (continued)**Statement of Directors' Duties (continued)****Streamlined energy and carbon reporting (SECR) disclosure****UK Greenhouse gas emissions and energy use data for the period 1 January 2021 to 31 December 2021**

	2021	2020
Energy consumption used to calculate emissions (MWh)	1,215	1,036
Energy consumption breakdown (MWh):		
Electricity	889	837
Transport fuel	326	199
Scope 1 emissions in metric tonnes CO2e:		
Owned transport	65.10	31.75
Scope 2 emissions in metric tonnes CO2e:		
Purchased electricity	167.51	195.02
Scope 3 emissions in metric tonnes CO2e:		
Business travel in employee owned vehicles	9.45	14.69
Total gross emissions in metric tonnes CO2e	242.06	241.46
Intensity ratios:		
Energy consumption per metre squared (Tonnes CO2e per m ²)	0.029	0.029
Tonnes CO2e per FTE	1.06	1.05

In the year the following actions were taken to improve energy efficiencies:

- Electricity supply was switched to a green energy supplier
- Planning for the installation of a new roof on the main office building took place which included identifying appropriate energy efficient insulation.

Furthermore, the following actions were planned to improve energy efficiencies in the future:

- Reduce site energy usage by 10% by the end of 2022 (2019 baseline)
- Improve recyclability of service centre packaging
- Increase the amount diverted to recycling from site general waste

Associated greenhouse gas emissions reporting is in line with the Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard. The Company used energy and conversion factors as issued by the Carbon Trust, whose data is compliant with the Department for Business, Energy and Industrial Strategy, in calculating the figures above. The figures are based on corporate activities within UK and Ireland.

Strategic Report (continued)

Statement of Directors' Duties (continued)

Overview of how the Board discharged its duties (continued)

Decision-making | Governance and performance oversight | Risk

Boards of large companies invariably delegate day-to-day management and decision making to local management. The Board of the Company in the UK is steered by the strategies of the Board of the De' Longhi Group based in Italy. Directors should maintain oversight of the Company's performance and ensure that management is acting in accordance with the strategy and plans agreed by the Board, and its delegated authorities. The culture, values and standards that underpin this delegation should help ensure that when decisions are made their wider impact has been considered. A Board should also reserve certain matters for its own consideration so that it can exercise judgement directly when making major decisions, and in doing so promote the success of the Company whilst having regard to all necessary matters.

A Board needs assurance that a Company's financial reporting, risk management, governance and internal control processes, including policies mandating procedural requirements and standards, are operating effectively.

Each year, the Board of the De' Longhi Group undertakes a review of the Company's strategy including the business plan for the following three years. Once approved by the Board, the plan and strategy form the basis for the financial budgets, resource plans and investment decisions, and the future strategic direction of the Company. In making decisions concerning the business plan and future strategy, the Board has regard to a variety of matters including the interests of various stakeholders, the consequences of its decision in the long term and its long-term reputation.

Monthly reporting consolidated at Group level is performed to review performance of actual activities against budgeted and forecasted results.

The delegation by the Board of authority to spend and invest in areas in line with the plan is monitored and reviewed by using the Group internal audit department. They perform an annual audit that provides confirmation that the delegated authorities have been adhered to, and where values are significant, that the appropriate Board member has been consulted and provided approval.

The Company maintains authority levels in place for capital and revenue purchases and all significant capital investments receive senior approval through the Group matrix structure ensuring that the investment is congruent to the Company and Group strategy.

Culture, Values and Standards

Culture, values and standards underpin how a Company creates and sustains value over the longer term and are key elements of how it maintains a reputation for high standards of business conduct.

They also guide and assist in decision making and thereby help promote a Company's success, recognising, amongst other things, the likely consequences of any decision in the longer term and wider stakeholder consideration. The standards set by a Board mandate certain requirements and behaviours with regards to the activities of its Directors, employees and others associated with it.

Strategic Report (continued)

Statement of Directors' Duties (continued)

Overview of how the Board discharged its duties (continued)

Overview of how the Board discharged its duties

As noted above, the Company operates a recurring employee engagement survey to identify improvement areas and to help deliver long-term success. This survey is performed throughout the Group and the results are reviewed at both a Board and a local level. The results are reviewed by the Directors and senior management who then implement subsequent actions and initiatives to reinforce the Company's values and ensure that we have the right culture to meet the strategic needs of the business. One example of this consolidation and cascade of culture is the Group management training programme with focus on departments and subsidiaries working together and instilling the core Group values within all employees.

The Board sets the values and standards required of all employees through its operational framework, which contains the Group Code of Conduct, and this has been well supported throughout the business with training provided to all staff in areas of discrimination, modern slavery and equality and diversity training, as well as having strict policies on avoiding bribery and money laundering.

Principal & financial risks and uncertainties

- **Competitive risk**

The Company operates in a highly competitive market, particularly on price and availability, where there are a few key dominant customers. This generally results in downward pressure on margins and the risk that customer demands are not met. The commercial team seek to mitigate this risk by continually monitoring market prices and building close relationships with customers.

- **Financial instruments risk**

Given the size of the Company, the Directors have not delegated the responsibility for monitoring financial risk management to a sub-committee of the Board. The policies set by the Board of Directors are implemented by the Company's finance department. The finance department seeks assistance in managing the Company's foreign currency risk from the treasury department of the Company's ultimate parent Company, De' Longhi S.p.A., where necessary.

The Company's assets and liabilities include the following financial instruments:

- Cash at bank and in hand that arise directly from the Company's investment activities; and
- Cash at bank and in hand, trade debtors and trade creditors that arise directly from the Company's trading activities; and
- Derivative transactions undertaken by the Company to manage market risks and currency risks.

The main risks arising from the Company's financial instruments are foreign currency risk, interest rate risk, credit risk, liquidity risk, pricing risk and investment risk.

- **Foreign currency risk**

The Company's profits and net assets could be significantly affected by currency movements as a substantial proportion of the Company's assets and liabilities is denominated in currencies other than sterling. The Company enters into forward currency contracts as a means of limiting or decreasing its exposure to particular foreign currencies. However, where the Company holds part of its liquidity in Euros in order to limit the impact of foreign currency risk from the fluctuations of the GBP vs Euro rate, in the interest of the Group, there remains exposure which can lead to exchange gains and losses.

Strategic Report (continued)

Principal & financial risks and uncertainties (continued)

- Liquidity risk

Any additional funding requirements may be met by short term borrowing, supported by the ultimate parent Company, De'Longhi S.p.A.

- Interest rate risk

The Company's finances are on occasion assisted by short-term borrowing using Group cash pooling facilities. Changes in interest rates affect the Company's bottom line profit. The Company does not mitigate this risk as the potential movements are expected to be minimal and any borrowing short term. If the rates were to become highly variable and significant, then the Company would move to structure borrowing differently to minimise any risk.

- Credit risk

The Company undertakes sales to numerous companies mainly in the UK and Ireland, whose credit rating is assessed case by case and the risk is then covered by insurance policies where cover is economically obtainable. Where credit insurance cannot be economically obtained, the Company works with the specific customer and continually review to keep credit risk within acceptable limits.

- Pricing risk

The Company is exposed to supplier price risk as a result of its operations. The Company seeks to mitigate this risk by negotiating prices in advance with suppliers where possible.

- Investment risk

In addition, the Company carries investment risk but mitigates this by investing only in other De'Longhi Group companies, of which it has a good working knowledge. The main risk therefore associated with the Company's investments in De'Longhi Group companies is valuation and any subsequent impairment.

- Covid-19 future developments

In 2020 and 2021 the Government in the UK imposed lockdowns on public activities in response to the covid-19 pandemic which initially had an impact on the business activity. Trading volumes have recovered throughout 2020 and 2021, stabilising since then. The Directors remain confident about future trading prospects of the Company due to activities and trading returning to pre-pandemic levels with the challenges facing the business now of a more commercial nature. During the year the Company utilised the Coronavirus Job Retention Scheme for a small number of employees.

- Climate risk

The Company has considered the impact of climate risks on its current activities and assesses its impact on any future decisions both in terms of its sites of operation and production of products. Consumer attitudes towards companies that are not deemed environmentally friendly could in time have a negative impact on future sales. There is particular risk in terms of product packaging and manufacturing in Chinese factories which the Company pays attention to. Rising fuel prices are directly impacting distribution and transportation costs.

On behalf of the Board



Mark Welch

Director

27th September 2022

Directors' Report

Registered No. 872044

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

Directors of the Company

The current directors are shown on page 1. There have been no changes to directors during the current financial year and up to the date of signing these financial statements.

Dividends

The Directors recommended no interim ordinary dividend to be paid to its immediate parent undertaking, Kenwood Appliances Limited during the year (2020: 73.85p per ordinary A share amounting to £18,500,000). No other dividends have been paid during the year and no final dividend is recommended by the Directors (2020: £Nil).

Future developments

Commercially the Company understands that the retailer base is much reduced over recent years and the current, post Covid-19, era is very challenging for those that remain. A need to be closer and more influential with each retailer results from this and is the focus going forward so that we can ensure "share of voice" to the consumer. eCommerce, both inhouse and Retailer sites, remains key to growth success and is being considered as one of primary routes to market for the future.

New product development will see new products launched in food preparation and coffee during 2022.

Financial Instruments

Details of financial instruments are provided in the strategic report on page 8.

Research and development

The Company has pursued its programme of research and development during the year to improve existing products and introduce new products.

Events since the balance sheet date

There are no known events after the date of the balance sheet that require disclosure.

Disabled employees

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, the Company will wherever practicable provide continuing employment in the same or an alternative position and to provide appropriate training and / or support to achieve this aim.

Directors' Report (continued)

Employee involvement

The Company's framework for employee involvement is described in the strategic report on page 4.

Going concern

The Company's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, details of its financial instruments and derivative activities, and its exposures to competitive, financial instruments, foreign currency, liquidity, interest rate, credit, pricing, investment, covid-19, and climate risk are described in the Strategic Report on pages 2 to 9.

The company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the company should be able to operate within the level of its current cash reserves and borrowings. The Directors' believe that the Company is well placed to manage its principal risks and uncertainties despite the continued uncertainty in the Global economy.

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the report and financial statements.

Charitable donations

The activities that the Company supports for the "Giving Something Back" initiative allow employees to give time and effort to supporting the designated local charity for the year through both active volunteering and fund-raising activities.

The Company also donates £25,000 a year to local charities which is known as the "K Grant". This aims to support local charities that align with the Company's background.

Directors' Indemnity

As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the financial year and is currently in force.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office. At the date of approval of these financial statements, the management is assessing the possibility of proposing the reappointment of the auditors at the Annual General Meeting.

Directors' Report (continued)

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Report and Financial Statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law, 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also 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.

Directors' confirmations

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the 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.

On behalf of the Board



Mark Welch
Director
27th September 2022

Independent auditors' report to the members of Kenwood Limited

Report on the audit of the financial statements

Opinion

In our opinion, Kenwood Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2021; the Income Statement, the Statement of comprehensive income and the Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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.

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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

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 year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to tax legislation, environmental and consumer rights regulation and anti-bribery and corruption legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to manipulate results, deferring profit into future periods and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Enquiries of the directors and management throughout the year, as well as at year end to identify any instances of non-compliance including consideration of known or suspected instances of fraud.
- Evaluation of management's consideration of known or suspected instances of fraud.

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- Review of meeting minutes, and where applicable, correspondence with relevant regulatory authorities.
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by senior management.
- Incorporating elements of unpredictability into the audit procedures performed.
- Testing of key accounting estimates, corroborating and challenging key assumptions made by management

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

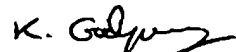
Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.



Kevin Godfrey (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton
27 September 2022

Income Statement

for the year ended 31 December 2021

	Note	2021 £000	2020 £000
Turnover	3	129,117	112,087
Cost of sales		(84,942)	(72,697)
Gross profit		<u>44,175</u>	<u>39,390</u>
Distribution costs		(37,719)	(33,787)
Administrative expenses		(15,487)	(13,525)
Other operating expenses		(1,048)	(1,504)
Other operating income	4	15,692	14,672
Operating profit	4	<u>5,613</u>	<u>5,246</u>
Exchange (losses)/gains		(5,528)	4,162
Investment income	8	5,779	7,675
Other interest receivable and similar income	9	104	250
Interest payable and similar expenses	10	(612)	(470)
Profit before taxation		<u>5,356</u>	<u>16,863</u>
Income tax expense	11	(349)	(1,770)
Profit for the financial year		<u><u>5,007</u></u>	<u><u>15,093</u></u>

Statement of comprehensive income
for the year ended 31 December 2021

	Note	2021 £000	2020 £000
Profit for the financial year		5,007	15,093
Other comprehensive income/(expense):			
Items that can be reclassified to profit or loss:			
Adjustment for cash flow hedges transferred to the initial carrying amount of the hedged item	22	913	464
Tax on items relating to components of other comprehensive income	11, 22	(173)	(88)
Other comprehensive income for the year, net of tax	22	<u>740</u>	<u>376</u>
Total comprehensive income for the year		<u>5,747</u>	<u>15,469</u>

Kenwood Limited

Statement of changes in equity
for the year ended 31 December 2021

	Note	Share capital A class £000	Share capital B class £000	Share premium £000	Cash flow hedge reserve £000	Capital contribution £000	Retained earnings A class £000	Retained earnings B class £000	Total equity £000
At 1 January 2020		25,050	1,500	4,458	(999)	10,000	16,779	70,692	127,480
Profit for the financial year		-	-	-	-	-	3,392	11,701	15,093
Other comprehensive income		-	-	-	376	-	-	-	376
Total comprehensive income for the year		-	-	-	376	-	3,392	11,701	15,469
Equity dividends paid	12	-	-	-	-	-	(18,500)	-	(18,500)
At 31 December 2020		25,050	1,500	4,458	(623)	10,000	1,671	82,393	124,449
Profit for the financial year		-	-	-	-	-	4,625	382	5,007
Other comprehensive income		-	-	-	740	-	-	-	740
Total comprehensive income for the year		-	-	-	740	-	4,625	382	5,747
At 31 December 2021		<u>25,050</u>	<u>1,500</u>	<u>4,458</u>	<u>117</u>	<u>10,000</u>	<u>6,296</u>	<u>82,775</u>	<u>130,196</u>

Balance Sheet

as at 31 December 2021

Registered No. 872044

	Note	2021 £000	2020 £000
Fixed assets			
Intangible assets	13	4,751	5,412
Tangible assets	14	6,547	7,102
Right-of-use assets	15	11,396	3,022
Investments	16	1,358	1,358
		<u>24,052</u>	<u>16,894</u>
Current assets			
Stocks	17	25,954	17,925
Trade debtors (net of a bad debt provision of £21,000 (2020: £150,000))		18,224	13,287
Amounts due from Group undertakings	18	10,119	11,445
Other debtors		44	278
Prepayments and accrued income		1,940	1,539
Income tax recoverable		1,056	-
Deferred tax assets	11	622	954
Cash at bank and in hand		111,615	107,047
		<u>169,574</u>	<u>152,475</u>
Creditors: amounts falling due within one year			
Trade creditors		(20,735)	(20,197)
Amounts owed to Group undertakings	18	(15,547)	(8,122)
Income tax payable		(740)	(487)
Other tax and social security		(5,909)	(6,098)
Lease liabilities	15	(1,445)	(523)
Other creditors		(3,811)	(2,938)
Accruals and deferred income		(345)	-
Provisions for liabilities	19	(2,506)	(2,241)
		<u>(51,038)</u>	<u>(40,606)</u>
Net current assets		118,536	111,869
Total assets less current liabilities		142,588	128,763
Creditors: amounts falling due after more than one year			
Lease liabilities	15	(10,914)	(2,852)
Provisions for liabilities	19	(1,478)	(1,462)
		<u>(12,392)</u>	<u>(4,314)</u>
Net assets		<u>130,196</u>	<u>124,449</u>

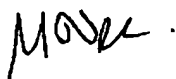
Kenwood Limited

Balance Sheet

as at 31 December 2021
(continued)

	Note	2021 £000	2020 £000
Capital and reserves			
Called up share capital	22	26,550	26,550
Share premium		4,458	4,458
Cash flow hedge reserve	23	117	(623)
Capital contribution		10,000	10,000
Retained earnings		89,071	84,064
Total equity		130,196	124,449

The notes on pages 21 to 48 are an integral part of these financial statements. The financial statements on pages 16 to 48 were approved by the Board of Directors on 27th September 2022 and signed on its behalf by



Mark Welch
Director

Notes to the financial statements

For the year ended 31 December 2021

1. Authorisation of financial statements and statement of compliance with FRS 101

The Company's principal activity during the year was the selling and marketing of small domestic appliances.

The financial statements of Kenwood Limited (the "Company") for the year ended 31 December 2021 were authorised for issue by the Board of Directors on 27th September 2022 and the balance sheet was signed on the Board's behalf by Mark Welch. Kenwood Limited is a limited Company, by shares incorporated and domiciled in England, United Kingdom. Kenwood Limited is a private limited company registered in England.

These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and in accordance with applicable accounting standards. The financial statements have been prepared under the historical cost convention, and in accordance with the Companies Act 2006.

The Company's financial statements are presented in Sterling, which is also the Company's functional currency, and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated.

The Company has taken advantage of the exemption under s401 of the Companies Act 2006 not to prepare Group accounts as it is a wholly owned subsidiary of De'Longhi S.p.A., which is also the ultimate parent undertaking and controlling party.

The results of Kenwood Limited are included in the consolidated financial statements of De'Longhi S.p.A. which are available from Via L.Seitz 47, 31100 Treviso, Italy.

The principal accounting policies adopted by the Company are set out in note 2.

2. Accounting policies

2.1. Basis of preparation

The accounting policies which follow in section 2.3 set out those policies which apply in preparing the financial statements for the year ended 31 December 2021. Accounting policies have been applied consistently, other than where new policies have been adopted.

These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and in accordance with applicable accounting standards. The financial statements have been prepared under the historical cost convention, and in accordance with the Companies Act 2006.

The financial statements have been prepared on a going concern basis and applying historical cost convention, with the exception of forward currency contracts which are measured at fair value. The Company's working capital requirements are met through its cash reserves. The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company should be able to operate within the level of its current cash reserves and borrowings. After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

Notes to the financial statements (continued)

2. Accounting policies (continued)

2.1. Basis of preparation (continued)

The Company has taken advantage of the following disclosure exemptions under FRS 101 for which the conditions have been met:

- 2.1.1. The requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement, (this exemption requires that equivalent disclosures are included in the financial statements of the Group in which the entity is consolidated).
- 2.1.2. The requirements of IFRS 7, Financial Instruments: Disclosures.
- 2.1.3. The requirements of IFRS 9 Financial Instruments: Recognition and Disclosures, provided that equivalent disclosures are included in the consolidated financial statements of the Group in which the entity is consolidated
- 2.1.4. The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15.
- 2.1.5. The requirement in paragraph 38 of IAS 1 "Presentation of Financial Statements" to present comparative information in respect of:
 - a) the requirement in paragraph 79(a)(iv) of IAS 1;
 - b) paragraph 73(e) of IAS 16 Property, Plant and Equipment;
 - c) paragraph 118(e) of IAS 38 Intangible Assets;
- 2.1.6. the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 111 and 134-136 of IAS 1 Presentation of Financial Statements;
- 2.1.7. the requirements of IAS 7 Statement of Cash Flows;
- 2.1.8. the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- 2.1.9. the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures;
- 2.1.10. the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a Group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

2.2. Changes in accounting policies

New standards, interpretations and amendments effective

There were no new standards applied for the financial year beginning 1 January 2021.

There are no other amendments to accounting standards or IFRIC interpretations that are effective for the year ended 31 December 2021 that have had a material impact on the Company's financial statements.

2.3. Judgements and key sources of estimation uncertainty

These financial statements, prepared in accordance with FRS 101, contain estimates and assumptions made by the Company relating to assets and liabilities, costs, revenues and contingent liabilities at the reporting date. These estimates are based on past experience and assumptions considered to be reasonable and realistic, based on the information available at the time of making the estimate.

The assumptions relating to these estimates are periodically reviewed and the related effects reflected in the income statement in the same period. Actual results could therefore differ from these estimates.

Notes to the financial statements (continued)

2. Accounting policies (continued)

2.3. Judgements and key sources of estimation uncertainty (continued)

The following paragraphs discuss the principal assumptions used for estimation purposes and the principal sources of uncertainty, that have a risk of causing material adjustment to the book value of assets and liabilities in the future; details of book value can be found in the individual explanatory notes.

2.3.1. Development costs

Development costs are capitalised in accordance with the stated accounting policy. Initial capitalisation of costs is based on management's judgement that technological and economical feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. Management has determined that the expected life for its products is 3 years. Therefore, projects are amortised over this expected useful life. At 31 December 2021, the carrying amount of capitalised development costs was £4,751,000 (2020: £5,412,000). Related figures in the financial statements are both judgements in the case the capitalisation criteria used, and estimates in the case of useful economic life.

2.3.2. Taxation

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further details are contained in note 11. Related figures in the financial statements are estimates.

2.3.3. Sales accruals

Trading terms and retrospective discounts are offered to a variety of customers both in the UK and Europe. At 31 December 2021 the carrying amount of sales accruals was £18,634,000 (2020: £19,029,000). The vast majority of these are defined within customer terms agreements and driven by the related turnover which does not include uncertainty or estimation. The remaining element of these is not contractually defined, but is based on management's best expectation of the likely outcome. Related figures in the financial statements are estimates.

2.4. Significant accounting policies

2.4.1. Foreign currency translation

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Notes to the financial statements (continued)

2. Accounting policies (continued)

2.4. Significant accounting policies (continued)

2.4.2. Research and development costs

Research costs are expensed as incurred. Development expenditure on an individual project is recognised as an intangible asset when the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. The useful lives of research and development costs are expected to be in correlation to the expected useful life of the related product of three years and are amortised on a straight line basis and reflected in the income statement under the category of administrative expenses.

2.4.3. Intangible assets

Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement under the category of administrative expenses in the year in which the expenditure is incurred. Development costs are capitalised when they meet certain criteria. This is predominantly when a project has more than eighty hours of time spent on it during the development phase. The useful lives of capitalised development costs are expected to be in correlation to the expected useful life of the related product of three years and are amortised on a straight-line basis and reflected in the income statement under the category of administrative expenses.

2.4.4. Tangible fixed assets and depreciation

Tangible fixed assets are stated at historical purchase cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to working condition for its intended use. Depreciation is calculated to write off the cost of tangible fixed assets, less their residual values, over the expected useful lives using the straight line basis. The expected useful lives of the assets to the business are reassessed periodically in the light of experience.

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost of each asset over its expected useful economic life as follows:

Plant and tooling	- over 1 to 10 years
Fixtures and Fittings	- over 3 to 8 years
Buildings	- over 50 years for freehold buildings and over 15 years for leasehold improvements

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

Notes to the financial statements (continued)

2. Accounting policies (continued)

2.4. Significant accounting policies (continued)

2.4.4. Tangible fixed assets and depreciation(continued)

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset is included in the income statement in the period of derecognition.

2.4.5. Investments

Investments in subsidiary undertakings are recorded at cost plus incidental expenses less any provision for impairment. Impairment reviews are performed by the directors when there is an indication of potential impairment.

2.4.6. Provision for liabilities

A provision is recognised when the Company has a legal or constructive obligation as a result of a past event; it is probable that an outflow of economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when recovery is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. Where discounting is used, the increase in the provision due to unwinding the discount is recognised as a finance cost.

2.4.7. Leases

The definition of a lease under IFRS16 includes those contracts which convey the right to control the use of an identified asset for a defined period of time in exchange for the consideration agreed upon. The lessee must be entitled to direct the identified asset's use and to obtain substantially all the economic benefits from that use. The asset may be identified explicitly or implicitly, or an asset can also be a portion of a larger asset if this portion is physically distinct; furthermore, the asset is identified if the supplier does not have substantive right of substitution throughout the contract term.

The standard allows some exemptions, as well as practical expedients to facilitate application. The lessee may choose not to apply IFRS 16 in the following cases:

- a) Lease contracts not exceeding 12 months in duration;
- b) Lease contracts relating to assets of marginal value (such as tablets, PC's, small office furniture and telephones).

In these cases, the lessee must account for the leases as required by the part of IAS 17 related to operating leases, meaning the consideration needs to be expensed across the life of the contract or using another systematic approach.

The Company leases various office, warehouses, equipment and vehicles. Rental contracts are typically made for fixed periods of 3 months to 12 years but may have extension options.

Notes to the financial statements (continued)

2. Accounting policies (continued)

2.4. Significant accounting policies (continued)

2.4.7. Leases (continued)

Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Lease assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis.

The liability must equal the present value of the payments payable over the term of the lease discounted at the interest rate implicit in the lease, if easily determined, or alternatively at the incremental borrowing rate which is the rate that the lessee would pay on a loan with a similar duration and conditions. The following are the categories of payment to be considered for the determination for lease liabilities:

- a) Fixed payments (including in-substance fixed payments), less any lease incentives receivable.
- b) Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date.
- c) Amounts expected to be payable by the Company under residual value guarantees.
- d) The exercise price of a purchase option if the Company is reasonably certain to exercise that option.
- e) Payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. In the event the lease term, purchase options, the residual value guaranteed, or variable payments based on indices or rates, are redetermined, the lease liability must be restated.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- a) The amount of the initial measurement of the lease liability.
- b) Any lease payments made at or before the commencement date less any lease incentives received.
- c) Any initial direct costs.
- d) Restoration costs.

Notes to the financial statements (continued)

2. Accounting policies (continued)

2.4. Significant accounting policies (continued)

2.4.7. Leases (continued)

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life as follows:

Buildings	- over 10 to 12 years
Vehicles	- over 3 years
Office equipment (photocopiers)	- over 1 year

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case of leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company:

- Where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received.
- Uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Company, which does not have recent third party financing.
- Makes adjustments specific to the lease, for example term, currency and security.

The Company used an incremental borrowing rates in the range of 1.7% to 2.8%.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of warehouse, retail stores and equipment, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not to extend), the Company is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the Company is typically reasonably certain to extend (or not terminate).
- Otherwise, the Company considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Most extension options in vehicles leases have not been included in the lease liability, because the company could replace the assets without significant cost or business disruption. The agreements related to the offices and to the warehouse do not give an extension option at the end.

The Company does not have lease contracts with extension and termination options that could generate a significant impact on the recognised lease liabilities and rights of use.

Notes to the financial statements (continued)

2. Accounting policies (continued)

2.4. Significant accounting policies (continued)

2.4.8. Financial Instruments

Initial recognition

Financial assets and financial liabilities comprise all assets and liabilities reflected in the balance sheet, although excluding tangible assets, intangible assets, deferred tax assets, prepayments, deferred tax liabilities, deferred revenue and employee benefit plans. The Company recognises financial assets and financial liabilities in the balance sheet when, and only when, the Company becomes party to the contractual provisions of the financial instrument. These instruments are initially recognised at fair value.

Classification and measurement

Financial instruments are classified at inception into one of the following categories, which then determine the subsequent measurement methodology:

Financial assets are classified into one of the following three categories:

- financial assets at amortised cost;
- financial assets at fair value through other comprehensive income (FVTOCI); or
- financial assets at fair value through the profit or loss (FVTPL).

Financial liabilities are classified into one of the following two categories:

- financial liabilities at amortised cost; or
- financial liabilities at fair value through the profit or loss (FVTPL).

The classification and the basis for measurement are subject to the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, as detailed below:

Financial assets at amortised cost

The Company has elected to designate all financial assets that meet the amortised cost criteria as being FVTPL. Such an election is irrevocable.

Financial assets at fair value through other comprehensive income (FVTOCI)

A financial asset is measured at FVTOCI if it is held for trading and acquired principally for the purpose of selling in the short term. This classification includes derivative assets.

Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current investments.

Financial assets at fair value through the profit or loss (FVTPL)

Financial assets not otherwise classified above are classified and measured as FVTPL.

Notes to the financial statements (continued)

2. Accounting policies (continued)

2.4. Significant accounting policies (continued)

2.4.8. Financial Instruments (continued)

Financial liabilities at amortised cost

Loans and payables, held-to-maturity investments, and non-derivative financial liabilities are measured at amortised cost using the effective interest method.

The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the instrument to the net carrying amount of the financial liability. If expected life cannot be determined reliably, then the contractual life is used.

Financial liabilities at fair value through the profit or loss

Financial liabilities not measured at amortised cost are classified and measured at FVTPL. This classification includes derivative liabilities.

Derecognition

Financial assets

The Company derecognises a financial asset when:

- the contractual rights to the cash flows from the financial asset expire,
- it transfers the right to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred; or
- the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of the consideration received is recognised as a gain or loss in the profit or loss.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire.

Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to the cash flows from the original financial asset are deemed to expire. In this case the original financial asset is derecognised and a new financial asset is recognised at either amortised cost or fair value.

Notes to the financial statements (continued)

2. Accounting policies (continued)

2.4. Significant accounting policies (continued)

2.4.8. Financial Instruments (continued)

If the cash flows are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Company recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the income statement.

Financial liabilities

To be treated in the same way as a modification to financial assets, based on expected cash flow changes.

Impairment of financial assets

Measurement of Expected Credit Losses

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12 month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. If material, the provisions for credit-impairment are recognised in the statement of comprehensive income and are reflected in accumulated provision balances against each relevant financial instrument balance. The allowance for such doubtful debts is only those not covered by insurance and it determined on the basis of past experience by analysing current and previous past due amounts and the quality of credit.

Changes in the economic environment could cause the performance of some of the Company's customers to deteriorate, with an impact on the recoverability of trade receivables, to the extent uninsured.

Notes to the financial statements (continued)

2. Accounting policies (continued)

2.4. Significant accounting policies (continued)

2.4.8. Financial Instruments (continued)

The Company considers a financial asset in default when contractual payments are 120 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

There are no trading related intercompany debts and the only intercompany debts that the Company holds relate to recharges. All intercompany debts are assessed and deemed to be recoverable.

Derivative financial instruments

Derivative financial instruments are contracts, the value of which is derived from one or more underlying financial instruments or indices, and include futures, forwards, swaps and options in the interest rate, foreign exchange, equity and credit markets.

Derivative financial instruments are recognised in the balance sheet at fair value. Fair values are derived from prevailing market prices, discounted cash flow models or option pricing models as appropriate.

In the balance sheet, derivative financial instruments with positive fair values (unrealised gains) are included as assets and derivative financial instruments with negative fair values (unrealised losses) are included as liabilities.

Hedge accounting

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets and liabilities.

The Company designates certain derivatives held for risk management as well as certain non-derivative financial instruments as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Company formally documents the relationship between the hedging instruments and hedge items, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship.

The Company makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting that changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated.

Notes to the financial statements (continued)

2. Accounting policies (continued)

2.4. Significant accounting policies (continued)

2.4.8. Financial Instruments (continued)

Cash flow hedges

The Company makes an assessment for a cash flow hedge of a forecast transaction, of whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss. When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability that could affect profit or loss, then the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income (OCI) and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the income statement and OCI.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively.

2.4.9. Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes material purchases on a weighted average price basis, associated import freight and duty costs plus related tooling charges.

Cost of stock includes the transfer from equity of gains and losses on qualifying cash flow hedges in respect of the purchase of materials. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal. This could include providing for items that are damaged or graded by recognising them at cost less a percentage write down as appropriate.

2.4.10. Trade and other debtors

Trade debtors, which generally have between 30 and 90 day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. Provision for impairment is made through profit or loss when there is objective evidence that the Company will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

Trade debtors are classified as current or non-current based on the Company's normal operating cycle. As the Company largely trades within insured limits, impairment is only considered when the Company ceases trading with a customer, or a customer enters administration.

2.4.11. Cash at bank and in hand

Cash and short-term deposits in the balance sheet comprise cash at banks and in hand and short term deposits with an original maturity of three months or less.

Notes to the financial statements (continued)

2. Accounting policies (continued)

2.4. Significant accounting policies (continued)

2.4.12. Revenue recognition

Recognition

The Company earns revenue from the sale of small domestic appliances. This revenue is recognised in the accounting period when control of the product has been transferred, at an amount that reflects the consideration to which the entity expects to be entitled in exchange for fulfilling its performance obligations to customers. The Company recognises revenue when the control transfers as per the incoterms, usually on delivery to the customer.

The principles in IFRS 15 are applied to revenue recognition criteria using the following 5 step model:

1. Identify the contract with the customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations in the contract; and
5. Recognise revenue when or as the entity satisfies its performance obligations.

Sale of goods

Revenue from sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. The normal credit term is 30 to 90 days upon invoice.

The Company considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (for example, warranties and incentives). In determining the transaction price for the sale of goods, the Company considers the effects of variable consideration, the existence of significant financing components, non-cash consideration and consideration payable to the customer (if any).

Variable consideration

If the consideration in a contract includes a variable amount, the Company estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts of sale provide customers with a right of return and volume rebates. The rights of return and volume rebates give rise to variable consideration.

Notes to the financial statements (continued)

2. Accounting policies (continued)

2.4. Significant accounting policies (continued)

2.4.12. Revenue recognition (continued)

Right of return

Some customer contracts provide a customer with a right to return the goods within a specified period. The Company uses the expected value method to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Company will be entitled. The requirements in IFRS 15 on constraining estimates of variable consideration are also applied in order to determine the amount of variable consideration that can be included in the transaction price.

For goods that are expected to be returned, the Company reduces revenue, recognises a refund liability, a right of return asset (inventory) and corresponding adjustment to cost of sales is also recognised for the right to recover products from a customer.

Customer incentives

For certain customers, incentives to retail price are offered. These mainly comprise of volume driven rebates, defined within the customer agreements or based upon sound customer understanding to incentivise increase in volumes. Management estimate the most likely outcome based on order levels and expected sales. The Company then applies the requirements on constraining estimates of variable consideration and recognises a liability for the expected future rebates.

Transaction price

All sales prices will be agreed with the customer before a sales transaction can be processed.

Principal versus agent

The Company acts as a principal as it is in control and responsible for transferring the goods to the customer.

Contract assets and receivables

Where goods are transferred to the customer before the customer pays, or before payment is due, trade receivables are recognised in the balance sheet and represent the right to consideration for products delivered.

Notes to the financial statements (continued)

2. Accounting policies (continued)

2.4. Significant accounting policies (continued)

2.4.12. Revenue recognition (continued)

Capitalisation of costs to obtain or fulfil a contract

Due to the nature of the goods supplied to its customer base, the Company does not incur any material costs in obtaining and fulfilling contracts, therefore no capitalisation is currently reflected in the balance sheet.

Financing components of customer contracts

The Company does not offer financing to its customers.

Warranty obligations

The De'Longhi Group typically provides warranties for general repairs of defects that existed at the time of sale, as required by law. These assurance-type warranties are accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets. Certain products also offer an extended warranty which are provided for. These extended warranties are offered by the Group to guarantee the quality of these products and are accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets. Refer to the accounting policy on warranty provisions in note 2.4.15.

2.4.13 Dividends

Dividend distributions represent a movement in net equity in the period in which they are declared by the shareholders in general meeting. Dividends received are recognised when the Company is entitled to receive the payment.

2.4.14. Income taxes

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- a) When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- b) Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Notes to the financial statements (continued)

2. Accounting policies (continued)

2.4. Significant accounting policies (continued)

2.4.14. Income taxes (continued)

- c) Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.
- d) The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset, only if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the Company to make a single net payment.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in the income statement.

2.4.15. Product warranty provisions

The Company makes provisions for the estimated cost of product warranties. Management establishes the amount of these provisions on the basis of past trends relating to the frequency and average cost of under-warranty repairs and replacement.

2.4.16. Government Grants

Coronavirus Job Retention Scheme

Under this Scheme, HMRC reimbursed 80% of the wages (capped at £2,500 per month) of certain employees who were asked to stop working ("furloughed"), but who were being kept on the payroll.

Accounting implications

As this scheme involves a transfer of resources from the government to the entity, it meets the definition of a government grant. The scheme is designed to compensate for staff costs, so amounts received are recognised in the Income Statement over the same period as the costs to which they relate.

Wages and salaries costs within distribution costs and administrative expenses in the Income Statement are net of government grant income from the Coronavirus job retention scheme.

2.4.17. Doubtful Debts

The Company operates a credit management policy which states that a doubtful debt will be recognised when there is a doubt whether or not the customer will be able to continue trading and settle their debt. This is usually considered where a debt has been referred to a debt recovery agent or has become more than 180 days old. Only uninsured elements of doubtful debt is provided for.

Notes to the financial statements (continued)

3. Turnover

Turnover is attributable to one activity, the selling and marketing of small domestic appliances. All turnover from sales originates in the UK and Europe and are net of customer rebates.

An analysis of turnover by geographical origin and destination is given below:

	2021 £000	2020 £000
United Kingdom	120,564	103,886
Europe	8,553	8,186
Other	-	15
	<u>129,117</u>	<u>112,087</u>

4. Operating profit

	2021 £000	2020 £000
This is after charging:		
Research and development costs taken directly to the income statement	5,199	4,401
Amortisation of capitalised development costs	2,070	1,390
Total research and development costs	<u>7,269</u>	<u>5,791</u>
Movement on provision for impairment of inventory included in Cost of Sales	888	112
Impairment of intangible assets – development costs	206	427
Loss on disposal of tangible assets – land and buildings	8	-
Loss on disposal of tangible assets – plant and tooling	11	5
Loss on disposal of tangible assets – fixtures and fittings	1	2
Depreciation of owned fixed assets	2,352	2,652
Depreciation of right-of-use assets	1,228	1,149
Cost of stock recognised as an expense (included in cost of sales)	81,558	69,611
Operating lease rentals and other related services – land and buildings	97	52
Operating lease rentals and other related services – motor vehicles	11	19
Operating lease rentals and other related services – others	19	14

Other operating income of £15,692,000 (2020: £14,672,000) is predominantly in respect of intercompany recharges. This includes an intellectual property fee which in 2021 was £11,444,000 (2020: £10,732,000).

Notes to the financial statements (continued)

5. Auditors' remuneration

The Company paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the Company.

	2021 £000	2020 £000
Audit of the financial statements	79	56

6. Staff costs

	2021 £000	2020 £000
Wages and salaries	13,155	11,993
Government grant income	(25)	(259)
Social security costs	1,210	1,094
Other pension costs – defined contribution scheme (note 20)	698	629
	<u>15,038</u>	<u>13,457</u>

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

	2021 No.	2020 No.
Office management and administration	156	156
Research and development	55	57
Manufacturing and distribution	18	25
	<u>229</u>	<u>238</u>

7. Directors' remuneration

	2021 £000	2020 £000
Aggregate of all Directors' remuneration	<u>798</u>	<u>719</u>
	2021 £000	2020 £000
In respect of the highest paid director:		
Aggregate remuneration	<u>654</u>	<u>365</u>

Employer contributions paid to Directors' defined contribution pension schemes during the year, (included in the aggregate Directors' remuneration figures above), were £3,000 (2020: £13,000).

Notes to the financial statements (continued)**7. Directors' remuneration (continued)**

One (2020: one) Director received no emoluments as their services to the Company are considered incidental to the wider Group.

The Directors remuneration quoted above relate to payments received by directors related to services to Kenwood Limited. They do not include remuneration that the Directors may receive from other group companies related to services performed to the wider group.

8. Investment Income

	2021 £000	2020 £000
Dividends received from overseas subsidiaries (holding activity)	5,779	7,675

9. Other interest receivable and similar income

	2021 £000	2020 £000
Bank interest receivable	104	250

10. Interest payable and similar expenses

	2021 £000	2020 £000
Bank interest payable and similar expenses	(612)	(470)

11. Income tax expense**a) Tax expensed in the income statement**

	2021 £000	2020 £000
Current income tax:		
UK corporation tax	386	1,755
Adjustment in respect of prior years	(196)	(155)
Total current income tax	190	1,600

Notes to the financial statements (continued)**11. Income tax expense (continued)**

Deferred tax:		
Origination and reversal of temporary differences	103	102
Adjustment in respect of prior years	56	68
Total deferred tax	<u>159</u>	<u>170</u>
Tax expense in the income statement	<u>349</u>	<u>1,770</u>

The tax expense in the income statement is disclosed as follows:

Income tax expense	349	1,770
	<u>349</u>	<u>1,770</u>

b) Tax relating to items expensed or credited to other comprehensive income

	2021	2020
	£000	£000
Deferred tax:		
Tax on net gain on revaluation of cash flow hedges	173	88
Total deferred tax	<u>173</u>	<u>88</u>
Tax expense in the statement of other comprehensive income	<u>173</u>	<u>88</u>

c) Reconciliation of the total tax expense

The tax assessed in the income statement for the year is lower than (2020: lower than) the average standard rate of corporation tax in the UK of 19% (2020: 19%). The differences are reconciled below:

	2021	2020
	£000	£000
Profit before taxation	5,356	16,863
Tax calculated at UK standard rate of corporation tax of 19% (2020: 19%)	1,018	3,204
Expenses not deductible for tax purposes	92	111
Non-taxable income	(1,098)	(1,458)
Patent box and other tax deduction claims	(263)	-
Overseas withholding tax not recoverable	740	-
Tax over provided in previous years	(140)	(87)
Total tax expense reported in the income statement	<u>349</u>	<u>1,770</u>

Notes to the financial statements (continued)**11. Income tax expense (continued)****d) Deferred tax**

The deferred tax assets/(liabilities) included in the balance sheet are as follows:

	2021 £000	2020 £000
Decelerated capital allowances	772	882
Accelerated research and development amortisation	(350)	(278)
Revaluation of cash flow hedges	(18)	120
Provisions for expenses deductible in future years	218	230
	<u>622</u>	<u>954</u>

Deferred tax expensed/(credited) in the income statement is as follows:

	2021 £000	2020 £000
Decelerated capital allowances	109	146
Accelerated research and development amortisation	73	63
Revaluation of cash flow hedges	(35)	23
Provisions for expenses deductible in future years	12	(62)
	<u>159</u>	<u>170</u>

e) Factors that may affect future tax charges

On 23 September 2022, it was announced that the corporation tax rate change from 19% to 25% with effect from 1 April 2023 was to be cancelled. This was not substantively enacted at the balance sheet date and therefore the impact of this change is not reflected in the measurement of deferred tax. If the rate change had been substantively enacted prior to 31 December 2021, there would have been no impact on the deferred tax asset given it was expected to be reversed in the period to 1 April 2023.

12. Dividends paid and proposed

	2021 £000	2020 £000
Declared and paid during the year:		
Equity dividends on class A ordinary shares:		
First interim for 2021: nil (2020: 73.85p)	-	18,500
Dividends paid	<u>-</u>	<u>18,500</u>

The Directors do not propose the payment of a final dividend for the year (2020: £Nil).

Notes to the financial statements (continued)**13. Intangible assets**

	Development Costs £000
Cost:	
At 1 January 2021	17,866
Additions	1,614
Disposals	(2,502)
At 31 December 2021	<u>16,978</u>
Accumulated amortisation:	
At 1 January 2021	12,454
Charge for the year	2,070
Impairments	(2,297)
At 31 December 2021	<u>12,227</u>
Carrying amount at 31 December 2021	<u><u>4,751</u></u>
Carrying amount at 31 December 2020	<u><u>5,412</u></u>

Intangible assets amortisation is recorded in distribution costs (£255,000) (2020: £205,000), and administrative expenses (£1,815,000) (2020: £1,185,000) in the income statement.

14. Tangible assets

	Buildings £000	Plant and tooling £000	Fixtures and fittings £000	Total £000
Cost:				
At 1 January 2021	8,672	21,548	6,930	37,150
Additions	292	1,024	501	1,817
Disposals	(21)	(7,351)	(965)	(8,337)
At 31 December 2021	<u>8,943</u>	<u>15,221</u>	<u>6,466</u>	<u>30,630</u>
Accumulated Depreciation:				
At 1 January 2021	5,075	19,115	5,858	30,048
Charge for the year	458	1,461	433	2,352
Disposals	(13)	(7,340)	(964)	(8,317)
At 31 December 2021	<u>5,520</u>	<u>13,236</u>	<u>5,327</u>	<u>24,083</u>

Notes to the financial statements (continued)**14. Tangible assets (continued)**

	Buildings £000	Plant and tooling £000	Fixtures and fittings £000	Total £000
Carrying amount at 31 December 2021	3,423	1,985	1,139	6,547
Carrying amount at 31 December 2020	3,597	2,433	1,072	7,102

Buildings includes a dilapidation asset which at 31 December 2021 has a net book value of £311,000 (2020: £356,000).

15. Right-of-use assets

The Company has lease contracts for various office, warehouses, equipment and tools used in the operations. The amounts recognised in the financial statements in relation to the leases are as follows:

a) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases as at 31 December:

	2021 £000	2020 £000
Right-of-use assets:		
Buildings	11,202	2,851
Vehicles	191	170
Others	3	1
	<u>11,396</u>	<u>3,022</u>
Lease liabilities:		
Current	1,445	523
Non-current	10,914	2,852
	<u>12,359</u>	<u>3,375</u>

b) Amounts recognised in the income statement

The income statement shows the following amounts relating to leases:

	2021 £000	2020 £000
Depreciation charge of right-of-use assets:		
Buildings	1,033	946
Vehicles	179	182
Others	16	21
	<u>1,228</u>	<u>1,149</u>
Expense relating to short-term leases (included in administrative expenses)	21	19

Notes to the financial statements (continued)

15. Right-of-use assets (continued)

Future minimum lease payments as at 31 December are as follows:

	2021 £000	2020 £000
Not later than one year	1,559	609
Later than one year and not later than five years	6,343	1,933
Later than five years	5,342	1,183
Total gross payments	13,244	3,725
Deferred financing expense	(885)	(350)
Carrying amount of liability	12,359	3,375

The total cash outflow for leases in 2021 was £676,000 (2020: £1,452,000).

16. Investments

Investments in subsidiaries

	Historical cost £000	Net book value £000
At 1 January 2020	1,358	1,358
At 31 December 2020	1,358	1,358
At 31 December 2021	1,358	1,358

Details of Group undertakings

Ordinary shares owned:

Name of Company	Registered office	Proportion of nominal value owned %
De'Longhi Kenwood MEIA F.Z.E.	PO Box 263338, Jebel Ali Free Zone, Dubai, UAE.	100%
Kenwood Appliances (Singapore) Limited	300 Beach Road, #18-01 The Concourse, Singapore 199555.	100%
Kenwood Appliances (Malaysia) SND BHD *	Suite 10.04, Level 10 HeiTech Village, Persiaran Kewajipan, USJ 1, UEP, 47610 Subang Jaya, Selangor Darul Ehsan, Malaysia.	100%

* denotes that shares are held through an intermediate holding Company.

Notes to the financial statements (continued)

16. Investments (continued)

The subsidiary undertakings are wholly owned and are principally engaged in the distribution of domestic appliances. Investment carrying values are supported by underlying net assets and estimated future cash flows.

17. Stocks

	2021 £000	2020 £000
Raw materials	99	108
Finished goods and goods for resale	25,855	17,817
	<u>25,954</u>	<u>17,925</u>

Inventories are stated after including provision for impairment of £2,341,000 (2020: £1,453,000).

18. Amounts due from/owed to Group undertakings

Amounts due from/owed to Group undertakings are unsecured, interest free and payable / repayable on demand.

19. Provisions for liabilities

	Legal provision £000	Short term Guarantee provision £000	Short term total £000	Long term Guarantee provision £000	Dilapidation provision £000	Long term total £000
At 1 January 2021	300	1,941	2,241	573	889	1,462
Additions during the year	-	480	480	12	4	16
Releases during the year	(215)	-	(215)	-	-	-
At 31 December 2021	<u>85</u>	<u>2,421</u>	<u>2,506</u>	<u>585</u>	<u>893</u>	<u>1,478</u>

Guarantee provision – As the Company products are eligible for a warranty, provision is made for the estimated costs of dealing with guarantee claims. The level of provision made is based on the Company's experience of past levels of claims.

Dilapidation provision – The Company has provided for the cost of returning leased premises, which have been modified by the Company for use in its day to day activities, back to their original state as per the terms of the lease agreements.

Legal provision – The Company has provided for legal expenses in a patent infringement case.

Notes to the financial statements (continued)

20. Pensions and other post-employment benefits

Background

Kenwood Limited was the sponsoring employer of a funded defined benefit pension scheme in the UK, which provides retirement benefits based on members salary when leaving employment. The assets of the scheme were held in a separately administered fund and the scheme was administered by a trustee body (independent of Kenwood Limited) who were responsible for ensuring that the scheme is sufficiently funded to meet current and future obligations.

On 30 September 2002 the defined benefit section of the scheme was closed to future accrual, and a new defined contribution section was introduced to provide future benefits. In March 2007 the Defined Contribution section also closed to new entrants but continued to allow existing member contributions until March 2014. A non-Trust based 'Group Personal Pension' plan was introduced to accept new members from April 2007 and remained the only pension scheme that employed members contributed into during 2018.

Following the transfer of the Defined Contribution and Defined Benefit pension scheme liabilities, in May 2016 both trustee based schemes were closed and the trusteeship terminated.

Contributions to the current Group Personal Pension plan are charged to the income statement as they become payable in accordance with the scheme rules. The contributions made to the scheme for the year were £696,000 (2020: £629,000). There were no contributions accrued or unpaid at the Balance Sheet date. (2020: £nil).

21. Called up share capital

	2021 thousands	2020 thousands	2021 £000	2020 £000
Ordinary £1 A shares (Trading)	25,050	25,050	25,050	25,050
Ordinary £1 B shares (Holding)	1,500	1,500	1,500	1,500
	<u>26,550</u>	<u>26,550</u>	<u>26,550</u>	<u>26,550</u>

Ordinary A class shares are entitled to all available profits of the Company excluding any profits that the ordinary B class shares are entitled to. Ordinary A class share activities are mainly, but not exclusively, related to trading (i.e. the manufacture and sale of small domestic appliances).

Ordinary B class shares are entitled to all available profits of the Company arising from holding activities. Ordinary B class shareholding activities are classed as subsidiary investments which only includes distributions of income or capital from subsidiary investments and profits arising from the investment and disposals of such investments.

Both Ordinary A class and B class shares have equal rights, including voting, in the Company. Distribution of dividends from ordinary A class share retained earnings require written authorisation from the ordinary A class shareholders, and distribution of dividends from ordinary B class share retained earnings require written authorisation from the ordinary B class shareholders.

Notes to the financial statements (continued)**22. Cash flow hedge reserve**

The cash flow hedge reserve recognises the fair value of unrealised economic hedging contracts as at 31 December 2021.

	Gross £000	Tax £000	Net £000
At 1 January 2020	(1,234)	235	(999)
Movements during the year	464	(88)	376
At 31 December 2020	(770)	147	(623)
Movements during the year	913	(173)	740
At 31 December 2021	144	(27)	117

23. Forward currency contracts

The values relating to forward contracts held in assets and liabilities at 31 December 2021 are £396,000 (2020: £315,000) and £299,000 (2020: £946,000) respectively.

The fair value of held to maturity forward currency exchange contracts was determined using quoted forward exchange rates matching the maturity of the contracts.

The value of the assets and liabilities is dependent on exchange rate movements and the timing is dependent on the contract maturity. The forward contracts open at 31 December 2021 are due to mature throughout 2022, ending in September 2022. The assets are included in amounts receivable from Group undertakings and the liabilities are included in the amounts due to Group undertakings.

The risk being hedged relates predominantly to the currency purchases of finished goods in US Dollars.

24. Holding activity

The assets and liabilities of the holding activity of Kenwood Limited as at 31 December 2021 were:

	2021 £000	2020 £000
Investments	1,358	1,358
Cash at bank and in hand	82,917	82,535
Net current assets	84,275	83,893
	2021 £000	2020 £000
Share capital – B class	1,500	1,500
Retained earnings – B class	82,775	82,393
Total equity	84,275	83,893

25. Post balance sheet events

There are no known events after the date of the balance sheet that require disclosure.

26. Other related party transactions

During the year the Company entered into transactions, in the ordinary course of business, with other related parties. The Company has taken advantage of the exemption under paragraph 8(k) of FRS101 not to disclose transactions with fellow wholly owned subsidiaries.

27. Ultimate Group undertaking

The Company's immediate parent undertaking is Kenwood Appliances Limited. The Company's ultimate parent undertaking and controlling party is De'Longhi S.p.A., which is the parent undertaking of the smallest and largest Group to consolidate these financial statements and is incorporated in Italy. Copies of its Group financial statements are available from Via L.Seitz 47, 31100 Treviso, Italy.