Company No. 00054802

# Annual Report and Financial Statements

# ZF International UK Limited

(formerly Lucas Industries Limited)

**For the Year Ended** 31 December 2019

# Officers and professional advisers

| | |
|---|---|
| **Company registration number** | 00054802 |
| **Directors** | SM Batterbee<br>J Braithwaite<br>AM McQueen<br>DE Shattock |
| **Registered Office** | Stratford Road<br>Solihull<br>West Midlands<br>England<br>B90 4GW |
| **Auditor** | Ernst & Young LLP<br>No. 1 Colmore Square<br>Birmingham<br>B4 6HQ |

# Contents Page

The directors present a strategic report, a director's report, and financial statements for the year ended 31 December 2019.

On 24 December 2019 the company changed it's name to ZF International UK Limited, it was formerly known as Lucas Industries Limited.

# Strategic report

The company operates as a part of the ZF Friedrichshafen AG (ZF) group of companies, the ZF group. ZF Friedrichshafen AG ranks among the world's largest and most diversified suppliers of automotive systems, modules and components to global automotive original equipment manufacturers (OEMs) and related aftermarket. The operations of the ZF group primarily encompass the design, manufacture and sale of active and passive safety related products. The ZF group of companies are primarily Tier 1 suppliers, with a very large proportion of its end-customer sales made to major OEMs.

The company is an intermediate holding company within the ZF group of companies, and will continue in this capacity for the foreseeable future.

### Principal risks and uncertainties

The principal risk for the company are the uncertainties associated with the results of its direct and indirect subsidiary undertakings. These vary, but as with any trading business are principally affected by the prevailing automotive climate.

For the company adverse economic conditions can materially affect the carrying value of the company's investment in its subsidiary undertaking. In the directors' opinion no impairment was considered necessary in the financial year just ended, the investment in its subsidiary undertakings is currently stated at a cost of £601.5 million (2018 - £601.5 million). This investment value is considered one of the key performance indicators of the company.

### Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for that other party by failing to discharge an obligation. Company policies are aimed at minimising such losses.

BY ORDER OF THE BOARD

DE Shattock
Director
7 April 2020

# Report of the directors

### Business review and results

On 28 March 2019 the company's subsidiary undertaking TRW Limited entered into a sale and purchase agreement with ZF Services UK Limited a fellow United Kingdom group subsidiary undertaking to sell the Aftermarket businesses located in Birmingham and Wrexham. Also in a separate sale and purchase agreement with ZF Services UK Limited the company was compensated for selling the trademark rights of products sold globally under the 'Lucas' brand name. The company made a gain on disposal totalling £24.0 million, which is recorded as an exceptional gain.

On 24 May 2019 the company surrendered the sub-lease in respect of the LA01 Building located on the Shirley site in Birmingham. This building had been un-occupied since 2013. Accordingly the directors have released in full the related onerous lease provision totalling £1.3 million.

In May 2019 the ultimate parent undertaking ZF Friedrichshafen AG became the principal cash pool holder for all UK subsidiary companies with accounts at Deutsche Bank. From this date all Pound Sterling, US Dollar, and Euro cash pools attract inter-company interest. At the 31 December 2019 the following rates and benchmark per currency were as follows:

| | Deposits | Overdrafts | Benchmark |
|---|---|---|---|
| Pounds Sterling | 0.95+ | 0.50- | SONIA |
| Euro | 0.95+ | 0.20- | EONIA |
| US Dollar | 0.95+ | 0.50- | US SOFR |

The SONIA benchmark used are the overnight deposit swap rates, whilst for US SOFR it is the secured overnight financing rates.

The plan is to migrate the accounts with JP Morgan and UniCredit to Friedrichshafen in January 2020, whilst for Barclays Bank the position is unchanged and the company is still the cash pool holder.

The directors have carried out an impairment review of the fixed assets investments in accordance with IAS 36. The impairment review was carried out by comparing investment asset books values with the discount value of forecast future cash flows for all its trading subsidiary undertakings. The forecast future cash flows were arrived at using standard ZF group vehicle build assumptions, with appropriate sensitivities. The cash flows were discounted at a rate appropriate to the business.

The operating profit for the year was £2.3 million (2018 - £3.7 million). Overall the company made a profit after tax of £46.3 million (2018 - £81.3 million) reflecting dividends received from subsidiary undertakings, and an exceptional gain on the sale of trademark rights, however, net interest income was materially down on 2018, reflecting the new policy of financing on cross border cash pools (2018 - £0.5 million).

### Dividends

On 19 December 2019 the company declared and paid a dividend of £20,139,000 (2018 - £194,026,000). The dividend was a distribution in specie consisting of an intercompany receivable.

# Report of the directors (continued)

## Key performance indicators

| | Year to 31 December 2019 £000 | Year to 31 December 2018 £000 | Change £000 | % |
|---|---|---|---|---|
| Operating profit | **2,349** | 3,698 | (1,349) | (36%) |
| Profit for the financial year | **46,294** | 81,345 | (35,051) | (43%) |
| Investment in subsidiary undertakings | **601,538** | 601,538 | – | – |

## Directors

The directors who served the company during the year and up to the date of approval of these financial statements were as follows:

SM Batterbee
J Braithwaite
F Chittka (resigned 31 December 2019)
AM McQueen
DE Shattock
MJ Way (resigned 31 December 2019)

## Directors' interests

None of the directors had any declarable interests in shares of any group companies in the United Kingdom at 31 December 2019.

## Directors' indemnities

During the year an indemnity from the company was available to the directors against liabilities incurred by them in defending proceedings against them in relation to the affairs of the company. The indemnity is subject to the provisions of the Companies Act and is set out in the Articles of Association.

## Going concern

As of 31 December 2019, the company had net current liabilities of £202.9 million (2018 - £228.3 million) and net assets of £408.3 million (2018 - £382.1 million). The net current liabilities position is attributable to the company's intercompany liabilities totalling £301.7 million as at 31 December 2019 (2018 - £309.8 million). Of these amounts £194.0 million is due to dormant subsidiary undertakings. The only circumstance where it is possible for these dormant current account balances to be called upon would be in the event of their liquidation. If this occurred, the proceeds would be required to pay off the equivalent investment values held by the company, which would consequently have no impact on the company's net assets.

# Report of the directors (continued)

### Going concern (continued)

The company has obtained confirmations from its aforementioned dormant subsidiary undertakings the inter-company liabilities will not require cash settlement for a period of 12 months from the date of approval of these financial statements. A further £67.7 million of inter-company liabilities owed by the company at 31 December 2019 relate to amounts owed to ZF Friedrichshafen AG who operate the ZF Group's centralised cash management and financing agreement. On 7 April 2020, the company entered into an irrevocable, legally binding amendment to the cash management and financing agreement with ZF Friedrichshafen AG. This amendment confirmed that no amounts the company owes under the cash management and financing arrangement will be repayable until at least 30 April 2021.

The company has net assets of £408.3 million (2018 - £382.1 million).

As a result of the confirmations obtained above combined with the current cash resources of the company and the directors' forecasting of future cash flows into and out of the company; the directors have sufficient assurance that the company is able to meet its liabilities as they fall due for a period of at least 12 months from the date of approval of these financial statements. In reaching this conclusion the directors have reverse stress tested the company's position, given the current uncertainty over cashflows as a result of COVID-19, noting that even if no dividend income was received from the date of approval of these financial statements for a period of 12 months the company would still be able to meet its liabilities as they fall due during this period.

On this basis the directors have prepared the financial statements on a going concern basis which assumes the company will continue in operational existence for the foreseeable future.

### Post balance sheet events

The subsidiary undertaking TRW Limited changed it's name on 27 February 2020 to ZF Automotive UK Limited.

On 11 March 2020, the World Health Organization raised the public health emergency situation caused by the outbreak of the coronavirus (COVID-19) to an international pandemic. The rapid evolution of events, nationally and internationally, represents an unprecedented health crisis, which will impact the macroeconomic environment and the evolution of business. The company considers that these events do not require an adjustment in the annual accounts for the year ended 31 December 2019. However, during 2020 they could have an impact on the wider ZF Group's operations and on its results and future cash flows. This may impact the level of dividend income the company receives from its subsidiary undertakings and also the carrying value of its investments in subsidiary undertakings. Given the complexity of the situation and its rapid evolution, it is not practicable as of the date of approving these financial statements to reliably make an estimate of its potential impact on the company. The company, and wider ZF Group, are taking the necessary steps in order to face the situation and minimize its impact.

### Disclosure of requirement to appoint auditors

The auditors Ernst & Young LLP, will be proposed for reappointment in accordance with Section 485 of the Companies Act 2006.

# Report of the directors (continued)

### Directors' statement as to disclosure of information to auditors

Each of the directors who were members of the board at the time of approving the directors' report confirms that:

- to the best of their knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware; and
- they have taken all steps that a director might reasonably be expected to have taken to be aware of the relevant audit information and to establish that the auditors are aware of that information.

BY ORDER OF THE BOARD

DE Shattock
Director
7 April 2020

# Statement of directors' responsibilities

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

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

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

# Report of the independent auditor to the members of ZF International UK Limited

## Opinion

We have audited the financial statements of ZF International UK Limited for the year ended 31 December 2019 which comprise the Income Statement, Statement of Changes in Equity, the Balance Sheet, and the related notes 1 to 16, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Emphasis of matter – impact of COVID-19

We draw attention to note 2.3 to the financial statements which describes:

i. the basis on which the Directors have concluded on going concern; and

ii. the impact post balance sheet events may have on the Company's level of future dividend income received from its subsidiary undertakings and the potential impact on the carrying value of the investments held by the Company.

Our opinion is not modified in respect of this matter.

# Report of the independent auditor to the members of ZF International UK Limited (continued)

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

### Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

# Report of the independent auditor to the members of ZF International UK Limited (continued)

## Matters on which we are required to report by exception

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

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

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

## Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## Auditor's responsibilities for the audit of the financial statements

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

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

# Report of the independent auditor to the members of ZF International UK Limited (continued)

### Use of our report

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

Ernst & Young LLP

Stephen Kirk (senior statutory auditor)
for and on behalf of Ernst & Young LLP,
Statutory Auditor
Birmingham
7 April 2020

# Income statement

| | Note | 2019 £000 | 2018 £000 |
|---|---|---|---|
| Other operating income | | **2,294** | 4,372 |
| Release of onerous lease | | **1,301** | – |
| Operating expenses | | **(1,246)** | (674) |
| **Operating profit** | 3 | **2,349** | 3,698 |
| Income from investments | 4 | **22,239** | 71,720 |
| Gain on disposal of property | | **–** | 6,424 |
| Gain on disposal of trademark rights | | **24,000** | – |
| Interest receivable and similar income | 7 | **222** | 494 |
| Interest payable and similar charges | 8 | **(217)** | (5) |
| **Profit on ordinary activities before taxation** | | **48,593** | 82,331 |
| Tax charge on profit on ordinary activities | 6 | **(2,299)** | (986) |
| **Profit for the financial year** | | **46,294** | 81,345 |

All of the activities of the company are classed as continuing.

The company has not presented a statement of comprehensive income as it has no other gains or losses other than the profit for the years as set out above.

# Statement of changes in equity

| | Share capital £000 | Profit and loss account £000 | Total share-holders' equity funds £000 |
|---|---|---|---|
| At 1 January 2018 | 105,591 | 389,186 | 494,777 |
| Profit for the year | – | 81,345 | 81,345 |
| Dividend paid | – | (194,026) | (194,026) |
| At 31 December 2018 and 1 January 2019 | 105,591 | 276,505 | 382,096 |
| Profit for the year | – | 46,294 | 46,294 |
| Dividends paid | – | (20,139) | (20,139) |
| **At 31 December 2019** | **105,591** | **302,660** | **408,251** |

# Balance sheet

| | Note | 2019 £000 | 2018 £000 |
|---|---|---|---|
| **Non current assets** | | | |
| Tangible assets | 9 | **7,777** | 8,273 |
| Investments in subsidiary undertakings | 10 | **601,538** | 601,538 |
| Investments in associate undertakings | 10 | **2,768** | 2,768 |
| | | **612,083** | 612,579 |
| **Current assets** | | | |
| Debtors: amounts falling due in less than one year | 11 | **83,858** | 73,367 |
| Cash at bank and in hand | 12 | **15,971** | 8,813 |
| | | **99,829** | 82,180 |
| **Current liabilities** | | | |
| Creditors: amounts falling due within one year | 13 | **(302,695)** | (310,460) |
| **Net current liabilities** | | **(202,866)** | (228,280) |
| **Total assets less current liabilities** | | **409,217** | 384,299 |
| **Non-current liabilities** | | | |
| Provisions for liabilities | 14 | **(966)** | (2,203) |
| **Net assets** | | **408,251** | 382,096 |
| **Capital and reserves** | | | |
| Called-up equity share capital | 15 | **105,591** | 105,591 |
| Profit and loss account | | **302,660** | 276,505 |
| **Total equity shareholders' funds** | | **408,251** | 382,096 |

These financial statements were approved by the directors and authorised for issue on 7 April 2020 and are signed on their behalf by:

DE Shattock
Director

# Notes to the financial statements

## 1 Authorisation of financial statements and statement of Compliance with FRS101

The financial statements of ZF International UK Limited for the year ended 31 December 2019 were authorised for issue by the board of directors on 7 April 2020, and the balance sheet was signed on the board's behalf by DE Shattock. ZF International UK Limited is a private company limited by shares and is incorporated and domiciled in England and Wales. 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 company's financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except where otherwise indicated. The company has taken advantage of section 400 of the Companies Act 2006 which exempts the company from the obligation to prepare and deliver group financial statements as it is included in the consolidated accounts of ZF Friedrichshafen AG, a company registered in the Federal Republic of Germany. These accounts therefore present information about the company and not about its group. The principal accounting policies adopted by the company are set out in note 2.

## 2 Accounting policies

### 2.1 Basis of preparation

The company has taken advantage of the following disclosure exemptions available under FRS 101:

(a) the requirements of IAS 7 Statement of Cash Flows;
(b) the requirements of paragraph 17 of IAS 24 Related Party Disclosures;
(c) 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 undertaking which is party to the transaction is wholly owned by such a member.
(d) the requirements of IAS 8 disclosures in respect of new standards and interpretations that have been issued but are not yet effective; and
(e) roll-forward reconciliations in respect of share capital (IAS 1), property, plant and equipment (IAS 16) and intangible assets (IAS 38).

### 2.2 Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates, and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for revenues and expenses for the year. However, the nature of estimation means the actual outcomes could differ from those estimates. The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements:

#### 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 profits together with an assessment of the effect of future planning strategies.

## 2 Accounting policies (continued)

## 2.3 Significant accounting policies

### Going concern

As of 31 December 2019, the company had net current liabilities of £202.9 million (2018 - £228.3 million) and net assets of £408.3 million (2018 - £382.1 million). The net current liabilities position is attributable to the company's intercompany liabilities totalling £301.7 million as at 31 December 2019 (2018 - £309.8 million). Of these amounts £194.0 million is due to dormant subsidiary undertakings and the only circumstance where it is possible for these dormant current account balances to be called upon would be in the event of their liquidation, and in that case, the proceeds would be required to pay off the equivalent investment values held by the company, which would have no impact on the company's net assets. The company has obtained confirmations from the aforementioned dormant subsidiary undertakings the inter-company liabilities will not require cash settlement for a period of 12 months from the date of approval of these financial statements. A further £67.7 million of inter-company liabilities owed by the company at 31 December 2019 relate to amounts owed to ZF Friedrichshafen AG who operate the ZF Group's centralised cash management and financing agreement. In April 2020, the company entered into an irrevocable, legally binding, amendment to their cash management and financing agreement with ZF Friedrichshafen that confirmed no repayment of amounts the company owes under the cash management and financing arrangement will be repayable until at least 30 April 2021.

The company has net assets of £408.3 million (2018 - £382.1 million).

As a result of the confirmations obtained above, the current cash resources of the company and the directors forecasting of future cash flows into and out of the company the directors have sufficient assurance that the company is able to meet its liabilities as they fall due for a period of at least 12 months from the date of approval of these financial statements. In reaching this conclusion the directors have reverse stress tested the company's position, given the current uncertainty over cashflows as a result of COVID-19, noting that even if no dividend income was received from the date of approval of these financial statements for a period of 12 months the company would still be able to meet their liabilities as they fall due during this period.

On this basis the directors have prepared the financial statements on a going concern basis which assumes the company will continue in operational existence for the foreseeable future.

### Post balance sheet events

The subsidiary undertaking TRW Limited changed it's name on 27 February 2020 to ZF Automotive UK Limited.

On 11 March 2020, the World Health Organization raised the public health emergency situation caused by the outbreak of the coronavirus (COVID-19) to an international pandemic. The rapid evolution of events, nationally and internationally, represents an unprecedented health crisis, which will impact the macroeconomic environment and the evolution of business. The company holds investments, directly or indirectly, in subsidiary undertakings and associated undertakings that operate in countries affected by the pandemic which are currently being impacted both through restrictions on their own operations and also the operations of these entity's end customers. This will have a detrimental impact on the subsidiary and associated undertakings' revenues, profits and their ability to pay dividends which are received by the company. Given the complexity of the situation and its rapid evolution, it is not practicable as of the date of approval of these financial statements to reliably make a quantified estimate of its potential impact on the company, and specifically the impact on future dividend income or the carrying value of the investments held by the company.

## 2 Accounting policies (continued)

### 2.3 Significant accounting policies (continued)

#### Foreign currencies

The company's financial statements are presented in sterling, which is also the company's functional currency. 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 at the balance sheet date. All differences are taken to the income statement.

#### Fixed asset investments

Investments in subsidiaries are held at historical cost less any applicable provision for impairment.

#### Investment properties

Investment properties are measured initially at cost. Transaction costs shall be included in the initial measurement.

#### Tangible fixed assets

Land and buildings are recognised initially at cost and less depreciation and any provision for impairment.

Depreciation is provided on all property on a straight-line basis over its expected useful life as follows:

| | |
|---|---|
| Buildings | over 10 to 50 years |

The carrying values of the property 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. An item of property is de-recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the de-recognition of the asset is included in the income statement in the period of de-recognition.

#### Impairment of non-financial assets

The company assess at each reporting date whether there is an indication that an asset may be impaired. If such an indication exists, or when annual impairment testing for an asset is required, the company makes an estimate of the asset's recoverable amount in order to determine the extent of the impairment loss. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash flows that are largely independent of those of other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses on continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

For assets where an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit is increased to the revised estimate of its recoverable amount, not to exceed the carrying amount that would have been determined, net of depreciation, had no impairment losses been recognised for the asset or cash generating unit in prior years. A reversal of impairment loss is recognised immediately in the income statement, unless the asset is carried at a re-valued amount when it is treated as a revaluation increase.

## 2 Accounting policies (continued)

## 2.3 Significant accounting policies (continued)

### 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 re-imbursed, the re-imbursement 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.

### Financial instruments

**Financial assets:**

Financial assets within the scope of IFRS 9 are classified as financial assets at fair value through profit and loss, financial assets at amortised cost, or financial assets through other comprehensive income as appropriate. The company determines the classification of its financial assets at initial recognition. All financial assets are recognised initially at fair value.

The company's financial assets include cash and short-term deposits, trade and other receivables, loan notes, and derivative financial instruments.

**Financial liabilities:**

Financial liabilities within the scope of IFRS 9 are classified as financial liabilities at fair value through profit and loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The company determines the classification of its financial liabilities at initial recognition.

### Trade and other debtors

Trade debtors, which generally have 30-90 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.

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.

### 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.

## 2 Accounting policies (continued)

### 2.3 Significant accounting policies (continued)

#### 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:

- 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

- 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.

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.

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 enforcement 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 Accounting policies (continued)

## 2.3 Significant accounting policies (continued)

### Revenue recognition

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

Rental income arising from operating leases on investment properties is accounted for on a straight line basis over the lease term.

Interest income is recognised as interest accrues using the effective interest rate method.

Dividends are recognised when the company's right to receive payment is established.

### Other operating income

Other operating income consists of third party and inter-group licence income, and annuity income.

## 3 Operating profit

Operating profit is arrived at after crediting/(charging) the following items:

| | 2019<br>£000 | 2018<br>£000 |
|---|---|---|
| Royalty income | **883** | 2,830 |
| Foreign exchange | **(42)** | (163) |

## 4 Income from investments

| | 2019<br>£000 | 2018<br>£000 |
|---|---|---|
| TRW Limited – Pension Plan: Distribution in Specie of Pension Assets | – | 44,198 |
| Lucas Varity (M) SDN BHD | **378** | – |
| Autocruise SAS | – | 2,227 |
| LucasVarity Langzhong Brake Company Limited | **16,015** | 16,146 |
| Lucas Automotive SDN BHD | **1,696** | 1,120 |
| Brakes India Limited | **4,150** | 8,029 |
| | **22,239** | 71,720 |

## 5 Information regarding the company, directors, employees and auditors

Directors emoluments are borne by other entities in the group. In any given year the directors do not spend a significant portion of their time on the activities of the company, and therefore the proportion of the charge that relates to the company in any given year is not considered to be significant.

The company had no employees during the year (2018 - nil). The auditors' remuneration for 2019 relating to the company was £14,000 (2018 - £78,000). Non audit related taxation services provided by the company's auditor totalled £23,000 (2018 - £21,000).

## 6 Taxation on profit on ordinary activities

a) Analysis of tax charge in the year

| | 2019<br>£000 | 2018<br>£000 |
|---|---|---|
| **Current tax** | | |
| United Kingdom corporation tax based on the results for the year | 392 | – |
| Foreign withholding taxes | 1,763 | 1,161 |
| **Total current tax** | 2,155 | 1,161 |
| **Deferred tax** | | |
| Origination and reversal of timing differences | 144 | – |
| Movement in tax rate | – | (175) |
| **Total deferred tax** | 144 | (175) |
| **Total tax charge on profit on continuing operations for the year** | 2,299 | 986 |

b) Reconciliation of the total tax charge

Factors affecting total tax charge

The tax assessed for the year is lower than the standard rate of corporation tax in the United Kingdom of 19% (2018 – 19%). The differences are explained below:

| | 2019<br>£000 | 2018<br>£000 |
|---|---|---|
| Profit on ordinary activities before taxation | 48,593 | 82,331 |
| Tax calculated at UK standard rate of corporation tax 19% (2018 – 19%) | 9,233 | 15,643 |
| Income not taxable | (8,785) | (13,627) |
| Group relief received without payment | – | (1,913) |
| Other adjustments | 88 | (278) |
| Foreign withholding taxes | 1,763 | 1,161 |
| **Total tax** | 2,299 | 986 |

## 6 Taxation on profit on ordinary activities (continued)

c) Deferred taxation

| | 2019 £000 | 2018 £000 |
|---|---|---|
| Deferred tax liability: | | |
| At 1 January | (97) | (272) |
| Credited in the year | (144) | 175 |
| **At 31 December** | (241) | (97) |

| | 2019 £000 | 2018 £000 |
|---|---|---|
| The deferred tax liability is made up as follows: | | |
| Other timing differences | 167 | 294 |
| Freehold property | (408) | (391) |
| **At 31 December** | (241) | (97) |

As a result of historic ZF group restructuring significant shadow ACT has been created. This reduces the possibility of utilising real ACT in the foreseeable future.

d) Factors that may affect future tax charges

The United Kingdom government has substantially enacted legislation that will reduce the corporation tax rate to 17% by the 1 April 2020. Deferred tax has been calculated at the rates of 19% and 17%, and is dependent on the period in which the timing differences are expected to reverse.

## 7 Interest receivable

| | 2019 £000 | 2018 £000 |
|---|---|---|
| Late payment interest | – | 25 |
| Interest on inter-group deposits | 213 | 460 |
| Bank interest income | 9 | 9 |
| | 222 | 494 |

## 8 Interest payable and similar charges

| | 2019 £000 | 2018 £000 |
|---|---|---|
| Interest on inter-group and other borrowings | 211 | 5 |
| Bank interest expense | 6 | – |
| | 217 | 5 |

## 9 Tangible fixed assets

| | Freehold Land and Buildings £000 |
|---|---|
| Cost | |
| **At 1 January and 31 December 2019** | **16,141** |
| Depreciation | |
| At 1 January 2019 | (7,868) |
| Charge for the year | (496) |
| **At 31 December 2019** | **(8,364)** |
| Net book value | |
| **At 31 December 2019** | **7,777** |
| At 31 December 2018 | 8,273 |

Included within freehold property is £6,055,000 (2018 - £6,055,000) of land.

### Investment properties

Included within land are investment properties held at cost as follows:

| | **2019 £000** | 2018 £000 |
|---|---|---|
| Land | **470** | 470 |

The fair value of the investment properties has been determined to be £800,000 (2018 - £800,000).

## 10 Investments

| | Subsidiary Undertakings £000 | Associated Undertakings £000 | Total £000 |
|---|---|---|---|
| Shares at cost | | | |
| At 1 January 2019 and 31 December 2019 | 601,538 | 2,768 | 604,306 |
| **At 31 December 2019** | **601,538** | **2,768** | **604,306** |
| Net book values | | | |
| **At 31 December 2019** | **601,538** | **2,768** | **604,306** |
| At 31 December 2018 | 601,538 | 2,768 | 604,306 |

### Subsidiary undertakings

The directors have carried out an impairment review of the fixed assets investments in accordance with IAS 36. The impairment review was carried out by comparing investment asset books values with the discount value of forecast future cash flows for all its trading subsidiary undertakings. The forecast future cash flows were arrived at using standard ZF group vehicle build assumptions, with appropriate sensitivities, and were discounted at a rate appropriate to the business. The impairment review did not identify the need to impair any of the investments in subsidiary undertakings (2018 - £nil).

All subsidiary undertakings which are registered and incorporated in the United Kingdom share the same registered address of Stratford Road, Solihull, West Midlands, England B90 4AX.

The registered address of Autocruise SAS is ZAC Technopole Brest Iroise, Secteur de la Pointe due Diable, Avenue du Technopole 29263, Plouzane, France.

The registered address of Lucas Varity Langzhong Brake Company Limited is No. 16 Xiangyun Road, Economic and Technology Development Zone, Hebei Province, China, 065001

The registered address of Lucas Varity ((M) SDN BHD is First Avenue, Bandar Utama, 47800, Petaling Jaya, Selangor, Darul Ehsan, Malaysia.

The registered address of Lucas Varity Automotive SDN BHD is PLO 17, Senai Industrial Estate, Johor Darul, 81400 Senai, TAZIM, TAZIM Malaysia.

## 10 Investments (continued)

### Subsidiary undertakings (continued)

The following list includes unlisted subsidiary undertakings that currently trade. All undertakings are wholly owned, except where stated, and the company's interests are in ordinary shares or their equivalent. Interests in undertakings marked* are held by intermediate undertakings. The nature of the business, the place of incorporation, and countries of operation are as shown below.

| Name of company | Nature of business | Country of registration or incorporation | Percentage of ordinary shares held |
|---|---|---|---|
| ZF Automotive UK Limited | Automotive Components Supplier | England and Wales | 100% |
| Autocruise SAS | Automotive Components Supplier | France | 100% |
| LucasVarity Langzhong Brake Company Limited | Automotive Components Supplier | China | 70% |
| Lucas Varity (M) SDN BHD | Automotive Components Supplier | Malaysia | 99.99% |
| Lucas Automotive SDN BHD | Automotive Components Supplier | Malaysia | 100% |
| Autocruise Limited | Dormant | England and Wales | 100% |
| Bryce Berger Limited | Dormant | England and Wales | 100% |
| Girling Limited | Dormant | England and Wales | 100% |
| Joseph Lucas Limited | Dormant | England and Wales | 100% |
| Lucas Automotive Limited | Dormant | England and Wales | 100% |
| Lucas Limited | Dormant | England and Wales | 100% |
| TRW Employees' Benefit Trust Limited | Dormant | England and Wales | 100% |
| Lucas Export Services Limited | Application to Strike-Off | England and Wales | 100% |
| TRW Investment Management Company Limited | Dormant | England and Wales | 100% |
| Lucas Support Services Limited | Dormant | England and Wales | 100% |
| Lucas Service UK Limited | Dormant | England and Wales | 100% |
| Lucas Investments Limited | Dormant | England and Wales | 100% |
| Cityday Limited | Dormant | England and Wales | 100% |
| ID Information Systems Limited* | Application to Strike-Off | England and Wales | 100% |
| TRW LucasVarity Electric Steering Limited* | Dormant | England and Wales | 100% |

### Associate undertakings

| | | |
|---|---|---|
| Brakes India Limited (year end 31 March) | India | 49% |
| British Sealed Beams Limited | England and Wales | 40% |
| Otimotiv Dagatim | Turkey | 33% |

## 11 Debtors

| | 2019 £000 | 2018 £000 |
|---|---|---|
| Amounts falling due within one year | | |
| Amounts owed by other group undertakings | **82,447** | 55,912 |
| Other debtors | **1,411** | 1,552 |
| Dividend receivable | **–** | 15,903 |
| | **83,858** | 73,367 |

## 12 Cash

| | 2019 £000 | 2018 £000 |
|---|---|---|
| Cash at bank and in hand | **15,971** | 8,813 |

The company has £1,493,000 (2018 - £1,484,000) deposited on escrow, this amount is held on behalf of third parties.

## 13 Creditors: amounts falling due within one year

| | 2019 £000 | 2018 £000 |
|---|---|---|
| Accruals and deferred income | **18** | 78 |
| Amounts owed to associate undertaking | **543** | 613 |
| Corporation tax | **392** | – |
| Amounts owed to other group undertakings | **301,742** | 309,769 |
| | **302,695** | 310,460 |

Inter-company cash pool balances with the parent undertaking using Deutsche Bank accounts bear interest at the following rates for the following currencies as at 31 December 2019:

| | **Deposits** | **Overdrafts** | Benchmark |
|---|---|---|---|
| Pounds Sterling | **0.95+** | **0.50-** | SONIA |
| Euro | **0.95+** | **0.20-** | EONIA |
| US Dollar | **0.95+** | **0.50-** | US SOFR |

The plan is to migrate all accounts with JP Morgan and UniCredit to Friedrichshafen in January 2020, whilst for Barclays Bank the position is unchanged and the company is still the cash pool holder.

All other non-designated inter-company balances are non-interest bearing and repayable on demand.

## 14 Provisions for liabilities

| | Deferred taxation £000 | Environ-mental £000 | Onerous leases £000 | Total £000 |
|---|---|---|---|---|
| At 1 January 2019 | 97 | 601 | 1,505 | 2,203 |
| Charge in the year | 144 | 384 | – | 528 |
| Released in the year | – | – | (1,301) | (1,301) |
| Utilised in the year | – | (260) | (204) | (464) |
| **At 31 December 2019** | **241** | **725** | **–** | **966** |

Deferred tax is disclosed within note 6.

### Environmental provisions

A provision estimate for each environmental matter is established using standard engineering cost estimating techniques on an undiscounted basis. Environmental provisions will, in the main, be utilised after more than one year. Due to nature of the provision there is a risk that costs will increase but at this point any additional costs are not estimable.

## 15 Share capital

Allotted and called up:

| | 2019 £000 | 2018 £000 |
|---|---|---|
| 5,279,528 ordinary shares of £20.00 each (2018 – 5,279,528 ordinary shares of £20.00 each) | **105,591** | 105,591 |
| | **105,591** | 105,591 |

## 16 Ultimate parent company

The company's immediate parent undertaking is LucasVarity, a company registered in England and Wales.

At 31 December 2019 the company's ultimate undertaking and controlling party is ZF Friedrichshafen AG, a company registered in the Federal Republic of Germany. This is the smallest and largest group in which the results of the company are consolidated and copies of the consolidated accounts of the company may be obtained from ZF Friedrichshafen AG, Loewentaler Strasse 20, 88046 Friedrichshafen, Germany.