



Zenith Automotive Holdings Limited

ANNUAL REPORT & FINANCIAL STATEMENTS

For the year ended 31 March 2020

Registered number: 10574333

Zenith Automotive Holdings Limited

Strategic Report

CONTENTS

STRATEGIC REPORT

| | |
|--|----|
| INTRODUCTION | 3 |
| OWNERSHIP | 4 |
| BUSINESS MODEL & ACTIVITIES | 5 |
| VISION & STRATEGY | 6 |
| EMPLOYEES | 7 |
| ENVIRONMENT & CORPORATE SOCIAL RESPONSIBILITY | 8 |
| ENVIRONMENT | 9 |
| COMMUNITY | 11 |
| ETHICS | 12 |
| TAX & HMRC | 12 |
| EQUALITY | 13 |
| HUMAN RIGHTS & MODERN SLAVERY | 13 |
| GENDER PAY | 14 |
| STAKEHOLDER ENGAGEMENT | 15 |
| BUSINESS REVIEW | 17 |
| NET DEBT & COVENANTS | 20 |
| CAPITAL STRUCTURE | 20 |
| PRINCIPAL RISKS & UNCERTAINTIES | 21 |
| KEY PERFORMANCE INDICATORS | 23 |
| COVID-19 | 24 |
| GOING CONCERN | 25 |
| FUTURE DEVELOPMENTS | 26 |
| DIRECTORS' REPORT | 27 |
| DIRECTORS' RESPONSIBILITIES STATEMENT | 30 |
| INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ZENITH AUTOMOTIVE HOLDINGS LIMITED | 31 |
| CONSOLIDATED PROFIT AND LOSS ACCOUNT | 34 |
| CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME | 34 |
| CONSOLIDATED BALANCE SHEET | 35 |
| COMPANY BALANCE SHEET | 36 |
| CONSOLIDATED STATEMENT OF CHANGES IN EQUITY | 37 |
| COMPANY STATEMENT OF CHANGES IN EQUITY | 38 |
| CONSOLIDATED CASH FLOW STATEMENT | 39 |
| NOTES TO THE FINANCIAL STATEMENTS | 40 |

Zenith Automotive Holdings Limited

Strategic Report



INTRODUCTION

The directors present their Annual Review for the Group, also referred to as ‘Zenith’, for the year ended 31 March 2020.

Zenith is the UK’s only scaled, regulated, multi-asset, multi-channel auto business. We are also the largest independent (not bank or manufacturer owned) vehicle leasing, fleet management, short-term hire and business process outsourcing company in the UK. Zenith has leasing capabilities across corporate and consumer sectors and from motorbikes to small city cars to heavy goods vehicles ranging from one day to eight years and beyond in duration. Originally established in 1989 as a specialist provider of bespoke fleet solutions for mid to large corporates, our customer base ranges from household brands and some of the biggest organisations in the UK to individual customers on our consumer products.

We deliver innovative and intelligent vehicle solutions to a variety of different customers whether that’s funding company cars, light or heavy commercial vehicles, providing flexible benefit schemes, funding cars for private individuals or delivering fully outsourced fleet management services. We have been successful across many years in delivering a high-quality and innovative service to our customers.

We have chosen not to disclose certain non-financial KPIs which we believe are commercially sensitive. In all other aspects the Directors consider the annual report and financial statements comply with the Guidelines for Disclosure and Transparency in Private Equity.

Zenith Automotive Holdings Limited

Strategic Report

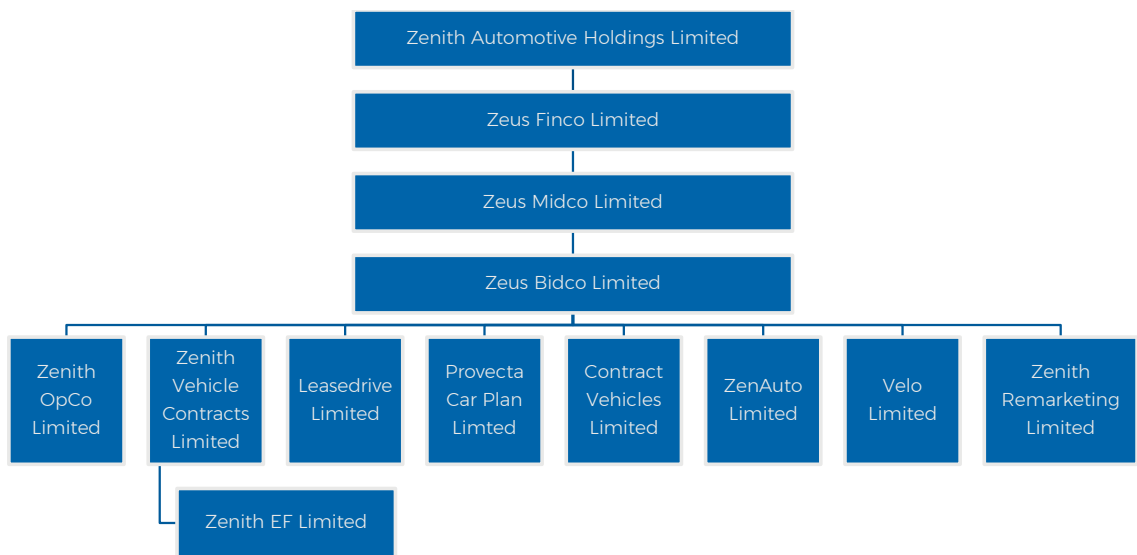
OWNERSHIP

The company structure is set out below. Each company in the structure is 100% owned.

In the consolidated Group Accounts Bifurcate Funding Limited and Vehicle Titleco Limited are also consolidated into the Group. These two companies form part of the legal structure under the securitisation facilities used to provide vehicle funding to the Group but are not owned by the Group.

Zenith Automotive Holdings Limited is owned 25% by management and 75% by BEV Nominees Limited, a Bridgepoint company. BEV Nominees Limited is owned by a number of limited partnerships comprising the Bridgepoint Europe V Fund.

Bridgepoint is an international fund management group focusing on private equity. Their aim is to deliver attractive returns to investors by investing responsibly in companies and building stronger, broader-based businesses with greatly enhanced long-term growth potential. As a long-established, experienced and responsible private equity investor they help companies and management teams by investing in expansion, operational transformation or via consolidating acquisitions. Bridgepoint invests in well-managed companies, typically taking controlling or large minority stakes. They are attracted by opportunities in sectors and niches with strong underlying growth and global competitive advantage or in cash generative businesses with high visibility of earnings.



Zenith Automotive Holdings Limited

Strategic Report

BUSINESS MODEL & ACTIVITIES

Zenith is a Mobility as a Service (MAAS) provider. The market continues to move towards our model of providing lease vehicles as a service. We have capabilities across all vehicle asset types, supporting everything from business-critical fleets to consumer cars and from the largest heavy goods vehicles, through to light commercial vehicles and down to the smallest city car.

Zenith manages a fleet of over 143,000 vehicles and focuses on:

- Serving blue chip clients with fleets of usually over 100 vehicles, across business fleets and salary sacrifice schemes principally on a fully outsourced and sole supply basis.
- Serving clients with business-critical HGV and specialist vehicle fleets, and
- Serving personal consumers through the ZenAuto and ElectricAuto brands providing personal contract hire (PCH) vehicles.

Key elements of our business model which we use to deliver success in our market are:

- Zenith is the leading scaled multi-asset funder and manager in the UK providing MAAS in increments from one day to eight+ years.
- Zenith has over 30 years of experience and over 750 employees. Vehicles and drivers are kept legally compliant and mobile 24 hours a day, 365 days a year.

- Zenith's consumer brand, ZenAuto, has continued to grow during the year and along with the launch of our new brand ElectricAuto, delivers PCH direct to the consumer market.
- Zenith is a member of the BVRLA industry body & EV100 climate group and aims to lead the transition of fossil fuels to electric.
- The Group's independent ownership enables it to be agnostic to vehicle makers or funders.
- With over 40 million vehicles in the UK this gives Zenith significant market opportunity to grow in its home markets.
- Zenith's Alliance Partner Network enables us to provide our customers with visibility of their fleet in 14 European countries.

Headquartered in Leeds, Zenith is the largest independent (not bank or manufacturer owned) vehicle leasing, fleet management, short-term hire and business process outsourcing company in the UK.

Services include provision of vehicle funding, vehicle maintenance, fleet management, accident management, business process outsourcing, short-term hire, fleet consultancy and provision of fleet data with bespoke packages tailored to corporate customer requirements.

Zenith Automotive Holdings Limited

Strategic Report

VISION & STRATEGY

Our corporate vision is to be the benchmark by which quality service is measured within our industry. Our Group vision is to transition the funded fleet to carbon neutral by 2025 by owning the new and used consumer personal contract hire, company car, salary sacrifice, HGV and fleet management spaces, whilst being a Top 100 company to work for.

In order to achieve this our strategy has been set to deliver the following:

1. To achieve organic growth in our core markets by

- Becoming the best-in-class corporate and consumer brand renowned for being the number one service provider of cars, vans and heavy commercial vehicles.
- Growing the fleet through the organic acquisition of new customers and cross-selling of new products to the existing portfolio, with little or no customer attrition.
- Evolving our European footprint to support existing and win new corporate customers.

2. To enter adjacent and new markets

- Increase our revenue streams by growing the consumer car leasing fleet and expanding business process outsourcing with new partners.

3. To use technology to drive deeper automation and service improvement

- Continuously refine the target operating model. Adopting process automation and digital to improve operational processing, supply chain quality, right first time delivery and improved cost to income ratios.
- Continuously focus on the evolution of funding facilities.

4. To employ the best people

- Have the best, most flexible, agile, diverse working environment attracting the highest quality talent, nurturing our people, reducing employee churn and offering equal opportunities.
- Engage our people to let them innovate, improve and grow the company.

5. Develop the Zenith Mobility as a Service (MAAS) eco system

- Design and develop Zenith's long-term mobility strategy.
- Use technology to continuously refine our business proposition.

6. Acquisition of value accretive businesses

- Acquire companies that complement existing channels, create scale, create synergies or provide incremental income opportunities.

Zenith Automotive Holdings Limited

Strategic Report

EMPLOYEES

We are committed to developing and retaining our employees; Zenith has been listed in the 75 best companies to work for (Yorkshire & Humber) in the Sunday Times Best Companies to Work For list 2020, an outstanding result. The Group has a very active employee engagement programme, and we are immensely proud of this achievement.

Zenith's Academy provides learning and development opportunities to all our people. Zenith provides access to the Zenith Academy for all employees and has provided a broad range of training from finance and marketing to MBA, leadership and coaching courses.

We support our employees through all aspects of their journey with us from our award-winning induction programme to BVRLA industry courses and coffee mornings for new and expectant parents to name a few.

Zenith is committed to developing future talent through apprenticeships, as shown through the continued expansion and success of our apprenticeship programme. Through the year, we have won several awards for apprenticeship programme including the Princess Royal Training Awards, LPI Apprenticeship Programme of the Year Bronze award, as well as Yorkshire and Humber Large Employer of the Year in the National Apprenticeship Awards.

We have continued to run our Women in Leadership programmes this year which we are proud to be supporting.

Our employees' health could not be more important to us. We have an in-house GP and have a number of employees across all levels of the organisation who are trained mental health first aiders.

We recognise that a diverse and inclusive workforce means a wealth of experience, skills and ideas are brought to the company. We know that an inclusive environment is a place where team work and co-operation thrive and therefore we have a more productive workforce. We are committed to promoting inclusivity, equality and diversity in everything that we do, be that procedures, policies or practice. At the end of last year we created a Diversity and Inclusion Committee made up of employees from across the business, at all levels, who have a genuine passion to ensure that inclusion and diversity are at the forefront of minds. One of the first tasks was to go out to the business and begin capturing diversity information from our colleagues. Having this data means that we can track changes and measure the impact of our initiatives over the coming years (we acknowledge that changes won't happen overnight). The committee have been working hard on creating a D&I policy, which will be published in August and then plan to roll out unconscious bias training right across the company.





ENVIRONMENT & CORPORATE SOCIAL RESPONSIBILITY (CSR)

Zenith is committed to ensuring that its business practices have positive impacts on the community and the environment. Since our formation in 1989, we have been committed to maintaining high ethical and moral standards and to ensuring that we act in accordance with responsible social behaviour.

The three core objectives of our Environmental and CSR policy are:

- To sustain the environment
- To conduct our business in an ethical and responsible manner
- To support the community, both local and industry sector.

At Zenith we regularly hold events to raise money for charity. Annually, we hold a Zenith 'annual challenge' which is our main fundraising event of the year.



ENVIRONMENT

Operating in the vehicle leasing industry, Zenith's primary environmental objective is to provide advice and technical information to encourage our customers to promote and incorporate the most environmentally friendly vehicles and practice within their core fleet policies.

The EV100 initiative, by The Climate Group, brings together forward-looking companies to drive the electric transport transition, reduce air pollution and climate change. Zenith plans to switch its own fleet to 100% EV by 2025, five years ahead of the target date required by EV100. Electric transport offers a major solution in cutting millions of tonnes of greenhouse gas emissions per year, as well as curbing transport related air and noise pollution.

Actions that our consultancy team complete on behalf of our customers:

- Introducing customer plans to transition to cleaner fuel types by assessing daily travel requirements compared with the electric

vehicle range of available and planned future car and van releases

- Helping customers develop a driver policy on the usage of electric vehicles to include eligibility and in-use responsibilities such as charging provisions
- Making it easy for drivers and consumers to move to electric vehicles by offering support with installing a charge point through the utilisation of partnerships
- Evolving and developing proposition to remove the barriers for electric cars such as unrestricted trade-ups.

For consumers we have launched a new website solely related to electric vehicles, ElectricAuto.

Both the Kirkstall Forge and Solihull offices are part of multi-tenanted buildings. In the last year. Over 80% of waste was recycled at both sites.

Zenith Automotive Holdings Limited

Strategic Report

The table below includes our mandatory reporting of greenhouse gas emissions based on the new energy and carbon reporting framework. This is based on the Group's greenhouse gas emissions for the year 1 April 2019 to 31 March 2020, covering both our office sites (in Leeds and Solihull) and business mileage travelled by our employees.

Our methodology used to calculate our emissions is based on the 'Environmental Reporting Guidelines: including mandatory greenhouse gas emissions reporting guidance' (March 2019) issued by the Department for Business, Energy & Industrial Strategy (BEIS).

Emissions from purchased electricity includes emissions from business mileage travelled in electric vehicles.

| Greenhouse gas emissions data 1 April 2019 to 31 March 2020 | Tonnes CO2e |
|--|------------------------|
| Scope 1: Emissions from combustion of gas | - |
| Scope 1: Emissions from combustion of fuel for transport purposes | 87 |
| Scope 2: Emissions from purchased electricity | 229 |
| Scope 3: Emissions from business travel | 97 |
| Total Gross CO2e | 413 |
| Intensity Ratio: Tonnes CO2e emissions divided by total £1m revenue | 0.9 |
| Energy consumption kWh | 1,666,597 |

Zenith Automotive Holdings Limited

Strategic Report



COMMUNITY

As a business Zenith is aware of its wider impact on the environment. We aim to ensure that we support our local community and integrate our business values and operations to meet the expectations of our customers and the wider public. We understand that we have impacts on the communities in which we operate, and employees are encouraged to assist the local community. We have established a CSR focus group to develop and promote our CSR policy.

Zenith is working with Leeds Ahead to take part in voluntary community focused projects, to assist with the social and economic regeneration of Leeds, including the opportunity to support students in a local school.

This has taken the form of mentoring over the academic year, providing interview practice,

taking over a GCSE business lesson and welcoming students to Zenith for a workplace visit. Every year we have more volunteers for mentoring than needed.

Each year our employees select a 'charity of the year' which our fundraising efforts through the year support. In this financial year it was Plastic Oceans.

We also encourage employees in their charitable endeavours such as supporting fund-raising events for colleagues and individuals.

We are delighted by the effort our people put into this and are encouraged by the feedback we receive from them in terms of the benefits they derive personally from being involved in these programmes.

Zenith Automotive Holdings Limited

Strategic Report

ETHICS

Zenith believes strongly in the need for ethics in business and to have ethical practices and transparency in all its activities as well as those of its suppliers. These principles strongly reflect the values of the Company.

Zenith believes we have a responsibility in the market with key issues such as:

- To treat our customers with respect and fairness and act true to our values
- To treat our partners and suppliers fairly and to establish long-term relationships that deliver value and high service levels to our end customers
- Not to enter into pricing comparisons with our competitors that may lead to any form of non-competitive activity
- To promote within the market the need for awareness of our industry's environmental impact with regard to carbon emissions and to work closely with specialists to ensure that we are promoting carbon reduction strategies
- To work closely with government and HMRC to ensure that consistency and clarity is provided to avoid confusion and additional administrative costs for our customers
- To deliver our services through professional and trained personnel whose mandate is to exceed the clients expected level of service delivery. Our values are built around openness, integrity, service excellence, innovation and loyalty.

TAX & HMRC

At Zenith we are proud of our service and ethics. Honesty is one of our core values and we apply this to our tax affairs and our dealings with tax authorities and tax advisors, in the same way we apply it to all our business activities.

We are committed to paying all the taxes that we owe, in accordance with the tax laws that apply to our operations. We report our tax affairs in ways that reflect the economic reality of the transactions we actually undertake in the course of our trade. Ultimately, we seek to pay the appropriate tax, at the right rate and the right time. We believe that paying our taxes in this way is the clearest indication we can give of us being responsible participants in society.

We have built long-term relationships with our tax advisors and discuss with them new products

and services to ensure the correct tax treatment is adopted. Our advisors also keep us updated on tax law as it evolves.

We respond to requests and enquiries from HMRC in a friendly, timely and professional manner. Where the tax treatment or reporting requirements of specific items are unclear we always seek professional advice. The senior accounting officer and chief financial officer are involved in all these discussions.

EQUALITY

The Company is committed to promoting equality of opportunity. This means it is the Group's policy that there should be no discrimination, harassment or victimisation of any employee, job applicant, customer, provider of services or member of the public because of one of the following protected characteristics: age, disability, gender reassignment, marital or civil partnership status, pregnancy and maternity, race, religion or belief, sex or sexual orientation.

The Company has three main objectives:

- To encourage its employees to take an active role in combating all forms of unlawful discrimination, harassment and victimisation
- To deter employees from participating in any such unlawful behaviour, and
- To demonstrate to all employees that they can rely upon the Company's support in cases of unlawful discrimination, harassment or victimisation at work.

The Group is fully committed to providing, so far as is practicable, a good and harmonious working environment that offers equal treatment and opportunities for all its employees and where every employee is treated with appropriate respect and dignity.

HUMAN RIGHTS & MODERN SLAVERY

Zenith recognises the right of every individual to liberty, freedom of association and personal safety and observes internationally recognised standards set out in the UN Universal Declaration of Human Rights and the International Labour Organisation (ILO) Conventions.

Zenith has a long-standing commitment to conducting business ethically and the prevention of slavery and human trafficking is an important part of that commitment. We take steps to ensure slavery and human trafficking are not taking place either in our organisation or our supply chain, with our policy being underpinned and supported by the following:

- A collaborative approach with our supply chain, which encourages transparency. We will provide appropriate support, guidance and monitoring to tackle any reported issue.
- Serious or repeated violations may result in a termination of supply, reduced volume of business or non-inclusion in future tenders
- Annual training for key stakeholders within Zenith
- A supplier lifecycle and procurement policy incorporating pre-contractual supplier due diligence, comprehensive contractual agreements and periodic review
- Supplier Code of Conduct
- Annual risk assessment of the supply chain
- Whistleblowing procedures within Zenith and the introduction of a contractual requirement for direct suppliers to our operational business to monitor compliance and report any matters of concern
- A third-party governance, risk and compliance (GRC) software system.

GENDER PAY

We are pleased to report another year of improvement in our gender pay gap data for the period to March 2020. This improvement is reflective of the work taking place to address representation of women in our organisation. We will continue to build on this by focusing on the initiatives in place specifically targeted at closing our gender pay gap and overall diversity in our business.

The gender pay gap calculation is an equality measure to show the difference in the average earnings between women and men. It is not a comparison of pay between equivalent roles. Zenith are committed to providing equal pay for equal work. Our pay policies and practice are designed to address any unconscious bias, particularly at recruitment.

Zenith has a number of employing legal entities. Of these, one company has more than 250 employees: Zenith Vehicle Contracts Limited with 429 employees. Under the regulations we are required to report our gender pay gap for this entity, as set out below.

| Gender Pay Gap | 2017 | 2018 | 2019 | Var 17-19 |
|----------------|------|------|------|-----------|
| Mean | 24% | 20% | 19% | -21% |
| Median | 18% | 14% | 9% | -51% |

| Bonus Pay Gap | 2017 | 2018 | 2019 | Var 17-19 |
|---------------|------|------|------|-----------|
| Mean | 32% | 8% | 12% | -63% |
| Median | 25% | 26% | 12% | -52% |

Our industry is traditionally male dominated which creates imbalance in gender and pay. The gap is partly driven by demographic factors where there are more men in senior management positions than women. Roles which are eligible for commission create a further impact. We are confident our roles and opportunities for commission are available to men and women equally.

In response to this we have a number of initiatives including:

- 50:50 target for recruitment of our apprenticeship and graduate programmes
- Offering a wide range of flexible working arrangements to support a diverse workforce
- Leadership and mentoring programmes focused on senior females.

For the reporting period of this annual report the number of employees in the Group can be broken down as follows:

| Gender Breakdown | March 2018 | March 2019 | March 2020 |
|------------------|------------|------------|------------|
| Director | | | |
| Female | 1 | 1 | 1 |
| Male | 17 | 20 | 17 |
| Senior Manager* | | | |
| Female | 34 | 25 | 30 |
| Male | 48 | 41 | 38 |
| Employee | | | |
| Female | 317 | 311 | 303 |
| Male | 302 | 341 | 353 |
| Total | 719 | 739 | 742 |

*Senior managers are managers in the business with direct reports.

Zenith Automotive Holdings Limited

Strategic Report



STAKEHOLDER ENGAGEMENT

The Directors are well aware of their duty under s.172 of the Companies Act 2006 to act in the way which they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole and, in doing so, to have regard (amongst other matters) to:

- the likely consequences of any decision in the long term;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct;
- and
- the need to act fairly as between members of the Company.

The below section acts as our Section 172(1) statement. It lists our key stakeholder groups, their priorities, how we engage with them and actions the Board has taken following feedback, to promote the success of the Company for the benefit of its members as a whole.

Our customers – as a service-centric business our customers are at the centre of our decisions. Our customers expect a best-in-class service from us, which we aim to deliver. With dedicated contacts for our commercial fleets and a business structured around our services we can meet our customer needs, be that at a fleet manager level or an individual driver. As one of our non-financial KPIs, as described on page 23,

customer satisfaction is reviewed by the Board monthly. Linking this measure into our employee bonus payment ensures customer satisfaction is considered in our employee's actions and is at the top of decisions made in the business. This focus on our customers has led us to win the FN50 Customer Service Individual award and be highly commended in the Great British Fleet Awards for our Innovation in Customer Service.

Zenith Automotive Holdings Limited

Strategic Report

Our employees – to deliver our excellent service levels, the company relies on its dedicated team of employees. Our colleagues value roles in which they can learn and develop, a competitive benefits package, as well as a diverse, inclusive and safe environment in which to work. We engage with our employees across a number of platforms, be that directly with their managers and/or HR or via annual pulse checks with our employee survey. We run different programmes to support our colleagues across the organisation including our apprenticeship programme and graduate scheme. We offer courses which encourage diversity including our women in leadership course and offer various wellbeing tools. More information on how we support our employees can be found within the Employee and Gender pay sections of the Strategic Report on pages 7 to 14.

Our suppliers – a high-quality product is desired from our suppliers to match our service. Our key suppliers range across car dealerships, vehicle and parts manufacturers, short-term rental providers, garages and vehicle recovery providers. By working closely with our suppliers, with direct engagement through our specialist relationship teams, we ensure our high service levels are maintained whilst charging a fair price to our customers, working together with our suppliers as trusted partners to achieve mutual success.

Our community and environment – working in the fleet industry we aim to keep our communities mobile and safe. A decision was made by the Board to set a new target to transition 100% of our own fleet to electric vehicles by 2025. Further information on our interactions in our communities and environment can be found within the Corporate Social Responsibility section of the Strategic Report on pages 8 to 11.

Our funding providers – our funders are updated on our financial performance through weekly and monthly reports. When making credit risk decisions in the business, both at the approval stage of a contract and during the life we take a composed approach balancing the risk with the requirements of the customer.

Our owners – our owners are highly supportive of well-considered investment decisions which will help us achieve desired growth in our business and ultimately enable returns on their investment. Employee engagement in the performance of the business is encouraged through the employee share scheme. Both the management team and Bridgepoint have representation on the Board so are involved in decisions being made. Our vision and strategic priorities are set to enable us to achieve our growth requirements whilst balancing this with the requirements of our other key stakeholders.

Zenith Automotive Holdings Limited

Strategic Report



BUSINESS REVIEW

In the year to 31 March 2020 Zenith Automotive Holdings Limited consolidated accounts reported an EBITDA* of £56.1m.

We are pleased to report that excluding ZenAuto, the core group has returned to year on year growth in profits, from EBITDA of £58.2m to £58.3m. This is particularly pleasing given the challenging environment in the year, including Brexit, changes to emission standards (WLTP) and more recently COVID-19 which adversely impacted the final weeks of trading. This is testament to the underlying strength of our business model and dedication of our team.

ZenAuto, our direct to consumer brand, has continued to grow across the year. With continued investment in our people, IT and marketing within this new business area, ZenAuto contributed a loss of £2.2m to EBITDA (£2.1m previous year), which was broadly in line with our expectations as we invest in the early stages of materially scaling this business.

The Group balance sheet shows total assets of £1,545m including cash balances of £74m. The previous year Group balance sheet total assets

were £1,467m including cash balances of £21m. The main reason for the increase in total assets and cash is due to a draw down on the revolving credit facility (RCF) of £60m and roll over of senior debt interest into the capital balance at the end of the financial year. Both of these were performed to strengthen our liquidity position in response to COVID-19. The RCF was not used and on the 30 June 2020 £40m of this facility, has been repaid.

Despite the £56.1m EBITDA, the Group made a loss after tax for the period of £102m. However, this was as a result of deducting non-cash items of £49m for amortisation of goodwill and intangibles, and preference share and loan note interest of £58m. The preference shares and loan notes are owned by the shareholders and not paid in cash. The non-cash amortisation and interest will continue in future years. The Group is cash generative and is forecast to continue to be so for the foreseeable future.

We have a large and diversified pool of asset finance facilities available to us, to finance our leasing operations, which includes a significant element of committed facilities, and we have

Zenith Automotive Holdings Limited

Strategic Report

plenty of headroom with which to fund our ambitious growth plans. Our securitisation facilities provide us with extremely competitively priced capital with which to develop our business, covering our corporate, HGV and consumer businesses.

There were, however, a number of headwinds outside the control of Zenith which impacted the business in the year:

- The new CO₂ emissions testing regime (Worldwide Harmonized Light Vehicle Testing Procedure or 'WLTP') has continued to affect car policy making and quoting through the year. This reduced both order take and delivery of new vehicles
- A knock-on impact of this uncertainty was that a significant number of leases, which ended their primary term in the period, were extended. This meant that the number of end-of-lease vehicles which we sold were reduced and profits from their sale were pushed into later periods
- Political and economic uncertainty, from Brexit, and later in the year COVID-19, caused an increased level of caution in our customer base when placing orders. With the latter also causing disruption to deliveries and collections, whilst we were in the period of lockdown.

The business has continued to enhance its reputation as a high-quality service provider which meets, in an innovative and imaginative way, the requirements of the market and its customers in particular. We have been focused on enhancing this during the difficult trading period.

- This financial year was a year of significant progress and achievement across all areas of new business

- The total funded and managed fleet size has increased from 138,000 to 143,000 vehicles
- ZenAuto has continued to grow rapidly across the year, as we have continued to expand our distribution with existing and new partners
- Our outsourced business services operations have continued to grow profitably
- The short-term rental division has also continued to add additional profits to the Group
- We have continued to invest in our HGV leasing and management business, from both a people and system perspective, and we are confident that we have an excellent platform for growth
- We started to see the benefit of our group proposition, through which we serve all of our customers' HGV, van and car requirements under one roof, from one day rentals through to eight year+ leasing and management
- We have seen cost savings in the year due to initiatives which were implemented in the previous year.
- Our customer retention statistics continue to be exceptionally good
- Electric vehicles (EVs) have been very positive for salary sacrifice schemes and we are starting to see the early signs of cash takers re-joining company car schemes for EVs.

We are increasingly able to differentiate our service proposition helping us secure prominent new business and the Directors are confident that the Group can continue this going forward.

Our headquarters at Kirkstall Forge, Leeds and the continued adoption of flexible and agile working practices, assist in our ability to attract the highest quality talent to our business and retain the best people.

Zenith Automotive Holdings Limited

Strategic Report

This coming year is possibly the most challenging environment we have operated in, but we are confident that our services and vehicle mobility will be centric to everybody's lives going forward, with expected reductions in flight and travel on public transport.

Our view is the fundamental growth drivers of the market remain highly positive, being:

- i. increasing outsourcing of the management of corporate fleets, and
- ii. increasing leasing, as opposed to buying, of vehicles by consumers, whether directly or via salary sacrifice schemes.

We are a stable and well organised to capture market share across both corporate and consumer markets. We have some of the best connected technology available and a highly experienced, agile, engaged team that is committed to continuing Zenith's future success and will allow us to adopt our services to fit the 'new post COVID-19 norm'.

* EBITDA is defined as operating profit before amortisation of goodwill, depreciation of tangible & intangible assets and exceptional items



NET DEBT & COVENANTS

On 31 March 2020, the Group was funded by the following facilities:

- External bank debt of £434m. This is repayable in one instalment on 31 March 2024
- External Loan Notes of £252m (held in Zeus Finco Limited) and Preference Shares of £272m (held in Zenith Automotive Holdings Limited). These are both owned by the shareholders of Zenith Automotive Holdings Limited. Interest is calculated monthly and annually rolled and added onto the balance rather than being settled. These will be settled in the event of a sale of the Group or after a 20-year period ending 31 March 2037
- Cash and cash equivalents of £74m.

- The Group also has a Revolving Credit Facility (RCF) of £60m available until 31 March 2023 and repayable on 31 March 2024. At 31 March 2020 the full £60m was drawn on this facility. There is a leverage covenant which is measured once the RCF is more than 35% drawn and we must ensure that when tested the Consolidated Super Senior Secured Leverage Ratio* does not exceed 1.65:1. This condition was met on 31 March 2020 and throughout the year.

On the basis of the above the Group has net debt of £944m. Excluding balances owed to shareholders the net debt was £420m.

* Consolidated Super Senior Secured Leverage Ratio is defined as RCF divided by EBITDA.

CAPITAL STRUCTURE

As discussed, the Group has £494m of external debt. The loan notes and preference shares total £524m and are held by the equity shareholders. The Group has a wide share ownership by employees and issued shares in the Group to employees during the year. Annually eligible employees are invited to buy shares in the business.

This type of capital structure, with a mix of external and shareholder debt and wide employee share ownership, has been successful in supporting the growth of the business through six private equity transactions and ensuring high levels of employee engagement in the business.

PRINCIPAL RISKS & UNCERTAINTIES

The following are the principal risk areas in the business, specific risks associated with COVID-19 are covered within the COVID-19 section later in this report:

| Interest Rate Risk | Controls |
|---|--|
| Interest on Senior debt is calculated on a floating rate and paid quarterly. | Our senior debt currently stands at £434m and interest rate exposure is 65% hedged until June 2022. Management review the level of debt hedged, at inception of the hedge and are comfortable with the current level of variable exposure. |
| Managing interest risk on vehicle funding is key. We provide vehicle finance to customers on a fixed interest rate basis on all contracts. Vehicles funded through securitisation are on a variable rate. | 100% of agency and back-to-back funded deals are secured with fixed rate funding from banks. 100% of deals funded through securitisation are hedged by swapping floating rate costs for fixed rate across the term of the lease. Management have effectively removed interest rate risk as a result and will consistently apply this policy. |
| Residual Value Risk | Controls |
| When pricing a lease, we need to estimate what the vehicle will be worth at the end of the lease. This is called the 'residual value'. If we over estimate this value and ultimately sell the vehicle for less than its residual value, we will lose money. This is called the 'residual value risk'. | Sophisticated external tools are used analysing CAP Gold Book, CAP Black Book, Autofutura Recalc-IT and internal intelligence based on historic data are used to set residual values. |
| | Fleets are categorised into volume tiers with high volume vehicles reviewed every three months, giving approximately 85% coverage and all vehicles covered at least annually. |
| | A Residual Value committee meets every three months to provide oversight, review the output of the above and challenge residual value positions. |

Zenith Automotive Holdings Limited

Strategic Report

| Maintenance Risk | Controls |
|---|---|
| <p>77% of our contracted units have fixed price maintenance contracts. The customer pays us (usually) monthly in fixed instalments over the life of the lease to maintain the vehicle. If the cost of maintaining the vehicle is higher than the total rentals we collect from the customer over the life of the lease we will lose money.</p> | <p>We use data from industry benchmarks in conjunction with our own data to model the costs.</p> |
| | <p>There is a rolling review programme to ensure all vehicles are reviewed at least once per year. High volume vehicles have the most detailed review.</p> |
| | <p>Management monitor maintenance provisions quarterly using formulae from historic data to give an early indication of potential issues. Any change in profitability would be picked up by this review and actions taken.</p> |
| Credit Risk | Controls |
| <p>Zenith takes credit risk on customers to the extent it funds vehicles on either back-to-back or securitisation funding.</p> | <p>We employ two credit analysts to monitor and review credit risk reporting directly to the CFO. Every customer is reviewed at least annually.</p> |
| | <p>A detailed assessment of customers due for review is presented to the Credit committee which meets monthly. The credit analysts present to the CEO, CFO and finance director. Based on the review, individual credit limits are agreed and funding strategies decided which manage the level of risk that Zenith are prepared to take. All new business opportunities are reviewed by one of the credit analysts prior to tendering.</p> |

Zenith Automotive Holdings Limited

Strategic Report

KEY PERFORMANCE INDICATORS

The directors use a series of financial and non-financial Key Performance Indicators (KPIs) to monitor the performance of the business.

| EBITDA | Calculation |
|---|--|
| Creating value for shareholders is linked to growth in earnings before interest, tax, depreciation and amortisation (EBITDA or operating profit). All employees participate in an annual bonus scheme which is linked to the Group's EBITDA performance against budget. | Monthly management accounts report EBITDA measured on a consistent basis to Operating profit before depreciation of tangible fixed assets, amortisation of goodwill, intangible assets and exceptional items reported in the consolidated profit and loss account. |
| Fleet Size | Calculation |
| The main way to grow operating profit is to grow the fleet size and therefore measuring the movement in the fleet is key to the success of the business. | We have sophisticated, award-winning, business intelligence reporting solutions which report fleet sizes in real-time across our products. |
| Customer Satisfaction | Calculation |
| One of the key strengths of the Group is the high levels of customer retention. One of our most important KPIs is our measurement of customer satisfaction. This is also a key element of the annual bonus payment to employees. | The Group uses state-of-the art, award-winning software to critically assess customer satisfaction indices. |
| Employee Engagement | Calculation |
| We are a service business and our employees are core to our success. Engagement scores are a key indicator of how we are performing. As a business we analyse in detail the results and identify opportunities to improve. | To objectively measure this, we take part annually in the Sunday Times Best 100 Companies to work for survey. |

Zenith Automotive Holdings Limited

Strategic Report

COVID-19

On 23 March 2020 a lockdown was imposed in the UK, banning all non-essential travel and closing all but non-essential businesses, including the closure of car showrooms and auction houses due to the COVID-19 pandemic.

The professional and diligent approach of our managers across a period of years has resulted in excellent and robust Business Continuity Plans. This has helped us to enable our workforce to work efficiently from home during this period, keeping our employees safe whilst also providing a seamlessly high level of service to our customers. Whilst the country was in lockdown we experienced a decrease in our call volumes and resultant work load, post year end this meant that we utilised the government's furlough scheme to claim back support for employees we did not require during this period. We continued to pay all our employees 100% of their salary during this time.

The Supplier, Governance and Risk Committee have conducted a review of the supply chain with specific reference to the COVID crisis, this included a review of increased credit risk, risk of failure and risk of data protection issues, as well as a review of operational rigor. No undue risks were discovered during this review.

Due to the nature of our business model, which is predominately long-term leases of between three to five years to large corporate customers, the degree of visibility over our future earnings and profitability is high. As a result, Zenith is well positioned to navigate this intense period of disruption caused by the COVID-19 pandemic.

As a result of the lockdown, there has been a limited number of vehicle sales at the end of lease terms and only essential deliveries in the last couple of weeks of our financial year, with a number of leases being extended. Our strong, long-term relationships with our funders has given us flexibility within our funding schemes, for example providing funding for vehicles we are unable to sell due to the lockdown. This has greatly assisted us in maintaining a healthy cash balance during this current environment.

To monitor residual value risk we have implemented daily updates on vehicle remarketing activity to monitor price and conversion information.

The impact on our credit risk has resulted in a small number of our customers requesting payment holidays. These requests have been reviewed thoroughly by our credit risk analysts and CFO. Regular weekly credit reporting on our customers has also been shared with key employees within our organisation, including the CEO, CFO and FD. This has had a minimal impact on our cash flows.

The financial modelling we have performed, looking at a range of lockdown scenarios, shows that we continue to trade cash positive as a result of our business model, long-term contracted income streams and additional procedures we have put in place. We have continued to keep our scenario model refreshed, as well as monitoring our results closely which show that our experience of payment holidays, vehicle sale volumes and profits continue to perform within our expected range.



GOING CONCERN

The Company makes use of bank facilities agreed on a Zenith Automotive Holdings Limited Group wide basis.

The Group has considerable financial resources to manage its operations, we have headroom on our RCF facilities and are compliant with our covenants (as noted in the net debt and covenants section above) with bank facilities being repayable in March 2024.

The Directors note that the Group is cash generative and have reviewed the forecasts which cover a period exceeding 12 months from the date of signature of the financial statements. This includes the updated forecasts and scenarios modelled as outlined in the COVID-19 statement above.

The statement above also sets out the impact COVID-19 has had on the Group, around which we have put protective measures in place. The scale of the Group means it can withstand these short-term challenges, particularly our wide HGV to car and corporate to consumer propositions enabling us to be agile, spot changes in the market and adapt our strategy if required.

We continue to closely monitor Brexit and COVID-19 developments and have not identified any material adjustments to balances included in these financial statements.

On this basis, the Directors have a reasonable expectation that the Group and the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

FUTURE DEVELOPMENTS

Over the last three decades, the Zenith Group has grown to become the UK's largest independent vehicle asset manager, with over 143,000 vehicles across all asset types including HGVs, vans and cars. Whilst the 143,000 fleet is significant, it is small in the context of the 40 million vehicles on the UK's road today, the majority of which are driven by consumers.

Historically the Group has focused on the fleet sector, but during the last three years, significant investment has been made into Personal Contract Hire (PCH) in the consumer market. Currently Zenith is the only UK operator to go direct to consumer with a full digital PCH solution, all significant competitors go via intermediaries from car dealerships to brokers. This positioning opens up a huge opportunity for Zenith as it owns the customer channel, has the best low cost to serve technology, vehicle funding and RV risk capacity, material scale and three decades of auto experience.

With the emergence of new electric vehicles against a strong backdrop of climate change, there is opportunity for new subscription models and a faster replacement cycle of the UK vehicle parc. Zenith, with corporate to consumer capabilities, has a strong base on which to grow in this new world and to play a key role in reducing carbon emissions and other pollution, helping to reduce the impacts of Climate Change.

In this new decade we will continue to develop and grow, as we look to cement our positioning as a key player in the UK motor fleet and consumer auto eco system.



M T Phillips, Chief Financial Officer
30 July 2020

Zenith Automotive Holdings Limited

Directors' report

The principal activity of the Group is vehicle finance solutions to fund company cars, commercial vehicles, personal contract hire, provide flexible benefit schemes or fully outsourced fleet management services. We have a strong focus on high quality service delivery and innovation.

Business Review

The directors present their annual report and audited financial statements for the year ended 31 March 2020.

The Group's operating profit before depreciation of tangible fixed assets, amortisation of goodwill, intangibles and exceptional items is £56m (2019: £56m).

The Group made a statutory operating profit of £1m (2019: £1m) and loss after tax for the period of £102m (2019: £93m), however this was after deducting non-cash items of £49m (2019: £48m) for amortisation of goodwill and intangibles, and preference share and loan note interest of £58m (£52m). Further details are included in the strategic report.

The Group is cash generative and is forecast to continue to be so for the foreseeable future.

Directors

The directors who served during the period and to the date of this report were:

Tim Buchan is Chief Executive Officer

Tim became CEO of the combined group in March 2017 and has been the CEO of Zenith since 2010. Tim manages the corporate direction and strategy for Zenith and is responsible for directing our proposition, our leadership team, our innovative approach and our new business growth.

Under Tim's leadership Zenith has moved 24 places up the Fleet News 50 list of top leasing and fleet management companies, led the Company to the successful integration of Contract Vehicles Limited, our HGV business, and launched a retail brand, ZenAuto.

Mark Phillips is Chief Financial Officer

Mark is an Economics graduate graduating from the University of Newcastle Upon Tyne in 1989 and trained with Andersen qualifying as a Chartered Accountant with the Institute of Chartered Accountants in England and Wales in 1993. He left Andersen in 1996 and was then group financial controller for a listed speciality chemical and pharmaceutical firm until he joined Zenith as CFO in 1998. He has overall responsibility for the finance functions within Zenith. He also leads our risk management, treasury and legal teams. Mark has been instrumental in all of the private equity transactions the group has progressed through during his period in office and in designing, managing and implementing the securitisation facilities used by the group.

Lord Stuart Rose is Chairman

Lord Rose has worked in retail for over 40 years. He has held Chief Executive Officer positions at Argos plc, Booker plc, Arcadia Group plc and Marks and Spencer plc. He was Chairman of Marks and Spencer plc from 2008 to 2011. Lord Rose was knighted in 2008 for services to the retail industry and corporate social responsibility, and granted a life peerage in August 2014.

He is currently Chairman of Ocado Group plc, Chairman of Fat Face Group Limited, Chairman of Stylemania Limited, trading as Dressipi, Non-Executive Director of RM2 International S.A., Chairman of Majid Al Futtaim Retail based in Dubai and Non-Executive Director of Time Out Group plc.

Zenith Automotive Holdings Limited

Directors' report (continued)

Emma Watford is Non-Executive Director

Emma is a Partner with Bridgepoint and sits on the boards of Zenith and Hobbycraft. Emma has worked on a number of transactions including the acquisitions of Zenith, Estera, Quilter and Cheviot and the exits of Quilter Cheviot and Pets at Home. Prior to joining Bridgepoint, she was a director of Candover Partners and prior to that, Emma worked at Morgan Stanley in mergers and acquisitions. Emma is a Non-Executive Member of the UK Takeover Panel.

Guy Weldon is Non-Executive Director

Guy is a Partner and Chief Investment Officer at Bridgepoint. Guy currently sits on the boards of Hobbycraft and Zenith. Guy has worked extensively on private equity transactions across Europe, particularly within the Consumer sector working on amongst others Pret A Manger and Pets at Home.

M K Patel is Company Secretary (Appointed 1 April 2020)

P J Rawnsley was Company Secretary (Resigned 25 November 2019)

Registered Office

The Company's registered office is

Number One
Great Exhibition Way
Kirkstall Forge
Leeds
England
LS5 3BF

The company is a private limited company registered in England & Wales.

The directors present their annual report on the affairs of the Group, together with the audited financial statements and auditor's report, for the year ended 31 March 2020.

Directors Indemnities

The Company has made qualifying third-party indemnity provisions for the benefit of its directors during the period and these remain in force at the date of this report.

Results and dividends

No dividends were paid in the year (2019: £nil) and no dividends have been declared during the year or post year end. For discussion on the Group financial performance for the year please refer to business review section in the Strategic Report.

Principal risks and uncertainties

The principal risks and uncertainties of the Group and Company are discussed in the Strategic Report.

Future Developments

The directors set out in the Strategic Report the future developments of the business

Going concern

The directors set out in the Strategic Report the reasoning for the adoption of the going concern basis in preparing the annual report and financial statements for the Group and Company.

Further details regarding the adoption of the going concern basis can be found in the accounting policies in the financial statements.

Zenith Automotive Holdings Limited

Directors' report (continued)

Post balance sheet events

On 30 June 2020 £40m of the revolving credit facility was repaid. All the trading activities of the Group are in the UK. We continue to closely monitor Brexit and COVID-19 developments and have not identified any material adjustments to balances included in these financial statements, nor any material impacts on the business, subsequent to the balance sheet date. There are no other post balance sheet events to report.

Charitable and political contributions

During the year the Group made charitable donations of £21,202 (2019: £21,100), principally to local charities serving the communities in which the Group operates. The Group made no political contributions in the year.

Employees and training

Much of the Group's success can be attributed to its policy of progressive training and development of employees. The growing expertise and confidence of its employees has enabled the Group to deliver sophisticated products to its customer base in a very professional manner. The directors are thankful to all employees for the way in which they continually meet the demands made of them.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group and the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee consultation and engagement

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group and the Company. This is achieved through formal and informal meetings. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests. The employee share scheme has been running successfully since its inception and is open to all employees who have served a pre-defined time requirement with the Company. In addition, all employees receive an annual bonus related to the overall profitability of the Group. Further information can be found in the strategic report.

Statement on business relationships

The business relationships of the Company are discussed in the S172(1) section of the strategic report.

Auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006. A resolution to reappoint Deloitte LLP will be proposed at the forthcoming Annual General Meeting.

Approved by the Board and signed on its behalf by:



M T Phillips
Director
30 July 2020

Zenith Automotive Holdings Limited

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial period. 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), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Independent auditor's report to the members of Zenith Automotive Holdings Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Zenith Automotive Holdings Limited (the 'parent company') and its subsidiaries (the 'group'):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2020 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated profit and loss account;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statement of changes in equity;
- the consolidated cash flow statement; and
- the related notes 1 to 24.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

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.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the FRC's) Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in 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 group's or the parent 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.

We have nothing to report in respect of these matters.

Independent auditor's report to the members of Zenith Automotive Holdings Limited (continued)

Other information

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

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

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, 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 group's and the parent 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 group or the parent 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Independent auditor's report to the members of Zenith Automotive Holdings Limited (continued)

Report on other legal and regulatory requirements

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 the directors' report have been prepared in accordance with applicable legal requirements.

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 any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

We have nothing to report in respect of these matters.

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.



Peter Birch FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Leeds, United Kingdom
30 July 2020

Zenith Automotive Holdings Limited

Consolidated profit and loss account

For the year ended 31 March 2020

| | Note | Year ended 31 March 2020 £'000 | Year ended 31 March 2019 £'000 |
|---|------|---|---|
| Turnover | 3 | 444,636 | 439,463 |
| Cost of sales | | <u>(348,196)</u> | <u>(348,200)</u> |
| Gross profit | | 96,440 | 91,263 |
| Operating expenses | | <u>(94,983)</u> | <u>(90,315)</u> |
| Operating profit before depreciation of tangible fixed assets, amortisation of goodwill, intangible assets and exceptional items | | 56,145 | 56,175 |
| Depreciation of owned tangible fixed assets | 4 | (5,299) | (4,428) |
| Amortisation of goodwill | 4 | (23,873) | (23,885) |
| Amortisation of intangible assets | 4 | (25,516) | (23,629) |
| Operating exceptional items | 6 | - | (3,285) |
| Operating profit | 4 | 1,457 | 948 |
| Finance costs (net) | 5 | <u>(98,369)</u> | <u>(93,064)</u> |
| Loss before taxation | | (96,912) | (92,116) |
| Tax charge on loss | 9 | <u>(5,503)</u> | <u>(748)</u> |
| Loss for the financial year attributable to the shareholders of the group | | <u><u>(102,415)</u></u> | <u><u>(92,864)</u></u> |

All results derive from continuing operations.

The accompanying notes 1 to 24 are an integral part of these financial statements.

Consolidated statement of comprehensive income

For the year ended 31 March 2020

| | Year ended 31 March 2020 £'000 | Year ended 31 March 2019 £'000 |
|--|---|--------------------------------------|
| Loss for the financial period | (102,415) | (92,864) |
| Hedge losses arising during period (net) | <u>(3,826)</u> | <u>(2,585)</u> |
| Total comprehensive expense attributable to the shareholders of the group | <u><u>(106,241)</u></u> | <u><u>(95,449)</u></u> |

Zenith Automotive Holdings Limited

Consolidated balance sheet

As at 31 March 2020

| | Note | As at 31 March 2020 £'000 | As at 31 March 2019 £'000 |
|--|------|---------------------------------|---------------------------------|
| Fixed assets | | | |
| Goodwill | 10 | 405,834 | 429,707 |
| Intangible assets | 11 | 408,199 | 429,413 |
| Tangible assets | 12 | 484,071 | 422,393 |
| | | <u>1,298,104</u> | <u>1,281,513</u> |
| Current assets | | | |
| Debtors | | | |
| – due within one year | 14 | 108,227 | 93,216 |
| – due after one year | 14 | 65,578 | 71,319 |
| Cash at bank and in hand | | <u>73,568</u> | <u>21,028</u> |
| | | 247,373 | 185,563 |
| Creditors: Amounts falling due within one year | 15 | <u>(306,379)</u> | <u>(290,928)</u> |
| Net current (liabilities) | | <u>(59,006)</u> | <u>(105,365)</u> |
| Total assets less current liabilities | | 1,239,098 | 1,176,148 |
| Creditors: Amounts falling due after more than one year | 16 | (1,152,972) | (987,583) |
| Provisions for liabilities | 17 | <u>(90,094)</u> | <u>(86,298)</u> |
| Net (liabilities) / assets | | <u><u>(3,968)</u></u> | <u><u>102,267</u></u> |
| Capital and reserves | | | |
| Called up share capital | 18 | 271,546 | 271,545 |
| Share premium account | | 2,444 | 2,439 |
| Hedging reserve | | (4,009) | (183) |
| Profit and loss account | | <u>(273,949)</u> | <u>(171,534)</u> |
| Shareholders' funds | | <u><u>(3,968)</u></u> | <u><u>102,267</u></u> |

The accompanying notes 1 to 24 are an integral part of these financial statements.

The financial statements of Zenith Automotive Holdings Limited were approved by the board of directors and authorised for issue on 30 July 2020.



M T Phillips

Director

Zenith Automotive Holdings Limited

Company balance sheet

As at 31 March 2020

| | Note | As at 31 March 2020 £'000 | As at 31 March 2019 £'000 |
|--|------|---------------------------------|---------------------------------|
| Fixed assets | | | |
| Investments | 13 | 32,508 | 2,482 |
| Current assets | | | |
| Debtors – due within one year | 14 | 303,800 | 312,059 |
| Cash at bank and in hand | | 20 | 20 |
| Creditors: Amounts falling due within one year | 15 | (3,654) | (3,453) |
| Net current assets | | <u>300,166</u> | <u>308,626</u> |
| Total assets less current liabilities | | <u>332,674</u> | <u>311,108</u> |
| Creditors: Amounts falling due after more than one year | 16 | (90,672) | (57,657) |
| Net assets | | <u><u>242,002</u></u> | <u><u>253,451</u></u> |
| Capital and reserves | | | |
| Called up share capital | 18 | 271,546 | 271,545 |
| Share premium account | | 2,444 | 2,439 |
| Profit and loss account | | (31,988) | (20,533) |
| Shareholders' funds | | <u><u>242,002</u></u> | <u><u>253,451</u></u> |

The accompanying notes 1 to 24 are an integral part of these financial statements.

The loss for the year ended 31 March 2020 was £11,455,000 (2019: £11,275,000). As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account or statement of comprehensive income is presented in respect of the parent Company.

The financial statements of Zenith Automotive Holdings Limited (registered number 10574333) were approved by the board of directors and authorised for issue on 30 July 2020.



M T Phillips

Director

Zenith Automotive Holdings Limited

Consolidated statement of changes in equity

As at 31 March 2019

| | Called up share capital £'000 | Share premium account £'000 | Profit and loss account £'000 | Hedging reserve £'000 | Total £'000 |
|---|-------------------------------------|--------------------------------------|--|-----------------------------|----------------|
| At 1 April 2018 | 271,544 | 2,436 | (78,670) | 2,402 | 197,712 |
| Issue of share capital | 1 | 3 | - | - | 4 |
| Loss for the financial period | - | - | (92,864) | - | (92,864) |
| Hedges of variable interest rate risk (note 20) | - | - | - | (3,115) | (3,115) |
| Deferred tax charge (note 17) | - | - | - | 530 | 530 |
| At 31 March 2019 | <u>271,545</u> | <u>2,439</u> | <u>(171,534)</u> | <u>(183)</u> | <u>102,267</u> |
| Issue of share capital | 1 | 5 | - | - | 6 |
| Loss for the financial period | - | - | (102,415) | - | (102,415) |
| Hedges of variable interest rate risk (note 20) | - | - | - | (4,729) | (4,729) |
| Deferred tax charge (note 17) | - | - | - | 903 | 903 |
| At 31 March 2020 | <u>271,546</u> | <u>2,444</u> | <u>(273,949)</u> | <u>(4,009)</u> | <u>(3,968)</u> |

The accompanying notes 1 to 24 are an integral part of these financial statements.

Hedging reserve:

Movements in the hedging reserve reflect the change in the fair value of derivative financial instruments designated into hedge accounting relationships in accordance with IFRS 9. The derivatives are originally recognised on the balance sheet at fair value, with fair value gains or losses relating to future periods being recognised in other comprehensive income and therefore outside of the profit and loss account. These will subsequently be released to the profit and loss account in the period the forecasted cashflow it is hedging occurs.

Zenith Automotive Holdings Limited

Company statement of changes in equity

As at 31 March 2020

| | Called up share capital £'000 | Share premium Account £'000 | Profit and loss account £'000 | Total £'000 |
|--|--|--------------------------------------|--|----------------|
| At 1 April 2018 | 271,544 | 2,436 | (9,258) | 264,722 |
| Issue of share capital (note 18) | 1 | 3 | - | 4 |
| Loss for the financial period and total comprehensive income | - | - | (11,275) | (11,275) |
| At 31 March 2019 | <u>271,545</u> | <u>2,439</u> | <u>(20,533)</u> | <u>253,451</u> |
| Issue of share capital (note 18) | 1 | 5 | - | 6 |
| Loss for the financial period and total comprehensive income | - | - | (11,455) | (11,455) |
| At 31 March 2020 | <u>271,546</u> | <u>2,444</u> | <u>(31,988)</u> | <u>242,002</u> |

The accompanying notes 1 to 24 are an integral part of these financial statements.

Zenith Automotive Holdings Limited

Consolidated cash flow statement

For the year ended 31 March 2020

| | Note | Year ended 31 March 2020 £'000 | Year ended 31 March 2019 £'000 |
|--|--------------|--------------------------------------|--------------------------------------|
| Operating profit | | 1,457 | 948 |
| Adjustment for: | | | |
| Depreciation charges and impairment of fixed assets | 4,12 | 93,966 | 118,560 |
| Amortisation of goodwill and intangibles | 10,11 | 49,389 | 47,513 |
| Profit on sale of tangible fixed assets | | (3,283) | (3,551) |
| Operating cash flow before movement in working capital | | 141,529 | 163,470 |
| Capital repayment received from finance lessees | | 21,256 | 7,184 |
| (Increase) in debtors | | (6,179) | (7,682) |
| (Decrease) / Increase in creditors | | (6,042) | 6,468 |
| Increase / (Decrease) in provisions | | 864 | (4,404) |
| Net cash inflow from operating activities | | 151,428 | 165,036 |
| Income tax paid | | (4,063) | (1,575) |
| Cash flows from investing activities | | | |
| Proceeds from sale of operating lease assets | | 131,435 | 94,028 |
| Purchase of operating lease assets | | (61,671) | (22,620) |
| Purchase of operating lease assets (funded) | | (245,072) | (190,682) |
| Purchase of intangible assets | | (4,302) | (6,142) |
| Net cash flows from investing activities | | (179,610) | (125,416) |
| Cash flows from financing activities | | | |
| Issue of share capital | | 6 | 4 |
| Repayments of borrowings | | (190,742) | (185,813) |
| Drawdown of funding | | 245,072 | 190,682 |
| Interest paid | | (29,551) | (38,373) |
| Bank loans raised | | 60,000 | - |
| Net cash flows from financing activities | | 84,785 | (33,500) |
| Net increase in cash and cash equivalents | | 52,540 | 4,545 |
| Cash and cash equivalents at start of the year | | 21,028 | 16,483 |
| Cash and cash equivalents at 31 March | | 73,568 | 21,028 |

The accompanying notes 1 to 24 are an integral part of these financial statements.

Zenith Automotive Holdings Limited

Notes to the financial statements

For the year ended 31 March 2020

1. ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have all been applied consistently throughout the period.

a. General information and basis of accounting

Zenith Automotive Holdings Limited is a private company limited by shares incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 28. The nature of the Group's operations and its principal activities are set out in the Strategic Report on page 3.

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. The Group has adopted IFRS 9 for classification and measurement of financial instruments and hedge accounting.

The Group has chosen to early adopt the Interest Benchmark Reform (amendments to IFRS 9) which was issued by the International Accounting Standards Board in September 2019 and is mandatorily effective from periods starting 1 January 2020. These amendments have modified certain hedge accounting requirements to allow continued designation for affected hedge relationships during the period of uncertainty as benchmark interest rates are amended or replaced. The Group is exposed to LIBOR interest rate benchmarks within its hedge accounting relationships, which fall within these amendments and therefore these items continue to be designated in the hedge relationship.

This change in accounting policy has not had any impact on the financial statements.

For the Group's floating rate debt, the Group has started discussions with our funders to amend the LIBOR swaps so that the reference benchmark interest rate will change to SONIA. The Group aims to finalise this amendment in the second half of 2020.

The functional currency of Zenith Automotive Holdings Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the Group operates. The consolidated financial statements are also presented in pounds sterling.

Zenith Automotive Holdings Limited has taken advantage of the company only disclosure exemptions available under FRS 102 in relation to presentation of a cash flow statement, remuneration of key management personnel and related party transactions.

The Company's and the Group's prior year reporting period is the year to 31 March 2019.

b. Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 March each year. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed.

Business combinations are accounted for under the purchase method. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

c. Going concern

The Group has considerable financial resources and has a broad customer base across different business sectors in the United Kingdom. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The directors have considered the adoption of the going concern basis in preparing the financial statements given the current economic climate and have formed the conclusion that there are no material uncertainties with respect to the Group's ability to continue as a going concern for the foreseeable future. In forming this view, the directors have considered the Group's budgets and trading forecasts and the committed bank facilities available to the Group together with forecast headroom against those borrowing facilities including the impact of reasonable sensitivities and foreseen uncertainties.

On 23 March 2020 a lockdown was imposed in the UK, banning all non-essential travel and closing all but non-essential businesses, including the closure of car showrooms and auction houses due to the COVID-19 pandemic.

Zenith Automotive Holdings Limited

Notes to the financial statements (continued)

For the year ended 31 March 2020

1. ACCOUNTING POLICIES (continued)

c. Going concern (continued)

The professional and diligent approach of our managers across a period of years has resulted in excellent and robust Business Continuity Plans. This has helped us to enable our workforce to work efficiently from home during this period, keeping our employees safe whilst also providing a seamlessly high level of service to our customers. This has also enabled us to maintain a similar control environment to that which would have applied in the office.

Due to the nature of our group wide business model, which is predominately long-term leases of between three to five years to large corporate customers, the degree of visibility over expected earnings and profitability is high. As a result, Zenith is well positioned to navigate this intense period of disruption caused by the COVID-19 pandemic. The financial modelling we have performed shows that we continue to trade cash positive as a result of our business model, long-term income streams and additional procedures we have put in place. These include close monitoring of customer credit risk, daily monitoring of residual values and a review of our supply chain for increased risk of failure. We have continued to keep our scenario model refreshed, as well as monitoring our results closely which show that our experience of payment holidays, vehicle sale volumes and profits continue to perform within our expected range. More details can be found in the Strategic Report.

The scale of the Group can withstand these short-term challenges particularly our wide HGV to car and corporate to consumer propositions enabling us to be agile, spot changes in the market and adapt our strategy if required. We continue to closely monitor Brexit and COVID-19 developments and have not identified any material adjustments to balances included in these financial statements. Accordingly, they continue to adopt the going concern basis of accounting in preparing the financial statements.

d. Vehicle leases

The obligations for vehicles acquired under finance leases and hire purchase contracts are categorised as creditors due within or after one year as appropriate. Vehicles leased to customers under finance leases and hire purchase contracts are reported as debtors and are stated at the value of the minimum rentals receivable less the finance charges allocated to future period.

Vehicles leased to customers under operating leases are reported as tangible fixed assets including those funded under securitisation. They are stated at their fair value at acquisition less depreciation.

Lease rentals under finance leases and hire purchase contracts is split between repayments of capital and interest, with interest calculated using an effective interest rate methodology. Rental income under contract hire operating leases is recognised on a straight line basis over the period of the contract. Finance income and finance charges on securitised funding are accounted for on an effective interest rate basis.

Provision is made, over the remaining lease term or immediately on loss making contracts, for any anticipated shortfall between the resale prices of vehicles at the end of their contracts and residual values set against the vehicles when writing contracts with customers on a portfolio basis in line with the IFRS 9 impairment policy in section 1.

e. Turnover

Turnover arises entirely from sales to the UK customers and is generated wholly from the Group's principal business activity. Any European activity is contracted by our European alliance partners and not directly by the Group with commission income being recognised as it is earned in these accounts.

Zenith Automotive Holdings Limited

Notes to the financial statements (continued)

For the year ended 31 March 2020

1. ACCOUNTING POLICIES (continued)

e. Turnover (continued)

The recognition policies within the single class of business are as follows:

| Revenue type | Recognition policies |
|---|--|
| Interest on finance leases and hire purchase contracts | See vehicle leases |
| Contract hire rental income | See vehicle leases |
| Employee Car Ownership | See vehicle leases |
| Fleet management and outsourcing fees | On a straight-line basis over the period of contract |
| Vehicle sales | On despatch |
| Early Termination, excess mileage and servicing charges | Upon termination of the contract |
| Servicing, maintenance and road fund | |
| Licence income | On a straight-line basis over the period of contract |
| Vehicle purchase incentives | On a straight-line basis over the period of lease |
| Agency rentals | On a straight-line basis over the period of contract |

f. Employee benefits

The Group participates in a defined contribution scheme. The amounts charged to the profit and loss account in respect of pension costs are the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

g. Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided at rates calculated to write off the cost less estimated residual value over the useful life or period of lease. Assets leased to customers on operating leases are depreciated over the period on a straight-line basis. These assets are held for lease terms which represent a significant portion of the useful economic life of the asset. Further, at any point in time during the lease, the net present value of cash inflows (including if appropriate the payment by customers of early termination penalties), together with the estimated net realisable value of the asset at the end of the lease, are not less than the carrying value of the asset.

Depreciation is provided on other assets as follows:

| | |
|----------------------------------|--|
| Leasehold improvements | Over the term of the lease - straight-line |
| Equipment, fixtures and fittings | 20% per annum - reducing balance |
| Computer hardware | 25% per annum - straight-line |
| Computer software | 20% per annum - straight-line |

h. Agency agreements

Agency agreements are accounted for in line with the substance of the agreement. Where the principal risks and rewards are attributable to the Company, the gross revenues and costs are recognised over the period of the contract. Gross receivables and payables from the ultimate customer and to the principal supplier are not recognised in the balance sheet as the Company has no access to the risks and rewards of these items. The committed cost of vehicles subject to repurchase agreements are recognised in debtors and creditors in line with their buyback commitments. Provision is made for any residual value exposure on a portfolio basis.

i. Provision for maintenance costs

Provision is made for obligations under maintenance contracts so as to provide a constant rate of return on maintenance contract revenue. The amount recognised as a provision is the best estimate of consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

Zenith Automotive Holdings Limited

Notes to the financial statements (continued)

For the year ended 31 March 2020

1. ACCOUNTING POLICIES (continued)

j. Intangible assets – goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight-line basis over its useful economic life, which is 20 years.

k. Intangible assets –customer relationships

Customer relationships are fair valued at point of acquisition, this value is capitalised and written off on a straight-line basis over its useful economic life, which is judged to be 20 years.

l. Intangible assets –impairment

An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. The recoverable amount of goodwill is derived from measurement of the present value of the future cash flows of the cash-generating units of which the goodwill is a part. Any impairment loss in respect of a CGU is allocated first to the goodwill attached to that CGU, and then to other assets within that CGU on a pro-rata basis. Where indicators exist for a decrease in impairment loss previously recognised for assets other than goodwill, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised. Where a reversal of impairment occurs in respect of a CGU, the reversal is applied first to the assets of the CGU, except for goodwill, on a pro-rata basis. Impairment of goodwill is never reversed.

m. Financial instruments

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the group becomes a party to the contractual provisions of the instrument

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets or financial liabilities (other than financial asset and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Classification of financial asset

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within the business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principle and interest on the principle amount outstanding.

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of debt instrument on initial recognition.

Zenith Automotive Holdings Limited

Notes to the financial statements (continued)

For the year ended 31 March 2020

1. ACCOUNTING POLICIES (continued)

m. Financial instrument (continued)

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principle repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised in the profit or loss and is included in the “Finance Costs” line item.

Impairment of financial assets

The group always recognises lifetime expected credit loss for trade receivables and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

Intercompany receivables are repayable on demand. Expected credit losses are calculated based on the assumption that repayment of the loan is demanded at the reporting date. If the borrower cannot pay today if demanded, the assessment of impairment will consider the expected manner of recovery and recovery period of the intercompany loan.

Write off policy

The group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered bankruptcy proceedings, or in the case of trade receivables, when the amounts are over 90 days 30% of the balance, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group’s recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset’s carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company’s own equity instruments is recognised and deducted directly in equity.

Zenith Automotive Holdings Limited

Notes to the financial statements (continued)

For the year ended 31 March 2020

1. ACCOUNTING POLICIES (continued)

m. Financial instrument (continued)

Financial liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of the financial liability.

Hedge accounting

All interest rate swap contracts are designated as hedges of variable interest rate risk of the Group's floating rate borrowings. The fair value movements on the derivatives are expected to occur and are recognised in comprehensive income over the period to maturity of the interest rate swaps.

n. Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

When the amount that can be deducted for tax for an asset (other than goodwill) that is recognised in a business combination is less (more) than the value at which it is recognised, a deferred tax liability (asset) is recognised for the additional tax that will be paid (avoided) in respect of that difference. Similarly, a deferred tax asset (liability) is recognised for the additional tax that will be avoided (paid) because of a difference between the value at which a liability is recognised and the amount that will be assessed for tax. The amount attributed to goodwill is adjusted by the amount of deferred tax recognised.

Deferred tax liabilities are recognised for timing differences arising from investments in subsidiaries, except where the Group is able to control the reversal of the timing difference and it is probable that it will not reverse in the foreseeable future.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference.

Where items recognised in other comprehensive income or equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Group intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Zenith Automotive Holdings Limited

Notes to the financial statements (continued)

For the year ended 31 March 2020

1. ACCOUNTING POLICIES (continued)

n. Taxation (continued)

Deferred tax assets and liabilities are offset only if: a) the Group has a legally enforceable right to set off current tax assets against current tax liabilities; and b) the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

o. Loss attributable to the Company

The loss for the year ended 31 March 2020 dealt with in the financial statements of the parent Company was £14,310,000 (2019: £11,275,000). As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account or statement of comprehensive income is presented in respect of the parent Company.

p. Exceptional items

Exceptional items are those which reflect costs that do not relate to the Group's normal business operations and which in Management's judgement are considered material individually or in aggregate (if of a similar type) due to their size or frequency. Separate disclosure enables a better understanding of the Group's financial performance.

q. Finance costs

Finance costs are provided at the interest rates that have been contracted during the period.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Group's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Impairment of goodwill

The Group regularly reviews for new indicators of impairment, where none are found no impairment testing is undertaken; where such indicators are found the Group undertakes an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. This includes an assessment of Covid-19 and an estimate of reasonably possible sensitivities in reaching the conclusions of the review. The carrying amount of goodwill at the balance sheet date was £405,834,000 (2019: £429,707,000). No impairment loss was recognised during the year ended 31 March 2020 (2019: £nil).

Zenith Automotive Holdings Limited

Notes to the financial statements (continued)

For the year ended 31 March 2020

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key source of estimation uncertainty

Residual values

When pricing a lease, the estimate of what a vehicle will be worth at the end of the lease is called the residual value. The Group reviews the residual values of its leased assets on an ongoing basis with reference to independent market data and prevailing economic conditions. We use sophisticated technology and risk management techniques to manage residual value and maintenance risk and our risk positions and exposures are constantly reassessed and adjusted accordingly. As such, residual values held in the financial statements of this Group are believed to be redeemable and free from impairment.

Maintenance provision

The Group regularly reviews its provisioning for future maintenance costs. The amount recognised as a provision is the best estimate of consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Extensive analysis is undertaken regularly based on a substantial amount of historic evidence to ensure the provisioning level is both appropriate, and consistent with previous years.

We use sophisticated technology and risk management techniques to manage maintenance risk and our risk positions and exposures are constantly reassessed and adjusted accordingly. As such provisions in the balance sheet in place to cover expected future expenditure on maintenance contracts are believed to be adequate but not excessive.

The provision at 31 March 2020 amounts to £15,237,000 (2019: £14,373,000).

3. TURNOVER

| | Year ended 31 March 2020 £'000 | Year ended 31 March 2019 £'000 |
|--|---|---|
| An analysis of the Group's turnover by class of business is set out below: | | |
| Long term leases | 267,839 | 266,381 |
| Vehicle sales | 128,450 | 125,848 |
| Other* | 48,347 | 47,234 |
| | <u>444,636</u> | <u>439,463</u> |

*Other turnover includes fleet management and outsource fees, daily rental and other miscellaneous income.

The Group's turnover was all derived from operations within the United Kingdom.

Zenith Automotive Holdings Limited

Notes to the financial statements (continued)

For the year ended 31 March 2020

4. OPERATING PROFIT

Operating profit is stated after charging:

| | Year ended 31 March 2020 £'000 | Year ended 31 March 2019 £'000 |
|---|---|---|
| Depreciation of tangible fixed assets (note 12) | | |
| Owned | 4,261 | 3,270 |
| Company cars | 1,038 | 1,158 |
| Held under finance leases and hire purchase contracts | 88,667 | 114,130 |
| Impairment of trade debtors | (32) | 370 |
| Amortisation of goodwill (note 10) | 23,873 | 23,885 |
| Amortisation of intangibles (note 11) | 25,516 | 23,629 |
| Operating exceptional items (note 6) | - | 3,285 |

The analysis of the auditor's remuneration is as follows:

| | Year ended 31 March 2020 £'000 | Year ended 31 March 2019 £'000 |
|--|---|---|
| Fees payable to the Company's auditor and its associates for the audit of the Company's annual accounts | 22 | 16 |
| The audit of the Company's subsidiaries | 179 | 140 |
| Total audit fees | 201 | 156 |
| Taxation compliance services | 38 | 38 |
| Other taxation advisory services | 97 | 225 |
| Corporate Finance Fees | 38 | - |
| Total non-audit fees | 173 | 263 |
| Total Fees | 374 | 419 |

Zenith Automotive Holdings Limited

Notes to the financial statements (continued)

For the year ended 31 March 2020

5. FINANCE COSTS (net)

| | Year ended 31 March 2020 £'000 | Year ended 31 March 2019 £'000 |
|--|---|---|
| Bank loans, loan notes, preference shares and overdrafts | (98,369) | (93,064) |
| Finance costs (net) | (98,369) | (93,064) |

6. EXCEPTIONAL ITEMS

The Group incurred the following exceptional costs:

| | Year ended 31 March 2020 £'000 | Year ended 31 March 2019 £'000 |
|--------------------------------|---|---|
| Reorganisation of acquisitions | - | 413 |
| Group reorganisation | - | 2,872 |
| Total exceptional items | - | 3,285 |

Costs relating to reorganisation of the acquired heavy goods vehicle company, Contract Vehicles Limited, were treated as exceptional in the prior year.

During the prior year the Group announced that it will relocate a number of roles from one office to another location and will close a proportion of the office building.

Zenith Automotive Holdings Limited

Notes to the financial statements (continued)

For the year ended 31 March 2020

7. STAFF COSTS

The average monthly number of employees (including executive directors) was:

| | Year ended 31 March 2020 Number | Year ended 31 March 2019 Number |
|---|--|--|
| Office, sales and management staff | 670 | 686 |
| | Year ended 31 March 2020 £'000 | Year ended 31 March 2019 £'000 |
| Their aggregate remuneration comprised: | | |
| Wages and salaries | 24,759 | 22,656 |
| Social security costs | 2,287 | 2,360 |
| Other pension costs (see note 19) | 1,242 | 1,192 |
| | <hr/> 28,288 | <hr/> 26,208 |

There are no employees in Zenith Automotive Holdings Limited company.

Zenith Automotive Holdings Limited

Notes to the financial statements (continued)

For the year ended 31 March 2020

8. DIRECTORS' REMUNERATION AND TRANSACTIONS

| | Year ended 31 March 2020 £'000 | Year ended 31 March 2019 £'000 |
|---|---|---|
| <i>Directors' remuneration</i> | | |
| Emoluments | 691 | 671 |
| | <u>691</u> | <u>671</u> |
| | | |
| | Number | Number |
| The number of directors who: | | |
| Are members of a money purchase pension scheme | - | - |
| | <u>-</u> | <u>-</u> |
| | | |
| | Year ended 31 March 2020 £'000 | Year ended 31 March 2019 £'000 |
| Remuneration of the highest paid director: | | |
| Emoluments | 279 | 267 |
| | <u>279</u> | <u>267</u> |

Zenith Automotive Holdings Limited

Notes to the financial statements (continued)

For the year ended 31 March 2020

9. TAX ON LOSS ON ORDINARY ACTIVITIES

The tax charge comprises:

| | Year ended 31 March 2020 £'000 | Year ended 31 March 2019 £'000 |
|--|---|---|
| Current tax on loss | | |
| UK corporation tax | 1,946 | 1,848 |
| Adjustment in respect of previous periods | (278) | 2,767 |
| Total current tax | 1,668 | 4,615 |
| Deferred tax | | |
| Origination and reversal of timing differences | (4,641) | (4,375) |
| Adjustment in respect of previous periods | 9 | 48 |
| Effect of changes in tax rates* | 8,467 | 460 |
| Total deferred tax | 3,835 | (3,867) |
| Total tax on loss per income statement | 5,503 | 748 |
| Other comprehensive income items: | | |
| Deferred tax current period credit | (903) | (530) |
| | (903) | (530) |

The standard rate of tax applied to reported loss is 19% (2019: 19%). Finance Bill 2016 enacted provisions to reduce the main rate of UK corporation tax to 17% from 1 April 2020. However, in the March 2020 Budget it was announced that the reduction in the UK rate to 17% will now not occur and the Corporation Tax Rate will be held at 19%. As substantive enactment occurred on 17 March 2020 i.e. before the balance sheet date, deferred tax balances as at 31 March 2020 have been measured at a rate of 19%.

* At the previous balance sheet date deferred tax balances were measured at a rate of 17% and as such this has resulted in movements in respect of tax rate changes during the period equivalent to 2% of the relevant gross asset/liability balances.

Zenith Automotive Holdings Limited

Notes to the financial statements (continued)

For the year ended 31 March 2020

9. TAX ON LOSS ON ORDINARY ACTIVITIES

Factors Affecting Total Tax Charge for the Current Period

| | Year ended 31 March 2020 £'000 | Year ended 31 March 2019 £'000 |
|---|---|---|
| Loss before tax | (96,912) | (92,116) |
| Loss multiplied by the standard rate of corporation tax in the UK of 19% (2019: 19%) | (18,413) | (17,502) |
| Effects of: | | |
| - Expenses not deductible for tax purposes | 15,718 | 14,976 |
| - Adjustment in respect of previous periods | (269) | 2,814 |
| - Effects of other tax rates / credits | 8,467 | 460 |
| Total tax charge for year | <u>5,503</u> | <u>748</u> |

Zenith Automotive Holdings Limited

Notes to the financial statements (continued)

For the year ended 31 March 2020

10. GOODWILL

| Group: | £'000 |
|---------------------------------|----------------|
| Cost | |
| At 31 March 2019 | 477,465 |
| Additions in the year | - |
| At 31 March 2020 | 477,465 |
| Accumulated amortisation | |
| At 31 March 2019 | 47,758 |
| Charge for the year | 23,873 |
| At 31 March 2020 | 71,631 |
| Net book value | |
| At 31 March 2020 | 405,834 |

Company:

As at 31 March 2020 the Company only financial statements contain goodwill of £nil (2019: £nil).

11. INTANGIBLE ASSETS

| Group | Customer intangibles £'000 | Computer software £'000 | Total £'000 |
|---------------------------------|---|--|------------------------|
| Cost | | | |
| At 31 March 2019 | 465,931 | 11,059 | 476,990 |
| Additions in the year | - | 4,302 | 4,302 |
| At 31 March 2020 | 465,931 | 15,361 | 481,292 |
| Accumulated amortisation | | | |
| At 31 March 2019 | 46,593 | 984 | 47,577 |
| Charge for the year | 23,297 | 2,219 | 25,516 |
| At 31 March 2020 | 69,890 | 3,203 | 73,093 |
| Net book value | | | |
| At 31 March 2020 | 396,041 | 12,158 | 408,199 |

Amortisation of intangible assets is charged as an operating expense.

Company:

As at 31 March 2020 the Company only financial statements contain intangible assets of £nil (2019: £nil).

Zenith Automotive Holdings Limited

Notes to the financial statements (continued)

For the year ended 31 March 2020

12. TANGIBLE FIXED ASSETS

| | Equipment, fixtures and fittings £'000 | Vehicles leased to customers £'000 | Total £'000 |
|---------------------------------|---|---|----------------|
| Cost | | | |
| At 31 March 2019 | 19,984 | 450,341 | 470,325 |
| Additions | 3,841 | 279,955 | 283,796 |
| Disposals | (82) | (232,212) | (232,294) |
| At 31 March 2020 | 23,743 | 498,084 | 521,827 |
| Accumulated depreciation | | | |
| At 31 March 2019 | 5,134 | 42,797 | 47,931 |
| Charge for the year | 4,261 | 89,705 | 93,966 |
| Disposals | - | (104,141) | (104,141) |
| At 31 March 2020 | 9,395 | 28,361 | 37,756 |
| Net book value | | | |
| At 31 March 2020 | 14,348 | 469,723 | 484,071 |
| Net book value | | | |
| At 31 March 2019 | 14,850 | 407,544 | 422,394 |

Equipment, fixtures and fittings includes computer hardware which has not been split out as the directors deem them to be not material to the users of the financial statements.

Tangible fixed assets of the Group include vehicles leased to customers under finance leases, hire purchase contracts and under the securitisation agreement.

Future minimum lease payments receivable under non-cancellable operating leases captured as fixed assets are summarised as below:

| | As at 31 March 2020 £'000 | As at 31 March 2019 £'000 |
|----------------------------|------------------------------------|------------------------------------|
| Within one year | 123,232 | 109,247 |
| Between one and five years | 148,114 | 109,736 |
| | 271,346 | 218,983 |

No contingent rentals have been included as income.

Company:

As at 31 March 2020 the Company only financial statements contain tangible fixed assets of £nil (2019: £nil).

Zenith Automotive Holdings Limited

Notes to the financial statements (continued)

For the year ended 31 March 2020

13. FIXED ASSET INVESTMENTS

| | As at 31 March 2020 £'000 | As at 31 March 2019 £'000 |
|----------------------------------|------------------------------------|------------------------------------|
| Company subsidiary undertakings: | | |
| Cost and net book value | 2,482 | 2,482 |

At 31 March 2020 the Company held, directly and indirectly, 100% of the allotted ordinary share capital of the following (*The shares in the undertakings marked with an asterisk are held indirectly by subsidiary undertakings):

| | Class of shares held | Principal activity | Percentage of shares held |
|----------------------------------|----------------------|--|------------------------------|
| Zeus Finco Limited | Ordinary | Holding company | 100% |
| Zeus Midco Limited | Ordinary | Holding company | 100% * |
| Zeus Bidco Limited | Ordinary | Holding company | 100% * |
| Zenith OpCo Limited | Ordinary | Contracting company | 100% * |
| Leasedrive Limited | Ordinary | Vehicle leasing and related activities | 100% * |
| Velo Limited | Ordinary | Vehicle leasing and related activities | 100% * |
| Zenith Vehicle Contracts Limited | Ordinary | Vehicle leasing and related activities | 100% * |
| Zenith EF Limited | Ordinary | Vehicle leasing and related activities | 100% * |
| Provecta Car Plan Limited | Ordinary | Vehicle leasing and related activities | 100% * |
| Zenith Remarketing Limited | Ordinary | Vehicle leasing and related activities | 100% * |
| Contract Vehicles Limited | Ordinary | Vehicle leasing and related activities | 100% * |
| ZenAuto Limited | Ordinary | Vehicle leasing and related activities | 100% * |

All the companies are incorporated in England and Wales and operate principally in their country of registration. The registered office of all the above subsidiaries is Number One, Great Exhibition Way, Kirkstall Forge, Leeds, England, LS5 3BF.

Zenith Automotive Holdings Limited

Notes to the financial statements (continued)

For the year ended 31 March 2020

14. DEBTORS

| | Group As at 31 March 2020 £'000 | Company As at 31 March 2020 £'000 | Group As at 31 March 2019 £'000 | Company As at 31 March 2019 £'000 |
|--|--|--|--|--|
| Amounts falling due within one year: | | | | |
| Trade debtors | 49,083 | - | 38,925 | - |
| Amounts receivable under finance leases | 1 | - | 6 | - |
| Amounts receivable under hire purchase contracts | 1,429 | - | 2,746 | - |
| Amounts receivable under securitised contracts | 18,212 | - | 12,764 | - |
| Vehicles subject to repurchase agreements | 13,173 | - | 13,646 | - |
| Amounts owed by group undertakings | - | 301,299 | - | 309,414 |
| Other debtors | 3,071 | 42 | 1,569 | 41 |
| Corporation tax | 2,325 | - | - | - |
| Fair value of hedging instruments | - | - | 355 | - |
| Prepayments and accrued income | 20,933 | 2,459 | 22,070 | 2,604 |
| VAT | - | - | 1,135 | - |
| | 108,227 | 303,800 | 93,216 | 312,059 |
| Amounts falling due after more than one year: | | | | |
| Amounts receivable under hire purchase contracts | 4,114 | - | 4,141 | - |
| Amounts receivable under securitised contracts | 25,911 | - | 28,334 | - |
| Vehicles subject to repurchase agreements | 31,556 | - | 31,068 | - |
| Prepayments and accrued income | 3,997 | - | 7,776 | - |
| | 65,578 | - | 71,319 | - |
| | 173,805 | 303,800 | 164,535 | 312,059 |

All the Group's trade debtors have been reviewed for impairment and where necessary a provision for impairment provided. The value of the impairment (credited)/charged to the income statement is (£32,000) (2019: £370,000).

Amounts owed by group undertakings are unsecured, repayable on demand and accrue a fixed commercial rate of interest.

Zenith Automotive Holdings Limited

Notes to the financial statements (continued)

For the year ended 31 March 2020

15. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

| | Group As at 31 March 2020 £'000 | Company As at 31 March 2020 £'000 | Group As at 31 March 2019 £'000 | Company As at 31 March 2019 £'000 |
|--|--|--|--|--|
| Obligations under finance leases and hire purchase | | | | |
| Contracts | 37,385 | - | 31,492 | - |
| Obligations under securitised contracts | 178,064 | - | 167,778 | - |
| Vehicles subject to repurchase agreements | 13,173 | - | 13,646 | - |
| Trade creditors | 35,164 | - | 28,547 | - |
| VAT | 803 | - | 7,226 | - |
| Other taxation and social security | 1,052 | - | 1,106 | - |
| Corporation tax | - | - | 22 | - |
| Withholding tax | - | - | 467 | - |
| Other creditors* | 12,825 | - | 15,119 | - |
| Fair value of hedging instruments | 4,950 | - | 576 | - |
| Accruals and deferred income | 22,963 | - | 24,949 | - |
| Amounts owed to other group undertakings | - | 3,654 | - | 3,453 |
| | <u>306,379</u> | <u>3,654</u> | <u>290,928</u> | <u>3,453</u> |

Amounts owed by group undertakings are unsecured, repayable on demand and charged at a fixed commercial rate of interest.

* Other creditors balance includes a provision of £808,000 at 31 March 2020 (2019: £1,175,000) to cover onerous lease costs associated with an office relocation to happen in the next 12 months. See note 6 for further detail.

16. CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

| | Group As at 31 March 2020 £'000 | Company As at 31 March 2020 £'000 | Group As at 31 March 2019 £'000 | Company As at 31 March 2019 £'000 |
|--|--|--|--|--|
| Bank loans | 480,059 | - | 408,173 | - |
| Obligations under finance leases and hire purchase contracts | 6,229 | - | 13,404 | - |
| Obligations under securitised contracts | 292,090 | - | 246,779 | - |
| Vehicles subject to repurchase agreements | 31,556 | - | 31,068 | - |
| Loan notes | 252,366 | - | 228,236 | - |
| Accruals and deferred income | 90,672 | 90,672 | 59,923 | 57,657 |
| | <u>1,152,972</u> | <u>90,672</u> | <u>987,583</u> | <u>57,657</u> |

Zenith Automotive Holdings Limited

Notes to the financial statements (continued)

For the year ended 31 March 2020

16. CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (Continued)

Obligations under finance leases and hire purchase contracts are repayable as follows:

| | Group As at 31 March 2020 £'000 | Company As at 31 March 2020 £'000 | Group As at 31 March 2019 £'000 | Company As at 31 March 2019 £'000 |
|---|---|---|---|---|
| Obligations under finance leases and hire purchase contracts | | | | |
| Within two to five years | 6,229 | - | 13,404 | - |
| On demand or within one year | 37,385 | - | 31,492 | - |
| | <u>43,614</u> | <u>-</u> | <u>44,896</u> | <u>-</u> |
| Obligations under securitised contracts | | | | |
| Within two to five years | 292,090 | - | 246,779 | - |
| On demand or within one year | 178,064 | - | 167,778 | - |
| | <u>470,154</u> | <u>-</u> | <u>414,557</u> | <u>-</u> |

Zenith Automotive Holdings Limited

Notes to the financial statements (continued)

For the year ended 31 March 2020

17. PROVISIONS FOR LIABILITIES

| | Deferred taxation £'000 | Maintenance costs £'000 | Total £'000 |
|---|-------------------------------|-------------------------------|----------------|
| Group | | | |
| At 31 March 2019 | 71,925 | 14,373 | 86,298 |
| (Released) to profit and loss account | (4,641) | - | (4,641) |
| Charged to profit and loss account | - | 39,040 | 39,040 |
| Released to other comprehensive income* | (903) | - | (903) |
| Adjustment in respect of prior years | 9 | - | 9 |
| Rate change | 8,467 | - | 8,467 |
| Utilisation of provision | - | (38,176) | (38,176) |
| | <u>74,857</u> | <u>15,237</u> | <u>90,094</u> |
| At 31 March 2020 | | | |

* relates to the valuation of derivatives in the statement of changes in equity

Maintenance costs

The provision for maintenance costs relates to obligations under maintenance contracts in existence at the balance sheet date. The expenditure will be incurred over the period of these contracts which will be completed over the next one to four years. The provision at the balance sheet date represents the difference between amounts collected on the maintained contracts and the costs incurred to date. The maintenance rentals received are charged to the profit and loss account when received. The provision is utilised for any costs incurred in maintaining the vehicles. See note 2 for further information.

Deferred tax

| Deferred tax is provided as follows: | As at 31 March 2020 £'000 | As at 31 March 2019 £'000 |
|--------------------------------------|---------------------------------|---------------------------------|
| Accelerated capital allowances | 643 | 675 |
| Short term timing differences | (1,034) | (36) |
| Non-trading timing differences | 75,248 | 71,287 |
| Provision for deferred tax | <u>74,857</u> | <u>71,925</u> |

Non-trading timing differences:

Deferred tax liability directly related to intangible assets (note 11). This liability will unwind over a 20-year period in line with movements of the intangible asset balances.

The amount of deferred tax assets not recognised as at 31 March 2020 is £nil (2019: £nil).

Company

As at 31 March 2020 the Company only financial statements contain provisions of £nil (2019: £nil).

Zenith Automotive Holdings Limited

Notes to the financial statements (continued)

For the year ended 31 March 2020

18. CALLED UP SHARE CAPITAL

| | As at 31 March 2020 £'000 | As at 31 March 2019 £'000 |
|---|---------------------------------|---------------------------------|
| Allotted, called up and fully-paid | | |
| 1,999,999 A ordinary shares of £0.01 each | 20 | 20 |
| 424,375 B ordinary shares of £0.01 each | 4 | 4 |
| 18,345 C ordinary shares of £0.01 each | - | - |
| 319,026 D1 ordinary shares of £0.01 each | 3 | 2 |
| 41,277 Deferred shares of £0.01 each | - | - |
| 271,517,758 preference shares of £1.00 each | 271,518 | 271,518 |
| | <u>271,545</u> | <u>271,544</u> |

The A, B and C ordinary shares rank ahead of the D1 ordinary shares for dividend and on a return of assets. In the event of a future sale or listing of the Company the D1 ordinary shares entitle employees holding those shares to share in any value in excess of a hurdle rate set by the directors on the shares (set at a premium to the current equity value of the Company). The maximum value that can be delivered to D1 ordinary shareholders is 1.5% of any excess above the hurdle rate.

During the year, the Company implemented a growth share scheme under which eligible employees were given the opportunity to subscribe for D1 class shares. These shares were issued on 31 March 2020. In addition, 41,277 of D1 ordinary shares were reclassified as Deferred shares on the same date.

A reconciliation of share movements in the year is given below:

| Type of shares | Ordinary | A Ordinary | B Ordinary | C Ordinary | D1 ordinary | Deferred | Preference |
|------------------|----------|------------------|----------------|---------------|----------------|---------------|--------------------|
| 20 January 2017 | 1 | | | | | | |
| 31 March 2017 | (1)* | 1,999,999 | 368,750 | 15,940 | - | - | 271,517,758 |
| 1 October 2017 | - | - | 18,750 | 811 | - | - | - |
| 29 November 2017 | - | - | - | - | 238,043 | - | - |
| 2 January 2018 | - | - | 36,875 | 1,594 | - | - | - |
| 26 March 2019 | - | - | - | - | 54,635 | - | - |
| 31 March 2020 | - | - | - | - | 67,625 | - | - |
| 31 March 2020 | - | - | - | - | (41,277) | 41,277 | - |
| | <u>-</u> | <u>1,999,999</u> | <u>424,375</u> | <u>18,345</u> | <u>319,026</u> | <u>41,277</u> | <u>271,517,758</u> |

* The existing one ordinary share of £1 in the capital of the Company be re-designated as 100 class A ordinary shares of nominal value of £0.01 each.

Zenith Automotive Holdings Limited

Notes to the financial statements (continued)

For the year ended 31 March 2020

19. FINANCIAL COMMITMENTS

Group

a) Capital commitments

At the end of the year the Group had contracted capital commitments of £153,617,130 (2019: 106,903,942) relating to the purchase of vehicles for leasing to its customers. These commitments are expected to be met within the next 12 months. The Group had no other capital commitments.

b) Contingent liabilities

The Group's banking facilities are subject to a standard cross guarantee with other group subsidiaries. At 31 March 2020 the amount secured under this guarantee was £nil (2019: £12,467,412).

At 31 March 2020 the Group was committed to the future purchase of vehicles with a cost of £5,885,405 (2019: £nil).

c) Buy back commitments

The Group had commitments to purchase vehicles at the expiry of leases as follows:

| | As at 31 March 2020 £'000 | As at 31 March 2019 £'000 |
|--------------------------|------------------------------------|------------------------------------|
| Within one year | 2,374 | 2,855 |
| Within two to five years | 2,865 | 4,523 |
| | <u>5,239</u> | <u>7,378</u> |

The buy-back commitments above represent agreements that Provecta Car Plan Limited has with customers that give the customer the option to sell the vehicle back to the Group for its residual value at the end of the lease agreement.

The directors are of the opinion in aggregate across the portfolio that no losses will be incurred in disposing of these vehicles.

d) Pension arrangements

The Group makes contributions to various money purchase schemes on behalf of certain employees. The cost charged in the profit and loss account during the year was £1,242,000 (2019: £1,192,000). The amount unpaid as at 31 March 2020 was £206,000 (2019: £181,000).

Company:

The Company has no financial commitments for the year ended 31 March 2020 (2019: £nil).

Zenith Automotive Holdings Limited

Notes to the financial statements (continued)

For the year ended 31 March 2020

20. FINANCIAL INSTRUMENTS

The carrying value of the Group's financial assets and liabilities are summarised as below.

At the balance sheet date, the Group had in place hedging arrangements to reduce its exposure to movements in interest rates. The Group has used a combination of interest rate caps and interest rate swaps (whereby it has swapped floating rates for fixed rates) against the amortisation profile of its term loans until their expiry. The indicative market value of these derivatives as at 31 March 2020 is a liability of £4,950,030 (2019: liability £220,895).

| | 2020 Group £'000 | 2019 Group £'000 |
|--|------------------------|------------------------|
| Financial assets | | |
| Measured at fair value and designated in an effective hedging relationship | | |
| • Derivative financial assets (see note 21) | - | 355 |
| Debt instruments measured at amortised cost | | |
| • Loans receivable (see note 14) | 94,396 | 92,705 |
| Measured at undiscounted amount receivable | | |
| • Loans receivable (see note 14) | 54,479 | 40,493 |
| As at 31 March | 148,875 | 133,533 |
| | Group £'000 | Group £'000 |
| Financial liabilities | | |
| Measured at fair value and designated in an effective hedging relationship | | |
| • Derivative financial assets (see note 21) | 4,950 | 576 |
| Measures at amortised cost | | |
| • Loans payable (see notes 15 and 16) | 732,425 | 639,158 |
| • Obligations under finance leases (see notes 15 and 16) | 558,497 | 504,167 |
| Measured at undiscounted amount payable | | |
| • Trade and other creditors (see notes 15 and 16) | 163,479 | 137,359 |
| As at 31 March | 1,459,351 | 1,281,260 |

The Company's financial assets and liabilities are measured at undiscounted amount receivable or payable except for Fixed asset investments in subsidiaries (note 13) which are classed as equity instruments and are measured at cost less impairment.

Zenith Automotive Holdings Limited

Notes to the financial statements (continued)

For the year ended 31 March 2020

20. FINANCIAL INSTRUMENTS (continued)

The Group's income, expense, gains and losses in respect of financial instruments are summarised below:

| | Group | |
|--|--|--|
| | As at 31 March 2020 £'000 | As at 31 March 2019 £'000 |
| Fair value losses | | |
| On derivative financial assets designated in an effective hedging relationship | (4,729) | (3,115) |
| | (4,729) | (3,115) |

21. DERIVATIVE FINANCIAL INSTRUMENTS

| | As at 31 March 2020 £'000 | Current As at 31 March 2019 £'000 | As at 31 March 2020 £'000 | Non-current As at 31 March 2019 £'000 |
|---|--|--|--|--|
| Group | | | | |
| Derivatives that are designated and effective as hedging instruments are carried at fair value | | | | |
| Interest rate caps | (493) | (120) | (4,457) | (101) |

Interest rate swaps and caps are valued at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Interest rate swap contracts

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at the reporting date:

| Outstanding receive floating pay fixed contracts | Average contract fixed interest rate | | Notional principal value | | Fair value asset/(liability) | |
|---|---|--|--|--|--|--|
| | As at 31 March 2020 % | As at 31 March 2019 % | As at 31 March 2020 £'000 | As at 31 March 2019 £'000 | As at 31 March 2020 £'000 | As at 31 March 2019 £'000 |
| Less than 1 year | 0.8% | 0.9% | 70,371 | 85,108 | (493) | (120) |
| 1 to 2 years | 0.9% | 0.9% | 59,098 | 67,696 | (478) | (101) |
| 2 to 5 years | 0.7% | 0.9% | 417,692 | 373,718 | (3,979) | - |
| | | | 547,161 | 526,522 | (4,950) | (221) |

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is either one or three months' LIBOR. The Group will settle the difference between the fixed and floating interest rate on a net basis.

All interest rate swap contracts are designated as hedges of variable interest rate risk of the Group's floating rate borrowings. The fair value movements on the derivatives are expected to occur and are recognised in Group comprehensive income over the period to maturity of the interest rate swaps.

Losses of £3,826,000 (2019: losses of £2,585,000) were recognised in other comprehensive income.

Zenith Automotive Holdings Limited

Notes to the financial statements (continued)

For the year ended 31 March 2020

22. RELATED PARTY TRANSACTION

A related party is either an individual with control or significant influence over the Group, or a company that is linked to the Group by investment or a related individual. Our primary related parties are our key management personnel.

Key management personnel are considered to be the Group's directors, who are members of either or both of the Group holding board or operating board.

The remuneration of key management personnel of the Group is set out below in aggregate.

| | Year ended 31 March 2020 £'000 | Year ended 31 March 2019 £'000 |
|---|---|---|
| Salary and short-term benefits | 2,226 | 3,235 |
| Group contribution to money purchase pension scheme | 65 | 95 |
| Loss of office | - | - |
| | <u>2,291</u> | <u>3,330</u> |

Amounts included in the table above reflect the remuneration of the 12 (2019: 20) key management personnel who are members of the holding and operating boards.

There were no other transactions with directors for the years covered by these consolidated financial statements.

23. ULTIMATE CONTROLLING PARTY

At 31 March 2020, the largest and smallest group in which the results of the Company were consolidated are these Group accounts.

According to the register of members maintained by Zenith Automotive Holdings Limited, a number of limited partnerships comprising the Bridgepoint Europe V Fund, which are managed by Bridgepoint Advisers Limited, and hold securities through a nominee company, BEV Nominees Limited, held a significant interest in the ordinary shares of the Company at the balance sheet date and continue to do so at the date of this report. The directors of Zenith Automotive Holdings Limited deem there not to be an ultimate controlling party as none of the investors in the Bridgepoint Europe V Fund has an effective ownership of more than 20% of the issued share capital of the Company.

24. POST BALANCE SHEET EVENTS

On 30 June 2020 £40m of the revolving credit facility was repaid. We continue to closely monitor Brexit and COVID-19 developments and have not identified any material adjustments to balances included in these financial statements, nor any material impacts on the business, subsequent to the balance sheet date. There are no other post balance sheet events to report.