

Lotus Cars Limited

Annual report and financial statements  
for the year ended 31 March 2014

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# Lotus Cars Limited

## Annual report and financial statements for the year ended 31 March 2014

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# Lotus Cars Limited

## Strategic Report

As required by the amendments to the Companies Act 2006, effective 30 September 2013, the directors of Lotus Cars Limited ("the company") present their annual report containing a strategic report, directors' report and the financial statements for the year ended 31 March 2014.

### Principal activities

The principal activities of the company comprises the manufacture and sale of high performance motor cars and related merchandise (Lotus Cars division) and, the provision of engineering consultancy services and the commercial development and supply of technology to automotive and industrial clients world-wide (Lotus Engineering division). The company is a wholly owned subsidiary of Lotus Group International Limited and its ultimate parent company is DRB-HICOM Berhad.

### Review of business and future developments

The company reported a loss for the financial year ended 31 March 2014 of £65.6m (2013: £159.4m) after reflecting an exceptional charge of £6.8m (2013: £86.2m) in respect of the impairment of intangible development assets. Earnings Before Interest Tax Depreciation and Amortisation (EBITDA) was £42.4m loss (2013: £53.9m loss).

Whilst continuing with plans for the development of future products, performance of the company remains subdued due to continuing weak market conditions, fragile consumer confidence, increased competition, and cost pressures leading to a reduction in gross profit. Substantial progress has however been made in reducing overhead costs with further savings to be realised in future.

For the financial year ended 31 March 2014, the company recorded turnover of £73.9m and gross loss margin of 1.2%, which represents an increase of 12.0% in turnover when compared to the results of 2013 when company turnover was £66.0m and a gross profit margin of 15.4% were reported.

The Cars division revenues have increased by 22.1% to £66.6m (2013: £54.5m). Total vehicles sold during the year increased by 21.7% or 250 units to 1,403 units largely due to the success of the new Exige, focused motorsport derivatives and sales of the Evora into the US market.

The Engineering division revenues reduced by 36.5% during the financial year to £7.3m due to an internal refocusing of engineering resource to strengthen Lotus product including quality improvements.

Following the acquisition of the company by DRB-HICOM in the year ended 31 March 2013 and under the new leadership team, the business completed phase one of its new 10-year strategic business plan in the financial year ended 31 March 2014. Underlying this plan is business transformation to reposition both the Lotus Cars and Lotus Engineering divisions, with the ultimate aim of delivering positive and sustainable financial returns to the company's stakeholders. This plan is underpinned by continued ongoing support from the company's intermediate parent undertaking, Proton Holdings Berhad, ("Proton") as referred to below under "Going-Concern". To support the Lotus' strategic ambitions the company was awarded a grant of £10.4m from the UK Government Regional Growth Fund of which £10.0m was received in the year.

Phase two of the 10 year plan commences in 2014/15. During this period the company will focus on maximising sales of its current Evora, Exige and Elise offerings which will be further enhanced by future variants to broaden and refresh the range and to meet a multitude of new legislative requirements.

The focus for Lotus Engineering will be the expansion and growth of its third party consultancy business whilst continuing to support Lotus cars product development.

As the company continues on this journey of transformation and repositioning, it readies itself for a challenging yet exciting time ahead. The substantial investment needed to implement the strategies will impact the financial position of the company in the short term but once the transformation has taken shape, the company will be on a much stronger footing operationally and financially, thus creating value for all its stakeholders.

# Lotus Cars Limited

## Strategic Report (continued)

### Key performance indicators (“KPIs”)

The directors monitor the overall company performance through the following KPIs:

- Turnover by class of business – see note 2 for further details;
- Turnover by geographical segment – see note 2 for further details;
- Number of units sold – 1,403 cars (2013: 1,153 cars); and
- Profitability – EBITDA is considered to be the key performance measurement – (£42.4m) 2013: (£53.9m).

See Review of Business above for an explanation of the movement in the above KPI's.

### Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks. A risk register is maintained, regularly updated and is reported at monthly management meetings. The key business risks affecting the performance of the company and the mitigation of those risks are as follows:

- Supply chain – Key suppliers' ability to deliver to the agreed timetable and quality, mitigated by multi-sourcing where possible, continuous monitoring of supplier performance and careful supplier selection based on quality and capability;
- Quality management – To ensure quality is maintained in products and services supplied and is also embedded within the organisation. The company is an ISO90001:2000 accredited organisation with regular third party assessments underpinning the business operations;
- Foreign exchange – A large proportion of the company's revenues are in currencies other than sterling. In addition the business sources supplies from all over the world in a variety of currencies and elements of its funding are denominated in foreign currencies. Where there is a significant forecast net position in any foreign currency a proportion of that risk is mitigated by forward contract hedging arrangements, where these are deemed appropriate;
- Market for the company's products and services – These are to an extent dependent on competitor activity, having the right products and services that the market demands and the health of the global economy. The company seeks to mitigate this risk through offering competitive and attractive products and services and through significant investment in research and development.

All risks and uncertainties are monitored on a regular basis with action plans put in place to mitigate any adverse effects on the business.

### Financial risk management

The company's operations expose it to a variety of financial risks, which include price risk, credit risk, liquidity risk, foreign exchange risk and interest rate cash flow risk. Given the size of the company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors are implemented by the company's finance department.

#### *Price risk*

The company is exposed to price risk through the indirect impact of competitor activities. The pricing of competitors is closely monitored and it is the policy of the company to ensure that the company's products and services are competitively priced, whilst reflecting the quality of the products and services supplied. The company is also subject to movements in commodity prices (for example, steel prices). Such exposure is not currently managed by hedge arrangements, although the directors will revisit the appropriateness of this policy should the exposure change in size or nature.

# Lotus Cars Limited

## Strategic Report (continued)

### Financial risk management (continued)

#### *Credit risk*

Credit risk is the risk customers will default on their obligation to make payment for the product or services supplied. The company has implemented policies that require appropriate credit checks on potential customers before sales are made. In some circumstances advance payments are required. Credit control procedures are implemented if customers exceed their agreed terms.

#### *Liquidity risk*

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations associated with its financial liabilities. The company has access to a mixture of Proton group loans and debt finance that is designed to ensure the company has sufficient available funds for operations and planned expansions.

#### *Foreign exchange risk*

The company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro and the US Dollar. Foreign exchange risk arises from commercial transactions, borrowing transactions and investments in foreign operations.

Where there is a significant forecast net position in any foreign currency a proportion of that risk is covered by forward contract hedging arrangements, as appropriate.

#### *Interest rate cash flow risk*

The company pays interest on elements of its debts at a variable rate. The directors will revisit the appropriateness of the policy of not hedging the company's exposure to changes in interest rates should the exposure change in size or nature.

On behalf of the Board



Dato' Abdul Harith bin Abdullah  
**Director**

14 June 2014

# Lotus Cars Limited

## Directors' report

The directors present their report and the audited consolidated financial statements for the year ended 31 March 2014.

### Going Concern

The company's financial statements have been prepared on the going concern basis, which assumes that the company will be able to meet its liabilities as they fall due for the foreseeable future.

The company made a loss for the year ended 31 March 2014 of £65.6m. As at 31 March 2014, the company had negative shareholders' funds of £155.8m and net current liabilities of £38.2m. The directors have prepared cash flow forecasts for the foreseeable future, being at least 12 months from the date of approval of these financial statements, which indicate that the company requires financial support to enable it to meet its liabilities as they fall due.

Proton Holdings Berhad, the company's intermediate parent company, has confirmed in writing that it will provide the necessary financial support to the Lotus Group International Limited group of companies so as to allow the company and its subsidiaries (which includes this company) to meet their liabilities as they fall due for the next 12 months from the date of signing of the audited financial statements for the financial year ended 31 March 2014.

The directors of the company have made appropriate enquiries of Proton Holdings Berhad to confirm that they are satisfied that the financial support will be available. It is on the basis of this letter of support that the board of directors have determined that it is appropriate to prepare the financial statements on a going concern basis.

### Results and dividends

The company's loss for the financial year after taxation amounted to £65,552,000 (2013: £159,394,000). The directors do not recommend the payment of a dividend (2013: £nil), and the loss for the financial year has been transferred to reserves.

### Research and development

The company is committed to research and development and undertaking such expenditure as is required to maintain its current market position and further enhance future growth and profitability, principally through the development of new models and variants of existing models. Development costs that meet the capitalisation criteria of SSAP 13, 'Accounting for Research and Development', are capitalised and amortised over their estimated useful life. Research costs and other development costs are expensed as incurred. Research and development expenditure charged to the profit and loss account, including amounts amortised and impaired, amounted to £14.4m (2013: £93.4 m).

### Directors

The following directors served throughout the financial year and up to the date of signing the financial statements, except where otherwise stated:

Dato' Abdul Harith bin Abdullah (appointed 19 February 2014)

Aslam Farikullah

Dato' Radzai bin Mohamed (appointed 27 August 2013)

Thean Hin Soo (appointed 27 August 2013)

Dato' Lukman bin Ibrahim (resigned 19 February 2014)

Encik Mohd Khalid bin Yusof (resigned 27 August 2013)

# Lotus Cars Limited

## Directors' report (continued)

### Employees

The directors acknowledge the importance of good communication and employee relations. Communications are essential to progress; as such the company has devoted considerable time and effort to ensure that employees are well informed about those aspects of the business which affect them.

Employees and their representatives are briefed on all matters relevant to their area of operation and their views are sought and taken into account. The company undertakes regular staff briefings both business wide and in divisional groups. Senior management hold separate monthly meetings with the staff representatives, to discuss company performance, issues, employee matters and future plans. These together with regular divisional newsletters, which are distributed to all staff via emails and notice boards, ensure that all staff are informed of the company's performance and plans.

Applications for employment from disabled persons are fully considered, bearing in mind the aptitudes and abilities of the persons concerned. In the event of employees becoming disabled every effort is made to ensure that their employment with the company continues. It is the policy of the company to further as far as possible the training, career development and promotion of disabled employees.

### Statement of directors' responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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.

### Statement of disclosure of information to auditor

So far as each of the directors are aware, there is no relevant audit information of which the company's auditor is unaware, and they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.


# **Lotus Cars Limited**

## **Directors' report (continued)**

### **Independent auditor**

Ernst & Young LLP have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

On behalf of the Board



Dato' Abdul Harith bin Abdullah

**Director**

14 June 2014



## **Independent auditor's report to the members of Lotus Cars Limited**

We have audited the financial statements of Lotus Cars Limited for the year ended 31 March 2014 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, note of historical cost profits and losses and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2014 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## **Independent auditor's report to the members of Lotus Cars Limited (continued)**

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion 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.

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

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

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



**Bob Forsyth (Senior Statutory Auditor)**

For and on behalf of Ernst & Young LLP Statutory Auditor

Cambridge, UK

19 June 2014

# Lotus Cars Limited

## Profit and loss account for the year ended 31 March 2014

	Note	2014 £'000	2013 £'000
<b>Turnover</b>	2	<b>73,857</b>	65,971
Cost of sales		(74,795)	(55,809)
<b>Gross (loss) / profit</b>		<b>(938)</b>	10,162
Exceptional impairment of fixed assets	3	(6,802)	(86,193)
Other administrative expenses		(54,227)	(75,978)
<b>Operating loss</b>	3	<b>(61,967)</b>	(152,009)
Interest receivable and similar income	6	5,357	35
Interest payable and similar charges	6	(8,693)	(7,508)
Other finance (charges) / income	6	(249)	88
<b>Loss on ordinary activities before taxation</b>		<b>(65,552)</b>	(159,394)
Tax on loss on ordinary activities	7	-	-
<b>Loss for the financial year</b>	19	<b>(65,552)</b>	(159,394)

The losses for the current and prior year relate entirely to continuing operations.

## Lotus Cars Limited

### Statement of total recognised gains and losses for the year ended 31 March 2014

	Note	2014 £'000	2013 £'000
Loss for the financial year	19	(65,552)	(159,394)
Actuarial gain / (loss) relating to pension scheme liability	17	1,144	(6,557)
<b>Total recognised gains and losses relating to the financial year</b>		<b>(64,408)</b>	<b>(165,951)</b>

# Lotus Cars Limited

## Balance sheet as at 31 March 2014

	Note	2014 £'000	2013 £'000
<b>Fixed assets</b>			
Intangible assets	8	21,065	30,449
Tangible assets	9	52,270	56,597
Investments	10	68	68
		<b>73,403</b>	<b>87,114</b>
<b>Current assets</b>			
Stocks	11	26,583	31,564
Debtors	12	255,607	241,097
Cash at bank and in hand		14,907	13,241
		<b>297,097</b>	<b>285,902</b>
<b>Creditors: amounts falling due within one year</b>	13	<b>(335,339)</b>	<b>(240,654)</b>
<b>Net current (liabilities) / assets</b>		<b>(38,242)</b>	<b>45,248</b>
<b>Total assets less current liabilities</b>		<b>35,161</b>	<b>132,362</b>
<b>Creditors: amounts falling due after more than one year</b>	14	<b>(176,920)</b>	<b>(209,670)</b>
<b>Provision for liabilities</b>	16	<b>(9,381)</b>	<b>(6,596)</b>
<b>Net liabilities excluding pension liability</b>		<b>(151,140)</b>	<b>(83,904)</b>
<b>Pension liability</b>	17	<b>(4,680)</b>	<b>(7,508)</b>
<b>Net liabilities including pension liability</b>		<b>(155,820)</b>	<b>(91,412)</b>
<b>Capital and reserves</b>			
Called up share capital	18	283,056	283,056
Revaluation reserve	19	3,622	3,714
Capital reserve	19	17	17
Profit and loss account	19	(442,515)	(378,199)
<b>Total shareholders' deficit</b>	20	<b>(155,820)</b>	<b>(91,412)</b>

The financial statements were approved by the Board of Directors and authorised for issue 14 June 2014 and were signed on its behalf by:

  
 Dato Abdul Harith bin Abdullah  
 Director

## Lotus Cars Limited

### Note of historical cost profits and losses for the year ended 31 March 2014

	2014 £'000	2013 £'000
Loss for the financial year before taxation	(65,552)	(159,394)
Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	92	92
Historical cost loss on ordinary activities before taxation	(65,458)	(159,302)
Historical cost loss on ordinary activities after taxation	(65,458)	(159,302)

# **Lotus Cars Limited**

## **Notes to the financial statements for the year ended 31 March 2014**

### **1. Accounting policies**

#### **Basis of preparation**

These financial statements have been prepared under the historical cost convention as modified to include the revaluation of certain tangible fixed assets and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been consistently applied, are set out below.

#### **Going concern**

The company's financial statements have been prepared on the going concern basis, which assumes that the company will be able to meet its liabilities as they fall due for the foreseeable future.

The company made a loss for the year ended 31 March 2014 of £65.6m. As at 31 March 2014, the company had negative shareholders' funds of £155.8m and net current liabilities of £38.2m. The directors have prepared cash flow forecasts for the foreseeable future, being at least 12 months from the date of approval of these financial statements, which indicate that the company requires financial support to enable it to meet its liabilities as they fall due.

Proton Holdings Berhad, the company's intermediate parent company, has confirmed in writing that it will provide the necessary financial support to the Lotus Group International Limited group of companies so as to allow the company and its subsidiaries (which includes this company) to meet their liabilities as they fall due for the next 12 months from the date of signing of the audited financial statements for the financial year ended 31 March 2014.

The directors of the company have made appropriate enquiries of Proton Holdings Berhad to confirm that they are satisfied that the financial support will be available. It is on the basis of this letter of support that the board of directors have determined that it is appropriate to prepare the financial statements on a going concern basis.

#### **Cash flow statement and related party disclosures**

The company is a wholly-owned subsidiary and is included in the consolidated financial statements of DRB-HICOM Berhad, which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 (Revised 1996), 'Cash Flow Statements'. The company is also exempt under the terms of FRS 8, 'Related Party Disclosures' from disclosing related party transactions with DRB-HICOM Berhad and 100% owned group companies.

#### **Consolidated financial statements**

The company is a wholly owned subsidiary undertaking of a company incorporated in England and Wales, which itself prepares consolidated financial statements. Accordingly, the preparation of group financial statements by the company is not required under section 400 of the Companies Act 2006. Therefore these financial statements present information about the company and not about its group.

#### **Turnover**

Turnover represents the sales value of goods and services supplied to customers and is net of VAT. Turnover on the sale of a vehicle is recognised upon despatch of the vehicle to the dealer.

Turnover on long-term engineering contracts is recognised on the basis of the stage of completion of such contracts at the balance sheet date, where the contract outcome can be assessed with reasonable certainty. Related costs are included in cost of sales. Full provision is made for all foreseeable losses on contracts entered into before the year end.

# Lotus Cars Limited

## Notes to the financial statements for the year ended 31 March 2014 (continued)

### 1. Accounting policies (continued)

#### Turnover (continued)

Amounts are included within accrued income and payments in advance on engineering contracts to recognise timing differences arising between amounts invoiced and received and amounts recognised in the profit and loss account on individual engineering contracts.

#### Tangible fixed assets

The cost of tangible fixed assets is their historic purchase cost or valuation, together with any incidental costs of acquisition. Depreciation is calculated so as to write off the cost or valuation of tangible fixed assets, less their estimated residual values, over their estimated useful economic lives at the following principal rates:

Freehold buildings	40 years
Plant and machinery	2 to 10 years
Motor vehicles	4 years
Fixtures, fittings and equipment	2 to 10 years

Freehold land is not depreciated. Vehicle tooling costs are depreciated on a straight line basis over the period which the products are expected to be sold. Assets in the course of construction are not depreciated until the assets are brought into operational use.

#### Revaluation policy

On adoption of Financial Reporting Standard 15 (FRS 15), 'Accounting for Tangible Fixed Assets', the company elected to retain certain of its freehold land and buildings at a valuation undertaken on 31 March 1992. The company has not adopted a policy of annual revaluation since then, as allowed by the transitional provisions of FRS 15.

#### Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the profit and loss account for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate based upon the company's weighted average cost of capital that reflects current market assessments of the time value of money and the risks specific to the company.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.



# **Lotus Cars Limited**

## **Notes to the financial statements for the year ended 31 March 2014 (continued)**

### **1. Accounting policies (continued)**

#### **Research and development**

Development costs that meet the capitalisation criteria of SSAP 13, 'Accounting for Research and Development' are capitalised as intangible assets. Amortisation of the assets begins once the associated vehicle goes into production. The amortisation is charged on a straight line basis over the period which the products are expected to be sold. Research costs and other development costs are expensed as incurred.

#### **Stocks and work in progress**

Stocks and work in progress are stated at the lower of cost (comprising direct materials and labour together with manufacturing overheads) and net realisable value. Cost is determined on a first-in, first-out basis. Net realisable value is the price at which stocks can be sold in the normal course of business after allowing for the cost of realisation. Where necessary, provision is made for obsolete, slow moving and defective stocks.

#### **Long-term contracts**

The amount of long-term contracts, at costs incurred, net of amounts transferred to cost of sales, after deducting foreseeable losses and payments on account not matched with turnover, is included in work in progress. The amount by which recorded turnover is in excess of payments on account is included in debtors as accrued income. Payments in excess of recorded turnover and long-term contract balances are included in creditors as payments in advance on engineering contracts. The amount by which provisions or accruals for foreseeable losses exceed costs incurred, after transfers to cost of sales, is included within either provisions for liabilities and charges or creditors, as appropriate.

#### **Deferred taxation**

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.

A net deferred tax asset is recognised as recoverable only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

#### **Foreign currency translation**

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates ruling at the balance sheet date. Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the date of the transaction. All foreign exchange differences arising thereon are included in the profit and loss account.

#### **Warranty provision**

Provision is made for the estimated liability on all products under warranty in addition to claims already received. The provision is based on experienced levels of claims arising during the period of warranty and the average cost of fulfilling these claims on a model by model basis.

## Notes to the financial statements for the year ended 31 March 2014 (continued)

### 1. Accounting policies (continued)

#### Operating leases

Costs in respect of operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

#### Pensions

The company operates a defined benefit pension scheme, the Lotus Pension Plan, which is accounted for under the provisions of FRS 17, 'Retirement Benefits'. The assets are held in separate trustee administered funds. Full actuarial valuations are carried out every three years with interim reviews in the intervening years; these valuations are updated to 31 March each year by qualified independent actuaries. The last full actuarial valuation was performed as of 31 December 2011. For the purpose of these updates, scheme assets are included at market value and scheme liabilities are measured on an actuarial basis using the projected unit method. These liabilities are discounted at the current rate of return on a high quality corporate bond of equivalent currency and term. The current service cost and any past service costs are included in the profit and loss account within operating expenses and the expected return on the scheme's assets, net of the impact of the unwinding of the discount on the scheme's liabilities, is included within other finance income. Actuarial gains and losses, including differences between the expected and actual return on scheme assets, are recognised, net of the related deferred tax, in the statement of total recognised gains and losses. A pension asset is recognised to the extent that the entity has an unconditional right to access the asset either through reduced contributions or as a lump sum.

The company also operates a defined contribution scheme, contributions to the scheme being charged to the profit and loss account in the period to which they relate. The pension assets are held separately in an independently administered fund.

#### Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost in the financial statements of the company. Provision against the carrying value is made where, in the opinion of the directors, there is a permanent diminution in the value of the underlying business.

#### Deferred income

Payments made in advance on engineering projects are treated as deferred income and recorded on the balance sheet.

#### Provisions

In accordance with FRS 12, 'Provisions, Contingent Liabilities and Contingent Assets', the company provides in full for liabilities when it has a legal or constructive obligation arising from a past event.

#### Government Grants

Government grants are not recognised until there is reasonable assurance that the company will comply with the conditions attaching to them and that the grants will be received. Government grants for engineering programmes are recognised as other income over the periods necessary to match them with the related costs incurred. Government grants related to tangible fixed assets are treated as deferred income and released to the income statement over the expected useful economic lives of the assets and sufficient measurability of the amount.

# Lotus Cars Limited

## Notes to the financial statements for the year ended 31 March 2014 (continued)

### 2. Turnover

	2014 £'000	2013 £'000
<b>Turnover by class of business</b>		
Sales of cars and parts	66,595	54,528
Engineering consultancy	7,262	11,443
	<b>73,857</b>	<b>65,971</b>
<b>Turnover by geographical market supplied</b>		
United Kingdom	16,634	16,789
Continental Europe	21,138	15,992
North and South America	15,793	14,944
Rest of the world	20,292	18,246
	<b>73,857</b>	<b>65,971</b>
<b>Turnover by geographical origin</b>		
United Kingdom	73,857	65,971

# Lotus Cars Limited

## Notes to the financial statements for the year ended 31 March 2014 (continued)

### 3. Operating loss

	2014 £'000	2013 £'000
<hr/>		
The operating loss is stated after charging/(crediting):		
Operating lease rentals:		
- plant and machinery	70	70
- other	1,030	855
Depreciation of tangible fixed assets:		
- owned assets	6,026	5,484
- leased assets	-	97
Research and development:		
- expenditure on research	772	869
- amortisation of capitalised development costs	6,784	6,377
- impairment of capitalised development costs	6,802	86,193
(Profit) / loss on disposal of tangible fixed assets	(14)	639
Net foreign exchange losses / (gains) on trading activities	2,615	(751)
Auditor's remuneration:		
- fees payable to the company's auditor for the audit of the financial statements	58	54
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# Lotus Cars Limited

## Notes to the financial statements for the year ended 31 March 2014 (continued)

### 4. Directors' emoluments

	2014	2013
	£'000	£'000
Aggregate emoluments	291	412

None (2013: none) directors had retirement benefits accruing under a defined benefit scheme.

	2014	2013
	£'000	£'000
The emoluments of the highest paid director amounted to:		
Aggregate emoluments	291	191

### 5. Employees and pension costs

The average monthly number of persons employed by the company (including executive directors) during the year was as follows:

	2014	2013
	Number	Number
Category		
Management and administration	642	643
Production and sales staff	304	342
	946	985

# Lotus Cars Limited

## Notes to the financial statements for the year ended 31 March 2014 (continued)

### 5. Employees and pension costs (continued)

The aggregate payroll cost of these persons was as follows:

	2014 £'000	2013 £'000
Wages and salaries	35,124	38,316
Social security costs	3,708	4,016
Other pension costs	1,262	1,675
	40,094	44,007

Other pension costs comprise the following:

	2014 £'000	2013 £'000
Charges in respect of the defined benefit pension scheme (note 17)	1,262	1,675

### 6. Interest

	2014 £'000	2013 £'000
<b>Interest receivable and similar income</b>		
Interest from bank deposits	3	5
Interest from customers	124	30
Net foreign exchange gain on loan from intermediate holding company	5,230	-
	5,357	35
<b>Interest payable and similar charges</b>		
Bank loans	(8,693)	(7,492)
Other interest	-	(13)
Finance lease interest	-	(3)
	(8,693)	(7,508)
<b>Other finance (charges) / income</b>		
(Charge) / income in respect of the defined benefit pension scheme (note 17)	(249)	88

# Lotus Cars Limited

## Notes to the financial statements for the year ended 31 March 2014 (continued)

### 7. Tax on loss on ordinary activities

#### a) Analysis of charge in the year

	2014	2013
	£'000	£'000
<b>Current taxation</b>		
UK Corporation tax at 23% (2013: 24%)	-	-

#### b) Factors affecting taxation charge in the year

The standard rate of UK Corporation tax for 2014 was 23% (2013: 24%). The tax charge for the year is higher (2013: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

Loss on ordinary activities before tax	(65,552)	(159,394)
Loss on ordinary activities at standard rate of Corporation tax in the UK of 23% (2013: 24%)	(15,077)	(38,255)
<b>Effects of:</b>		
Depreciation in excess of capital allowances	1,451	1,946
Other short term timing differences	20	700
Research and development enhanced relief	(345)	(360)
Expenses not deductible for tax purposes	1,411	1,019
Pension contribution relief in excess of net pension charge	(387)	(82)
Current year tax losses carried forward	12,927	35,032
<b>Total current tax charge for the financial year</b>	-	-

#### c) Factors affecting future taxation charges

The Finance Act 2013 reduced the main rate of UK Corporation tax to 21% from 1 April 2014 and to 20% from 1 April 2015. Deferred tax assets and liabilities, both recognised and unrecognised, at 31 March 2014 have been calculated at 20%.

Details of unprovided deferred tax assets are included in note 16 to the financial statements.

# Lotus Cars Limited

## Notes to the financial statements for the year ended 31 March 2014 (continued)

### 8. Intangible assets

	Capitalised development costs £'000
<b>Cost</b>	
At 1 April 2013	195,526
Additions	4,202
Disposals	(99,089)
<b>At 31 March 2014</b>	<b>100,639</b>
<b>Accumulated amortisation</b>	
At 1 April 2013	165,077
Charge for the financial year	6,784
Impairment charge for the financial year	6,802
Disposals	(99,089)
<b>At 31 March 2014</b>	<b>79,574</b>
<b>Net book amount</b>	
<b>At 31 March 2014</b>	<b>21,065</b>
At 31 March 2013	30,449

Intangible and tangible fixed assets have been reviewed for impairment at a company level by reference to the recoverable amount based on a value in use calculation. The key assumptions in the model are sales growth and the discount rate. Sales are included in the first five years at the growth levels projected in the strategic business plan and after that projected at a rate appropriate to the lifecycle of the company's products. The pre-tax discount rate of 12% (2013: 12%) is based on the directors' estimate of the return on capital appropriate to the business.



# Lotus Cars Limited

## Notes to the financial statements for the year ended 31 March 2014 (continued)

### 9. Tangible fixed assets

	Freehold land and buildings £'000	Plant and machinery £'000	Fixtures, fittings, tooling, equipment and motor vehicles £'000	Assets in the course of construction £'000	Total £'000
<b>Cost or valuation</b>					
At 1 April 2013	41,550	34,203	52,860	14,027	142,640
Additions	2	58	1,423	234	1,717
Transfers	873	213	1,156	(2,242)	-
Disposals	-	(8)	(56)	-	(64)
<b>At 31 March 2014</b>	<b>42,425</b>	<b>34,466</b>	<b>55,383</b>	<b>12,019</b>	<b>144,293</b>
<b>Accumulated</b>					
At 1 April 2013	12,585	31,552	41,906	-	86,043
Charge for the year	927	1,227	3,872	-	6,026
Disposals	-	(8)	(38)	-	(46)
<b>At 31 March 2014</b>	<b>13,512</b>	<b>32,771</b>	<b>45,740</b>	<b>-</b>	<b>92,023</b>
<b>Net book amount</b>					
<b>At 31 March 2014</b>	<b>28,913</b>	<b>1,695</b>	<b>9,643</b>	<b>12,019</b>	<b>52,270</b>
At 31 March 2013	28,965	2,651	10,954	14,027	56,597

The historic cost net book value of freehold land and buildings at 31 March 2014 was £25,291,000 (2013: £25,251,000). All other tangible fixed assets are carried at cost.

Assets in the course of construction relate to the development of the manufacturing site and information systems which was started but not completed at the year end.

Included in freehold land and buildings is land cost of £982,000 (2013: £982,000) which is not depreciated.

# Lotus Cars Limited

## Notes to the financial statements for the year ended 31 March 2014 (continued)

### 10. Investments

	Shares in subsidiary undertakings £'000
Cost and net book value at 1 April 2013 and 31 March 2014	68

The following companies are the principal subsidiaries of Lotus Cars Limited, all of which are 100% owned:

	Country of incorporation	Nature of business
Lotus Engineering Limited	England and Wales	Dormant company
Lotus Engineering Malaysia Sdn Bhd	Malaysia	Non trading company
Lotus Engineering Company Limited	China	Engineering consultancy

### 11. Stocks

	2014 £'000	2013 £'000
Raw materials	10,871	10,935
Cars in course of production and other work in progress	1,939	2,729
Service stocks	7,896	9,734
Finished goods	5,877	8,166
	26,583	31,564

The difference between purchase price or production cost of stock and the replacement cost is not material.

### 12. Debtors

	2014 £'000	2013 £'000
Trade debtors	9,210	12,415
Amounts owed by other group companies	239,815	224,568
Amounts owed by intermediate parent undertakings	807	637
Amounts owed by immediate parent undertaking	135	185
Other debtors	1,172	1,505
Prepayments and accrued income	4,468	1,787
	255,607	241,097

Amounts owed by other group companies, intermediate parent undertakings and immediate parent undertaking are unsecured, interest free and have no fixed repayment terms.

# Lotus Cars Limited

## Notes to the financial statements for the year ended 31 March 2014 (continued)

### 13. Creditors – amounts falling due within one year

	2014 £'000	2013 £'000
Bank loan (note 15)	-	203,512
Deferred income relating to government grant	10,018	-
Payments in advance on engineering contracts	5,654	3,153
Trade creditors	10,980	19,253
Amounts owed to intermediate parent undertaking	292,540	-
Amounts owed to other group companies	7,465	7,625
Other taxation and social security	1,303	1,535
Accruals and deferred income	7,379	5,576
	<b>335,339</b>	<b>240,654</b>

The amounts owed to the intermediate parent company and other group companies are unsecured; repayable in line with the agreed terms and are interest free.

### 14. Creditors – amounts falling due after more than one year

	2014 £'000	2013 £'000
Loans from other group undertakings	176,920	209,670

Loans from other group undertakings are unsecured. The lender has confirmed that it will not seek repayment of the loan for a period of at least one year from the date of signing these financial statements.

### 15. Loans and other borrowings

	2014 £'000	2013 £'000
Bank loan	-	203,512
Loans from other group undertakings	176,920	209,670
	<b>176,920</b>	<b>413,182</b>
<b>Maturity of financial liabilities</b>		
In one year or less, or on demand	-	203,512
In more than two years, but not more than five years	176,920	209,670
	<b>176,920</b>	<b>413,182</b>

The loans from other group companies comprises of loans from Lotus Group International Limited. The loans are interest free and are unsecured. The bank loan was repaid in full on 28 February 2014.

# Lotus Cars Limited

## Notes to the financial statements for the year ended 31 March 2014 (continued)

### 16. Provision for liabilities

	Warranty provision £'000
At 1 April 2013	6,596
Charged to the profit and loss account	6,273
Provision utilised	(3,488)
<b>At 31 March 2014</b>	<b>9,381</b>

All vehicles sold by the company have a warranty period of up to 36 months. Provision is made based upon the directors' best estimate of likely future claims under warranty. The provision is expected to be utilised within 3 years.

The provision has not been discounted as the directors consider the effect to be immaterial.

	2014 £'000	2013 £'000
<b>The unprovided deferred tax asset is analysed as follows:</b>		
Depreciation in excess of capital allowances	15,044	16,554
Short term timing differences	638	712
Losses available for future relief	83,093	83,434
Deferred tax on pension liability	914	1,727
<b>Unprovided deferred tax asset</b>	<b>99,689</b>	<b>102,427</b>

No deferred tax asset has been recognised in relation to these timing differences as there is insufficient reliable evidence that they will reverse in the foreseeable future against taxable profits.

# Lotus Cars Limited

## Notes to the financial statements for the year ended 31 March 2014 (continued)

### 17. Defined benefit pension scheme

#### Defined benefit pension scheme

The company operates a defined benefit pension scheme, the Lotus Pension Plan. The assets are held in separate trustee administered funds.

An actuarial valuation using the projected unit basis was carried out at 31 March 2014 by an independent actuary. The expected return on assets is a weighted average of the assumed long-term returns for the various asset classes. The major assumptions used by the actuary were as follows:

	2014	2013	2012
Rate of increase in salaries	4.30%	4.30%	4.30%
Rate of increase in pensions in payment	2.30%	2.30%	2.30%
Discount rate	4.50%	4.50%	5.00%
Inflation	3.30%	3.30%	3.30%
Long term expected rate of return on:			
Equities	5.55%	5.85%	7.10%
Bonds	2.80%	3.10%	4.35%
Cash	2.80%	3.10%	4.35%

The assumptions used under the adopted mortality tables were as follows:

	2014	2013	2012
Longevity at age 65 for current pensioners			
- Men	87.2	87.4	86.0
- Women	89.4	89.6	88.4
Longevity at age 65 for future pensioners currently aged 45			
- Men	88.5	89.1	87.1
- Women	91.0	91.6	89.4

The assets in the scheme were:

	2014 £'000	2013 £'000	2012 £'000
Equities	70,887	62,476	55,602
Bonds	14,678	16,789	13,448
Cash	4,070	3,467	4,084
<b>Total fair value of scheme assets</b>	<b>89,635</b>	<b>82,732</b>	<b>73,134</b>

# Lotus Cars Limited

## Notes to the financial statements for the year ended 31 March 2014 (continued)

### 17. Defined benefit pension scheme (continued)

The following amounts at 31 March 2014 were measured in accordance with the requirements of FRS 17 "Retirement Benefits":

	2014 £'000	2013 £'000
Total fair value of scheme assets	89,635	82,732
Present value of scheme liabilities	(94,315)	(90,240)
<b>Net pension liability</b>	<b>(4,680)</b>	<b>(7,508)</b>

No deferred tax asset has been recognised in relation to these timing differences as there is insufficient reliable evidence that they will reverse in the foreseeable future against taxable profits (see note 16).

Analysis of the amount charged to operating loss	2014 £'000	2013 £'000
Current service cost	1,262	1,675
<b>Total operating charge</b>	<b>1,262</b>	<b>1,675</b>

Analysis of the amount (charged) / credited to other finance (costs) / income	2014 £'000	2013 £'000
Expected return on pension scheme assets	3,771	3,798
Interest on pension scheme liabilities	(4,020)	(3,710)
<b>Net (charge) / credit to other finance (costs) / income</b>	<b>(249)</b>	<b>88</b>

Analysis of amount recognised in consolidated statement of total recognised gains and losses ("STRGL")	2014 £'000	2013 £'000
Actual return less expected return on pension scheme assets	996	5,992
Experience gains and losses arising on the scheme liabilities	148	(1,384)
Changes in assumptions underlying the present value of the scheme	-	(11,165)
<b>Actuarial gain / (loss) recognised in STRGL</b>	<b>1,144</b>	<b>(6,557)</b>
<b>Cumulative loss recognised in STRGL</b>	<b>(13,399)</b>	<b>(14,543)</b>

# Lotus Cars Limited

## Notes to the financial statements for the year ended 31 March 2014 (continued)

### 17. Defined benefit pension scheme (continued)

<b>Reconciliation of present value of scheme liabilities</b>	<b>2014 £'000</b>	<b>2013 £'000</b>
At beginning of the year	90,240	74,425
Current service cost	1,262	1,675
Interest cost	4,020	3,710
Employee contributions	774	765
Benefits paid	(1,833)	(2,884)
Actuarial loss	-	11,165
Experience gains and losses arising on the scheme liabilities	(148)	1,384
<b>At end of the year</b>	<b>94,315</b>	<b>90,240</b>
<b>Reconciliation of fair value of scheme assets</b>	<b>2014 £'000</b>	<b>2013 £'000</b>
At beginning of the year	82,732	73,134
Expected return on scheme assets	3,771	3,798
Benefits paid	(3,016)	(2,884)
Actual return less expected return on pension scheme assets	996	5,992
Employer contributions	4,378	1,927
Employee contributions	774	765
<b>At end of the year</b>	<b>89,635</b>	<b>82,732</b>

# Lotus Cars Limited

## Notes to the financial statements for the year ended 31 March 2014 (continued)

### 17. Defined benefit pension scheme (continued)

History of experience gains and losses	2014 £'000	2013 £'000	2012 £'000	2011 £'000	2010 £'000
<b>Defined benefit obligation</b>	<b>(94,315)</b>	<b>(90,240)</b>	<b>(74,425)</b>	<b>(68,985)</b>	<b>(72,517)</b>
<b>Plan assets</b>	<b>89,635</b>	<b>82,732</b>	<b>73,134</b>	<b>70,475</b>	<b>63,369</b>
<b>(Deficit) / surplus</b>	<b>(4,680)</b>	<b>(7,508)</b>	<b>(1,291)</b>	<b>1,490</b>	<b>(9,148)</b>
<b>Difference between the expected and actual return on scheme</b>					
- Amount (£'000)	996	(5,992)	(2,857)	2,296	16,962
- Percentage of scheme assets	1.1%	(7.2%)	(3.9%)	3.3%	26.8%
<b>Experience gains and losses on scheme liabilities:</b>					
- Amount (£'000)	148	(1,384)	768	726	(1,507)
- Percentage of the present value of the scheme liabilities	0.2%	(1.5%)	1.0%	1.1%	(2.1%)
<b>Total amount recognised in statement of total recognised gains and losses:</b>					
- Amount (£'000)	1,144	(6,557)	(4,404)	9,221	(8,067)
- Percentage of the present value of the scheme liabilities	1.2%	(7.3%)	(5.9%)	13.4%	(11.1%)



# Lotus Cars Limited

## Notes to the financial statements for the year ended 31 March 2014 (continued)

### 18. Called up share capital

	2014 Number	2014 £'000	2013 Number	2013 £'000
<b>Allotted, called up and fully paid – ordinary shares of £1 each</b>				
At 1 April 2013	283,056,397	283,056	113,960,000	113,960
Issued during the financial year	-	-	169,096,397	169,096
<b>At 31 March 2014</b>	<b>283,056,397</b>	<b>283,056</b>	<b>283,056,397</b>	<b>283,056</b>

During the prior year, the company issued 169,096,400 ordinary shares at par.

### 19. Reserves

	Revaluation reserve £'000	Capital reserve £'000	Profit and loss account £'000
At 1 April 2013	3,714	17	(378,199)
Loss for the financial year	-	-	(65,552)
Actuarial gain relating to the pension scheme	-	-	1,144
Transfer of amount equivalent to additional depreciation	(92)	-	92
<b>At 31 March 2014</b>	<b>3,622</b>	<b>17</b>	<b>(442,515)</b>

# Lotus Cars Limited

## Notes to the financial statements for the year ended 31 March 2014 (continued)

### 20. Reconciliation of movements in shareholders' deficit

	2014 £'000	2013 £'000
Loss for the financial year	(65,552)	(159,394)
Issue of ordinary share capital at par	-	169,096
Actuarial gain / (loss) relating to pension liability	1,144	(6,557)
Net movement in shareholders' deficit	(64,408)	3,145
Opening shareholders' deficit	(91,412)	(94,557)
Closing shareholders' deficit	(155,820)	(91,412)

### 21. Capital commitments

	2014 £'000	2013 £'000
Contracted but not provided for	1,263	1,153

### 22. Financial commitments

The company had annual commitments under non-cancellable operating leases for assets expiring as follows:

	2014 Land and Buildings £'000	2014 Other £'000	2013 Land and Buildings £'000	2013 Other £'000
Within one year	116	76	116	41
Between one and five years	215	25	215	212
After five years	525	-	525	-
	856	101	856	253

# **Lotus Cars Limited**

## **Notes to the financial statements for the year ended 31 March 2014 (continued)**

### **23. Ultimate parent undertaking and controlling party**

The immediate holding company is Group Lotus plc.

The smallest group to consolidate the financial statements of Lotus Cars Limited is headed by Lotus Group International Limited. The largest group to consolidate the financial statements of the company is headed by DRB-HICOM Berhad, a company incorporated in Malaysia. Copies of their group financial statements are available from Level 5, Wisma DRB-HICOM, No.2, Jalan Usahawan U1/8, Seksyen U1, 40150 Shah Alam, Selangor Darul Ehsan, Malaysia.

The directors regard Etika Strategi Sdn. Bhd, a company incorporated in Malaysia, as the ultimate holding company.

### **24. Related party transactions**

Under the terms of a financing agreement, Lotus Finance Limited, in which Group Lotus plc has a 49.9% interest, provides finance services to dealers and customers of the company to enable them to acquire Lotus cars. During the year cars with a sales value of £nil (2013: £nil) were sold through Lotus Finance Limited. At 31 March 2014 the amount outstanding from Lotus Finance Limited was £nil (2013: £nil) and the amount owed to Lotus Finance Limited was £nil (2013: £nil).

The company is exempt under the terms of FRS 8 from disclosing related party transactions with DRB-HICOM Berhad and other group companies.

### **25. Contingent liabilities**

In the prior year the company had a number of claims from third parties, which in the directors opinion, will not have a material impact on the financial position of the company. Included within this was £5.5m of supplier claims which were being contested and the directors expected to resolve at no material cost.