

Zepf Technologies UK Limited

Directors' report and financial statements

30 June 2020

Registered number: SC002816



Zepf Technologies UK Limited
Registered number: SC002816
Year ended 30 June 2020

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Zepf Technologies UK Limited
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Year ended 30 June 2020

Directors' report

The directors are pleased to submit their director's report, together with the audited financial statements for the year ended 30 June 2020.

The company is incorporated and domiciled as a private company limited by shares in Scotland, United Kingdom. The registered address changed from Edinburgh Park 5, Lochside Way, Edinburgh EH12 9DT to 11 Lochside Place, Edinburgh, Scotland, EH12 9HA on 4 May 2021.

The directors are entitled to take advantage of the small companies' exemption in not preparing a strategic report. This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

Activities

The company is engaged in manufacturing container handling changepart systems mainly for rotary packaging machines for liquid filling, capping and labelling. The company also provides engineering services in respect of product development to its parent company, Diageo Scotland Limited and third party customers.

Going concern

The company is expected to continue to generate profit for its own account and to remain in positive net asset position for the foreseeable future. The directors have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the company to continue as a going concern. On the basis of their assessment, the company's directors have a reasonable expectation that the company will be able to continue in operational existence for a period of at least 12 months from the date the financial statements are approved. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

In arriving at this conclusion, the directors have also considered the potential impact that the Covid-19 outbreak may have on the company and believe that any impact would be minimal.

Financial

The results for the year ended 30 June 2020 are shown on page 9.

The profit for the year transferred to reserves was £606,000 (2019 - £696,000).

Dividends paid during the year ended 30 June 2020 and 30 June 2019 were £nil and £1,000,000, respectively.

Proposed dividend

The directors have proposed a final ordinary dividend in respect of the year ended 30 June 2020 of £1,560,000 (2019 - £nil).

This has not been included as a liability as it was not approved before the balance sheet date.

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Director' report (continued)

Directors

The directors of the company who were in office during the year and up to the date of signing the financial statements were:

J M C Edmunds
K E Major
L Milburn (appointed 1 November 2019)
A Donaldson (resigned 1 November 2019)

Directors' remuneration

None of the directors received any remuneration during the year in respect of their services as directors of the company (2019 - £nil).

Directors' indemnity

The Articles of Association permit qualifying third-party indemnities for the directors as defined by Section 234 of the Companies Act 2006. No such indemnity was in force during the last financial year, nor is any currently in force.

Post balance sheet events

As the unit next to the currently leased property became available, a new lease agreement was signed by Zepf Technologies UK Limited on 13 November 2020. The new property enables the company to have sufficient space for storing inventory as well as meets various demands (such as Health & Safety). The lease term for the new agreement is 10 years, the annual rent payable by the company is £109,000.

Internal control and risk management over financial reporting

The company operates under the financial reporting processes and controls of the Diageo group ("the group"). Diageo Plc's internal control and risk management systems including its financial reporting process of Diageo plc, which include those of the company, are discussed in the Group's Annual Report 2020 on page 79 at www.diageo.com, which does not form part of this report.

Principal risks and uncertainties facing the company as at 30 June 2020

Covid-19

At the beginning of calendar year 2020 a new coronavirus, referred to as 'Covid-19', emerged and has been classified as a pandemic due to its spread across the world. Given the global nature of the Covid-19 pandemic, and the uncertainty as to the severity and duration of the impact across multiple markets, it is difficult to accurately assess the impact the virus will have on the future financial performance of the group and the company. The directors have assessed that the key impacts on the company would be in respect of Covid-19 on remote working and ability to access IT systems, along with a potentially heightened cyber risk. The global economic outlook remains uncertain currently, as the pandemic has created volatility in the short term as a result of the social restrictions implemented across the world. The impact of the virus on economic conditions over the medium-term (one to three years) is highly uncertain, in sharp contrast to the stable and growing GDP performance across most markets experienced in recent years. As a result, significant volatility is likely to continue or increase as markets face challenging economic conditions and higher levels of unemployment leading to reduced consumer spending.

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Director' report (continued)

Principal risks and uncertainties facing the company as at 30 June 2020 (continued)

Covid-19 (continued)

To mitigate these challenges the group regularly gathers data and obtains insights which enable management to assess conditions in the markets where the group operates and to amend forecasts and investment decisions appropriately. The directors believe that the risk mitigation actions taken in relation to the pandemic have been agile and effective and that the group will maintain adequate liquidity and be strongly positioned for a recovery in consumer demand. Further information on the group's risk management measures in relation to Covid-19 are disclosed on pages 38-39 of Diageo plc's 2020 Annual Report.

Brexit

The European Union and the United Kingdom have now signed the EU-UK Trade and Cooperation Agreement which provisionally came into force on 1 January 2021. We remain of the view that the direct financial impact to the group or the company will not be material. A cross-functional working group is in place that meets on a regular basis to identify and assess the consequences of Brexit, with all major functions within our business represented, including the function of raising external funding. The group will monitor the implications of the Agreement very closely, as well as the broader environment risks, including a continuing focus on identifying critical decision points to ensure potential disruption is minimised, and take prudent actions to mitigate these risks wherever practical. Further information on the group's risk management measures in relation to Brexit are disclosed on page 39 of Annual Report.

Independent auditors

Pursuant to Section 487 of the Companies Act 2006, the independent auditors, PricewaterhouseCoopers LLP, have been reappointed and will continue in office as independent auditors of the company.

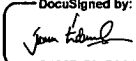
Disclosure of information to the auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Zepf Technologies UK Limited
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Director' report (continued)

On behalf of the board

DocuSigned by:

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J M C Edmunds
Director

Edinburgh Park
5 Lochside Way
Edinburgh
EH12 9DT

17 May 2021

Zepf Technologies UK Limited
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Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulation.

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are 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.

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.

Independent auditors' report to the members of Zepf Technologies UK Limited

Report on the audit of the financial statements

Opinion

In our opinion, Zepf Technologies UK Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Directors' report and financial statements (the "Annual Report"), which comprise: the balance sheet as at 30 June 2020; the statement of comprehensive income and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

Reporting on other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

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

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report for the year ended 30 June 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements set out on page 6, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to: take advantage of the small companies exemption in preparing the Directors' Report; and take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.



Matthew Kaye (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
17 May 2021

Zepf Technologies UK Limited
Registered number: SC002816
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STATEMENT OF COMPREHENSIVE INCOME

		Year ended 30 June 2020	Year ended 30 June 2019
	Note	£ 000	£ 000
Turnover	2	3,095	3,524
Cost of sales	3	(2,129)	(2,504)
Gross profit		966	1,020
Operating costs	3	(388)	(372)
Operating profit		578	648
Finance income	5	30	50
Profit before taxation on ordinary activities		608	698
Tax on profit	6	(2)	(2)
Profit for the financial year and total comprehensive income for the year		606	696

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

The company had no other comprehensive income or expense during the current and previous year.

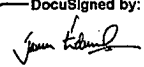
Zepf Technologies UK Limited
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BALANCE SHEET

	Note	30 June 2020 £ 000	30 June 2019 £ 000
Non-current assets			
Property, plant and equipment	7	116	34
Deferred tax assets	14	5	7
		<u>121</u>	<u>41</u>
Current assets			
Inventories	9	341	384
Trade and other receivables	10	1,650	838
Cash and cash equivalents		779	1,467
Total assets		<u>2,891</u>	<u>2,730</u>
Current liabilities			
Trade and other payables	11	(187)	(652)
Other financial liability	12	(18)	—
Provisions	13	(13)	(18)
		<u>(218)</u>	<u>(670)</u>
Non-current liabilities			
Other financial liability	12	(7)	—
Total liabilities		<u>(225)</u>	<u>(670)</u>
Net assets		<u>2,666</u>	<u>2,060</u>
Equity			
Called up share capital	15	500	500
Retained earnings		2,166	1,560
Total equity		<u>2,666</u>	<u>2,060</u>

The accounting policies and other notes on pages 12 to 28 form part of the financial statements.

These financial statements on pages 9 to 28 were approved by the Board on 17 May 2021 and were signed on its behalf by:

DocuSigned by:

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J M C Edmunds

Director

Zepf Technologies UK Limited
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STATEMENT OF CHANGES IN EQUITY

ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

	Called up share capital £ 000	Retained earnings £ 000	Total £ 000
Balance at 30 June 2018	500	1,864	2,364
Profit for the financial year and total comprehensive income for the year	—	696	696
Dividends to shareholders	—	(1,000)	(1,000)
Balance at 30 June 2019	<u>500</u>	<u>1,560</u>	<u>2,060</u>
Profit for the financial year and total comprehensive income for the year	—	606	606
Balance at 30 June 2020	<u>500</u>	<u>2,166</u>	<u>2,666</u>

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

Zepf Technologies UK Limited
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NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

Basis of preparation

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

These financial statements are prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101).

In preparing these financial statements, the company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU (IFRS), but makes amendments where necessary in order to comply with Companies Act 2006 and sets out below where the FRS 101 disclosure exemptions have been taken.

These financial statements are prepared on a going concern basis under the historical cost convention, except that certain financial instruments are measured at their fair value.

The company is a wholly owned subsidiary of Diageo plc and is included in the consolidated financial statements of Diageo plc which are publicly available.

The preparation of financial statements in conformity with FRS 101 requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted average exercise prices of share options, and how the fair value of goods or services received was determined).
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d) (statement of cash flows);
 - 16 (statement of compliance with all IFRS);
 - 79(a)(iv) (comparative information requirements);
 - 111 (cash flow statement information);
 - 134-136 (capital management disclosures).
- IAS 7, 'Statement of cash flows'

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NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

Basis of preparation (continued)

- The following paragraphs of IAS 8, 'Accounting policies, changes in accounting estimates and errors':
 - 30 (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective);
 - 31 (disclosures relating to the new IFRS).
- The following paragraphs of IAS 24 'Related party disclosures':
 - 17 (key management compensation);
 - 18A (key management services provided by a separate management entity).
- The requirements of IFRS 7 Financial Instruments: Disclosures, provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.

These financial statements are separate financial statements.

New accounting standards and interpretations

The following amendments to the accounting standards, issued by the IASB which have been endorsed by the EU, have been adopted by the group and therefore by the company from 1 July 2019 with no impact on the company's results, financial position or disclosures:

- Amendments to IAS 28 - Long-term Interests in Associates and Joint Ventures;
- Amendments to IFRS 9 - Prepayment Features with Negative Compensation;
- Improvements to IFRS 3 and IFRS 11 - Business combinations and Joint arrangements - Accounting for previously held interests;
- Improvements to IAS 12 - Income taxes - Accounting for income tax consequences of payments on financial instruments that are classified as equity;
- Improvements to IAS 23 – Borrowing costs on completed qualifying assets;
- Amendments to IAS 19 - Plan Amendment, Curtailment or Settlement.

The following amendment and standard, issued by the IASB have not been adopted by the company:

- IFRS 17 – Insurance contracts
- Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform (phase 1)

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NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

Turnover

Turnover comprises revenue from the sale of goods and services. Revenue from the sale of goods includes excise and other duties which the company pays as principal but excludes amounts collected on behalf of third parties, such as value added tax. Turnover is recognised depending upon individual customer terms at the time of dispatch, delivery or some other specific point when the risk of loss transfers. Provision is made for returns where appropriate. Turnover is stated net of price discounts, allowances for customer loyalty and certain promotional activities and similar items. For sale of services, revenue is recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction and assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Pensions and other post-employment benefits

The company operates a defined contribution pension scheme. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Finance income

Finance income is recognised in the statement of comprehensive income in the year in which it is earned.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation.

Plant and equipment and computer hardware are depreciated on a straight-line basis to estimated residual values over their expected useful lives, and these values and lives are reviewed each year. Subject to these reviews, the estimated useful lives fall within the following ranges:

Plant and equipment	5 years
Computer hardware	5 years

Reviews are carried out if there is some indication that impairment may have occurred, to ensure that property, plant and equipment are not carried at above their recoverable amounts.

Profit or loss on the sale of a property, plant and equipment is the difference between the disposal proceeds and the net book value.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

Leases

Where the company is the lessee, all leases are recognised on the balance sheet as right of use assets and depreciated on a straight-line basis with the charge recognised in cost of sales. The liability, recognised as part of net borrowings, is measured at a discounted value and any interest is charged to finance charges.

The company recognises services associated with a lease as other operating expenses. Payments associated with leases where the value of the asset when it is new is lower than \$5,000 (leases of low value assets) and leases with a lease term of twelve months or less (short term leases) are recognised as other operating expenses.

A judgement in calculating the lease liability at initial recognition includes determining the lease term where extension or termination options exist. In such instances any economic incentive to retain or end a lease are considered and extension periods are only included when it is considered reasonably certain that an option to extend a lease will be exercised.

For the years ended 30 June 2019 and 2018, where the company had substantially all the risks and rewards of ownership of an asset subject to a lease, the lease was treated as a finance lease. Assets held under finance leases were recognised as assets of the company at their fair value at the inception of the lease. The corresponding liability to the lessor was included in lease liability on the balance sheet. Lease payments were apportioned between interest expense and a reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Other leases were treated as operating leases, with payments and receipts taken to the income statement on a straight-line basis over the life of the lease.

Functional and presentational currency

These financial statements are presented in sterling (£), which is the company's functional currency.

All financial information presented in sterling (£) has been rounded to the nearest thousand unless otherwise stated.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes raw materials, direct labour and expenses, and an appropriate proportion of production and other overheads, but not borrowing costs. Cost is calculated at the weighted average cost incurred in acquiring inventories.

Financial assets and liabilities

Financial assets and liabilities are initially recorded at fair value, where permitted by IFRS 9, including any directly attributable transaction costs. For those financial assets that are not subsequently held at fair value, the company assesses whether there is evidence of impairment at each balance sheet date. The company classifies its financial assets and liabilities into the following categories: financial assets and liabilities at amortised cost, financial assets and liabilities at fair value through profit and loss and financial assets at fair value through other comprehensive income. Where financial assets or liabilities are eligible to be carried at either amortised cost or fair value, the company does not apply the fair value option.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

Financial assets and liabilities (continued)

Trade and other receivables Amounts owed by other group companies are initially measured at fair value and are subsequently reported at amortised cost. Non-interest-bearing trade receivables are stated at their nominal value as they are due on demand. Allowances for expected credit losses are made based on the risk of non-payment taking into account ageing, previous experience, economic conditions and forward-looking data. Such allowances are measured as either 12-months expected credit losses or lifetime expected credit losses depending on changes in the credit quality of the counterparty.

Cash and cash equivalents Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the balance sheet, bank overdrafts are shown within borrowings in current liabilities.

Trade and other payables Amounts owed to other group companies are initially measured at fair value and are subsequently reported at amortised cost. Non-interest-bearing trade payables are stated at their nominal value as they are due on demand.

Provisions

Provisions are liabilities of uncertain timing or amount. A provision is recognised if, as a result of a past event, the company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are calculated on a discounted basis, where the effect is material to the original undiscounted provision. The carrying amounts of provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Taxation

Current tax is based on taxable profit for the year. Taxable profit is different from accounting profit due to temporary differences between accounting and tax treatments, and due to items, that are never taxable or tax deductible. Tax benefits are not recognised unless it is probable that the tax positions are sustainable. Once considered to be probable, tax benefits are reviewed each year to assess whether a provision should be taken against full recognition of the benefit on the basis of potential settlement through negotiation and/or litigation. Tax provisions are included in current liabilities. Penalties and interest on tax liabilities are included in profit before taxation. In prior years penalties and interest on tax liabilities were provided for in the tax charge.

Full provision for deferred tax is made for temporary differences between the carrying value of assets and liabilities for financial reporting purposes and their value for tax purposes. The amount of deferred tax reflects the expected recoverable amount and is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using the basis of taxation enacted or substantively enacted by the balance sheet date. Deferred tax assets are not recognised where it is more likely than not that the asset will not be realised in the future.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

Dividends paid

The interim dividend is included in the financial statements in the year in which they are approved by the directors, and the final dividend in the year in which it is approved by shareholders.

Judgements in applying accounting policies and key sources of estimation uncertainty

The directors make estimates and assumptions concerning the future of the company. The resulting accounting estimates will, by definition, seldom equate to actual results. The company's directors are of the opinion that there are no estimates and assumptions that have a significant risk of casting material adjustment to the carrying value of the assets and liabilities for the company within the next financial year due to the nature of the business.

The critical accounting policies, which the directors consider are of greater complexity and/or particularly subject to the exercise of judgements, are set out in detail in the relevant accounting policies:

- **Provision:** As part of the assessment to determine the amount of the future obligation in respect of the long-term operating lease contract involves management judgement and estimates for the amount expected to be paid.
- **Taxation:** The evaluation of deferred tax assets recoverability requires judgements to be made regarding the availability of future taxable income. The directors believe that the company will generate sufficient future taxable income.
- **Lease accounting:** The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

2. TURNOVER

For the year ended 30 June 2020 the turnover and profit before taxation are attributable to one class of business that of engineering services.

Geographical analysis of turnover

	Year ended 30 June 2020	Year ended 30 June 2019
	£ 000	£ 000
United Kingdom	1,503	1,716
Ireland	12	33
Rest of Europe	888	840
America	193	506
Asia Pacific	284	378
Africa	183	—
Rest of world	32	51
	3,095	3,524

Segmental information is provided in the consolidated financial statements of the ultimate parent company, Diageo plc.

Sales to fellow group undertakings included in turnover amounted to £959,000 (2019 - £631,000).

3. OPERATING COSTS

	Year ended 30 June 2020	Year ended 30 June 2019
	£ 000	£ 000
Operating costs		
Cost of sales	2,129	2,504
Other operating expenses	388	372
	2,517	2,876
Comprising:		
Raw materials and consumables	655	768
Other external charges	484	474
Staff costs	1,344	1,610
Depreciation	34	24
	2,517	2,876

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NOTES TO THE FINANCIAL STATEMENTS (continued)

3. OPERATING COSTS (continued)

Other external charges include facilities costs of £nil (2019 - £27,000), maintenance and repairs of £25,000 (2019 - £35,000), rental fee of land and buildings of £52,000 (2019 - £47,000) and other equipment of £32,000 (2019 - £26,000), computer system costs of £12,000 (2019 - £27,000), other staff related costs of £55,000 (2019 - £95,000) and other professional costs of £56,000 (2019 - £55,000).

The auditors' remuneration of £16,223 (2019 - £15,000) was paid on behalf of the company by a fellow group undertaking. There were no fees payable to the auditors in respect of non-audit services (2019 - £nil).

None of the directors received any remuneration during the financial year in respect of their services as directors of the company (2019 - £nil).

4. EMPLOYEES

The average number of employees on a full time basis during the year was:

	Year ended 30 June 2020	Year ended 30 June 2019
Operation and logistics	29	33
Selling and distribution	2	4
Finance and administration	4	4
	35	41

	Year ended 30 June 2020 £ 000	Year ended 30 June 2019 £ 000
Aggregate remuneration		
Wages and salaries	1,155	1,384
Employer's social security costs	138	175
Employer's pension costs	51	51
	1,344	1,610

Retirement benefits

The company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the company to the scheme and amounted to £51,000 (2019 - £51,000)

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NOTES TO THE FINANCIAL STATEMENTS (continued)

5. FINANCE INCOME

	Year ended 30 June 2020 £ 000	Year ended 30 June 2019 £ 000
Interest income from fellow group undertakings		
Diageo Scotland Limited	30	50
Total finance income	30	50

6. TAX ON PROFIT

	Year ended 30 June 2020 £ 000	Year ended 30 June 2019 £ 000
(a) Analysis of taxation charge for the year		
Current tax		
Overseas corporation tax	—	(4)
Total current tax	—	(4)
Deferred tax		
Current year	(3)	2
Effect of changes in tax rates	1	—
Total deferred tax	(2)	2
Taxation on profit	(2)	(2)

(b) Factors affecting total tax charge for the year included in equity

Profit before taxation	608	698
Taxation on profit on ordinary activities at UK corporation tax rate of 19% (2019 - 19%)	(116)	(133)
Expenses not deductible for tax purposes	(1)	(2)
Group relief received for nil consideration	112	132
Overseas corporation tax	—	(4)
Transfer pricing adjustments	2	4
Change in tax rates	1	—
Other tax effects for reconciliation between accounting profit and tax expense	—	1
Total tax charge for the year	(2)	(2)

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NOTES TO THE FINANCIAL STATEMENTS (continued)

6. TAX ON PROFIT (continued)

The UK tax rate is 19% effective from 1 April 2017 which is applied for the year ended 30 June 2020. In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020.

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. Since the proposal to increase the rate to 25% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements.

The overall effect of the change, had it been substantively enacted by the balance sheet date, would be immaterial for the tax expense for the period, and for the deferred tax asset.

7. PROPERTY, PLANT AND EQUIPMENT

	Plant and equipment £ 000	Computer hardware £ 000	Total £ 000
Cost			
At 30 June 2019	193	36	229
Recognition of right-of-use asset on adoption of IFRS 16	45	—	45
Adjusted balance at 1 July 2019	238	36	274
Additions	71	—	71
At 30 June 2020	309	36	345
Accumulated Depreciation			
At 30 June 2019	(192)	(3)	(195)
Depreciation charge	(27)	(7)	(34)
At 30 June 2020	(219)	(10)	(229)
Carrying amount			
At 30 June 2020	90	26	116
At 30 June 2019	1	33	34

Zepf Technologies UK Limited
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NOTES TO THE FINANCIAL STATEMENTS (continued)

8. LEASES

(a) Adoption of IFRS 16

Under the new standard, outstanding lease liabilities have been recognised at 1 July 2019, for leases previously classified as operating leases, at the present value of the future lease payments over their reasonably certain lease term. Right-of-use assets have been recognised equal to the net present value of the lease liabilities, adjusted for the amount of any prepaid or accrued lease payment, lease incentives and provisions for onerous leases. There was no impact on retained earnings as at 1 July 2019. The interest rate used to discount the future payments in the calculation of the lease liability is the incremental borrowing rate at 1 July 2019 taking into account the currency and duration of the lease. The weighted average incremental borrowing rate applied across all operating leases capitalised on 1 July 2019 was 1.2%.

The group has decided to reduce the complexity of implementation by taking advantage of a number of practical expedients on transition on 1 July 2019 namely:

- to not capitalise leases which expire within a year of 1 July 2019;
- to apply a single discount rate to portfolios of leases with similar characteristics; and
- to adjust the right-of-use asset by the amount of any provision for onerous leases recognised immediately before the date of initial application.

The group has not capitalised leases on transition where the value of the asset when it is new is lower than USD \$5,000 (low value assets).

The company applied the modified retrospective approach on transition, consequently lease liability was recognised as the value of the outstanding lease payments at 1 July 2019, discounted at the discount rate as at 1 July 2019, with the corresponding value included in right-of-use asset. Comparative figures have not been restated.

The impact of the adoption of IFRS 16 on affected lines of the balance sheet at 1 July 2019 is as follows:

	30 June 2019 £ 000	IFRS 16 impact £ 000	1 July 2019 £ 000
Non-current assets			
Property, plant and equipment	34	45	79
Current liabilities			
Other financial liabilities	—	(20)	(20)
Non-current liabilities			
Other financial liabilities	—	(25)	(25)

As a result of the adoption of IFRS 16 the total assets increased by £45,000 from £2,730,000 to £2,775,000 and the total liabilities increased by £45,000 from £670,000 to £715,000 on 1 July 2019. The leases (previously classified as operating leases) which have been recognised at adoption are principally in respect of cars.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

8. LEASES (continued)

The adoption of IFRS 16 had no impact on operating profit, finance income/charges, profit before tax and taxation.

A reconciliation of differences between the operating lease commitments at 1 July 2019, is as follows:

	£ 000
Operating lease commitments at 30 June 2019	(1,086)
Restatement	1,036
Operating lease commitments at 30 June 2019 (restated)	(50)
Leases expiring within a year of 1 July 2019	3
Impact of discounting	2
Total additional lease liabilities recognised on adoption of IFRS 16	(45)
Finance lease liabilities at 30 June 2019	—
Total lease liabilities at 1 July 2019	(45)
Total lease liabilities at 1 July 2019 – current	(20)
Total lease liabilities at 1 July 2019 - non-current	(25)

Restatement

The restatement relates to an error in the prior year's account. The previous lease agreement in respect of property expired in June 2019. The management's intention was to prolong the agreement, and the signature of it was expected in April 2020, once the pre-agreed work on the property was carried out. However due to the Covid-19 outbreak and the restrictive measures that followed, the work on the property and thus the signature of the agreement had to be postponed. As the agreement was signed after the year ending in 30 June 2020, no right-of-use asset and lease liability were recorded. The operating lease commitments presented in the accounts for the year ending at 30 June 2019, in the amount of £1,036,000, had to be restated.

(b) Movements of leases

	Cars
	£ 000
Movement of right-of-use assets	
At 30 June 2019	—
IFRS 16 transition	45
Depreciation	(20)
At 30 June 2020	25

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NOTES TO THE FINANCIAL STATEMENTS (continued)

8. LEASES (continued)

The company leases vehicles. Rental contracts are typically made for fixed periods of 3 years.

	Cars
	£ 000
Movement of lease liabilities	
At 30 June 2019	—
IFRS 16 transition	(45)
Payments	20
At 30 June 2020	(25)
Current lease liabilities	(18)
Non-current lease liabilities	(7)

(c) Amounts recognised in the statement of profit or loss

Other operating expenses associated with leases of low value assets and short term leases were £52,000 in the year ended 30 June 2020.

The total cash outflow for leases in the year ended 30 June 2020 was £20,000.

9. INVENTORIES

	30 June 2020	30 June 2019
	£ 000	£ 000
Raw materials and consumables	196	237
Work in progress	145	147
	341	384

Inventories are disclosed net of provisions of £nil (2019 - £nil) for obsolescence.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

10. TRADE AND OTHER RECEIVABLES

	30 June 2020	30 June 2019
	£ 000	£ 000
Trade receivables	519	769
Amounts owed by fellow group undertakings	949	12
Prepayments and accrued income	182	57
	<u>1,650</u>	<u>838</u>

The aged analysis of trade receivables is as follows:

	30 June 2020	30 June 2019
	£ 000	£ 000
Not overdue	1,209	729
Overdue 1 - 30 days	118	19
Overdue 31 - 60 days	9	—
Overdue 61 - 90 days	124	5
Overdue 91 - 180 days	1	28
Overdue more than 180 days	6	—
	<u>1,468</u>	<u>781</u>

Amounts owed by fellow group undertakings include a loan receivable from Diageo Scotland Limited in the amount of £787,000 (2019 - loan payable in the amount of £144,000) which are unsecured, repayable on demand and bears interest at a floating rate.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

11. TRADE AND OTHER PAYABLES

	30 June 2020	30 June 2019
	£ 000	£ 000
Amounts owed to fellow group undertakings	—	144
Trade payables	63	150
Accruals and deferred income	69	117
Other payables	55	241
	<u>187</u>	<u>652</u>

Amounts owed by fellow group undertakings include a loan payable to Diageo Scotland Limited in the amount of £nil (2019 - £144,000) which are unsecured, repayable on demand and bears interest at a floating rate.

12. OTHER FINANCIAL LIABILITIES

	Current liabilities	Non-current liabilities
	£ 000	£ 000
2020		
Non-derivative liabilities		
Leases liabilities	<u>18</u>	<u>7</u>
	<u>18</u>	<u>7</u>
2019		
Non-derivative liabilities		
Leases liabilities	<u>—</u>	<u>—</u>

Zepf Technologies UK Limited
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NOTES TO THE FINANCIAL STATEMENTS (continued)

13. PROVISION

	Warranty claims £ 000
At 30 June 2019	18
Released during the year	(18)
Provision charged during the year	13
At 30 June 2020	13
Current liabilities	13

14. DEFERRED TAX ASSETS

The amounts of deferred tax accounted for in the balance sheet comprises the following deferred tax assets:

	Property, plant and equipment £ 000	Other temporary differences £ 000	Total £ 000
At 30 June 2018	4	1	5
Recognised in income statement	1	1	2
At 30 June 2019	5	2	7
Recognised in income statement	(1)	(1)	(2)
At 30 June 2020	4	1	5

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NOTES TO THE FINANCIAL STATEMENTS (continued)

15. CALLED UP SHARE CAPITAL

Allotted, called up and fully paid:

30 June 2020
£ 000

500,000 (2019 - 500,000) ordinary shares of £1 each	<u>500</u>
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16. POST BALANCE SHEET EVENTS

As the unit next to the currently leased property became available, a new lease agreement was signed by Zepf Technologies UK Limited on 13 November 2020. The new property enables the company to have sufficient space for storing inventory as well as meets various demands (such as Health & Safety). The lease term for the new agreement is 10 years, the annual rent payable by the company is £109,000.

17. IMMEDIATE AND ULTIMATE PARENT UNDERTAKING

The immediate parent undertaking of the company is Diageo Scotland Limited, a company incorporated and registered in Scotland.

The ultimate parent undertaking of the company is Diageo plc which is the ultimate controlling party of the group. The ultimate parent undertaking and the smallest and largest group to consolidate these financial statements is Diageo plc. Diageo plc is incorporated and registered in England. The consolidated financial statements of Diageo plc can be obtained from the registered office at Diageo, Lakeside Drive, Park Royal, London, NW10 7HQ.