

Registration number: 194561

Inchcape Retail Limited
Annual Report and Financial Statements
for the Year Ended 31 December 2018



Inchcape Retail Limited

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Inchcape Retail Limited

Company Information

Company name	Inchcape Retail Limited
Company number	194561
Incorporated	England & Wales
Domicile	United Kingdom
Legal form	Private Limited Company, Limited by Shares
Chief executive	James Brearley
Directors	James Brearley Martin Wheatley
Company secretary	Inchcape UK Corporate Management Limited
Registered office	First Floor Unit 3140 Park Square Solihull Parkway Birmingham Business Park Birmingham B37 7YN
Independent Auditor	Deloitte LLP One Station Square Cambridge CB1 2GA

Inchcape Retail Limited

Strategic Report for the Year Ended 31 December 2018

The Directors present their annual strategic report for the year ended 31 December 2018.

Principal activities

The principal activity of the Company is the retailing of cars and commercial vehicles, finance and insurance commission, agency sales, sales of oils and spare parts together with service repair facilities, and vehicle rental.

Fair review of the business

The results for the Company show a loss for the financial year of £40,072,000 (2017: a profit of £9,393,000), due to the recognition of impairment expense of £32,540,000, reduced turnover and operating losses. The Company has net assets of £121,682,000 at the financial year end (2017: £171,234,000). Turnover has decreased by £173,838,000 (9.9%) due to the disposal of an Audi site in July 2018 and a reduced performance in the remaining Audi sites, however gross profit margin has increased to 10.3% (2017 10.0%). Operating profit has decreased from a £9,214,000 profit in 2017 to a £10,039,000 loss in 2018 due to falling sales and increased distribution costs due to increased salaries.

Key performance indicators

KPIs provide insight into how the Board monitors the Company's strategic and financial performance, as well as linking to the key measures for executive remuneration.

Revenue

Revenue is a key performance indicator for the Company and is defined as consideration receivable from the sale of goods and services. It is stated net of rebates and any discounts, and excludes sales related taxes. The Company measures revenue as the Top-line is a key financial metric, and is part of the overall Inchcape Group's strategy of both 'Becoming the OEMs' Partner of Choice' and 'Leading in Customer Experience'. During the year revenue has decreased to £1,588,376,000 (2017: £1,762,214,000).

Profit before tax

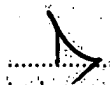
Profit before tax is a key performance indicator for the Company and is defined as the profit (or loss) before tax is charged. The Company measures profit before tax as it is a key driver of delivering sustainable earnings to shareholders. In 2018 the loss before tax declined to £42,118,000 (2017: Profit before tax of £11,821,000).

The Company is part of the Inchcape plc Group ("the Group"). Additional information about the development, performance and position of the UK segment, which includes this Company, are discussed in the Group's 2018 Annual Report and the Group's June 2019 Interim Report which does not form part of this report.

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks. Further discussion of these risks and uncertainties, in the context of the Inchcape Group as a whole, is provided in the Group's 2018 Annual Report and Accounts and the Group's June 2019 Interim Report which does not form part of this report.

Approved by the Board on 30 September 2019 and signed on its behalf by:


Inchcape UK Corporate Management Limited
Company secretary

Inchcape Retail Limited

Directors' Report for the Year Ended 31 December 2018

The Directors present their annual report and the audited financial statements for the year ended 31 December 2018.

Directors of the Company

The Directors of the Company who were in office during the year and up to the date of signing the financial statements, unless otherwise stated, were:

Martin Wheatley

Claire Catlin (resigned 21 September 2018)

James Brearley

Dr Elizabeth Louise Hancox (appointed 1 November 2018 and resigned 20 September 2019)

Company secretary

Inchcape UK Corporate Management Limited

Dividends

The Company has paid a dividend for the year ended 31 December 2018 of 14.02 pence per share (2017: 16.08p), totalling £9,393,000 (2017: £10,774,000). The Directors do not recommend the payment of a final dividend for the current year.

Financial risk management objectives and policies

The Company's activities expose it to a number of financial risks including credit risk, cash flow risk and liquidity risk.

Cash flow risk

The Company's activities expose it primarily to the financial risks of changes in interest rates. Financial exposure exists to the extent that a change in the underlying base rate of interest will affect the level of income received or paid on the interest bearing inter-company loans. The risk is not considered material and the Company does not employ the use of hedging instruments.

Credit risk

The Company's principal financial assets are bank balances and cash, and trade and other receivables.

The Company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers, or are intercompany loans with companies within the Inchcape Plc group of companies, the ultimate owner of the Company.

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Company uses a mixture of long-term and short-term debt finance and intercompany loans from entities within the Inchcape Group of Companies.

Inchcape Retail Limited

Directors' Report for the Year Ended 31 December 2018

Employment of disabled persons

The Company is committed to a policy of treating all its colleagues and job applicants equally. We are committed to the employment of people with disabilities and will interview all those candidates who meet the minimum selection criteria. We provide training and career development for our employees, tailored where appropriate to their specific needs, to ensure they achieve their potential. If an individual becomes disabled while in our employment, we will do our best to ensure continued employment in their role, including consulting them about their requirements, making adjustments and providing alternative suitable positions.

Employee involvement

Arrangements exist to keep all employees informed on matters of concern to them and, following the publication of the results of Inchcape plc, information is disseminated widely. This includes performance statistics for both the Inchcape Group and individual business streams. Employee bulletins, the Group intranet "Inchcape Connect" and a weekly e-mail communication "Friday Focus" facilitate communication with employees. Employees are regularly consulted upon matters concerning their employment.

Employees are provided with information on the performance of the pension fund. Company employees are eligible to participate in the Inchcape plc SAYE share option scheme, subject to the rules of that scheme. Employees are also offered an Inchcape Employee Advantage Scheme to promote their well-being.

Future developments

As part of the Inchcape plc Group strategy to optimise its retail market portfolio, in 2019 the Company will review its portfolio of retail sites. Other than the above, the Directors do not foresee any significant changes in the Company or its activities during 2019.

Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Subsequent events

During July 2019, as a direct result of the Company's strategy to optimise its retail market portfolio, the Company disposed of 7 VW and Audi retail sites in the UK.

Directors' liabilities

A Qualifying Third Party Indemnity (QTPI), as permitted by the Company's Articles of Association and section 234 of the Companies Act 2006, has been granted by the Company to each of its Directors. Under the provisions of the QTPI, the Company undertakes to indemnify each Director against liability to third parties (excluding criminal and regulatory penalties) and to pay the Directors' costs as incurred, provided that they are reimbursed to the Company if the Director is found guilty or, in action brought by the Company, judgement is given against the Director. A QTPI was in force throughout the financial year and also at the date of approval of these financial statements.

Transactions with Directors

In June 2018, Martin Wheatley purchased a vehicle on arm's length terms for £42,616 from one of the Company's retail sites. Other than the above, no transaction, arrangement or agreement required to be disclosed under the terms of the Companies Act 2006 was outstanding at 31 December 2018, or occurred during the year for any Director or connected person (2017: none).

Inchcape Retail Limited

Directors' Report for the Year Ended 31 December 2018

Disclosure of information to the auditor

Each Director has taken steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. The Directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware. The confirmation is given and should be interpreted in accordance with the provisions of S418 of the Companies Act 2006.

Auditor

Deloitte LLP were appointed as auditor during the year and have expressed their willingness to continue in office as auditor. A resolution to reappoint them as auditor will be proposed at the forthcoming Annual General Meeting.

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 regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the 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 United Kingdom Accounting Standards, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Approved by the Board on 30 September 2019 and signed on its behalf by:


Inchcape UK Corporate Management Limited
Company secretary

Inchcape Retail Limited

Independent Auditor's Report to the members of Inchcape Retail Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Inchcape Retail Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "the Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 24.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

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

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Other information

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

Inchcape Retail Limited

Independent Auditor's Report to the members of Inchcape Retail Limited (continued)

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

We have nothing to report in respect of these matters.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Inchcape Retail Limited

Independent Auditor's Report to the members of Inchcape Retail Limited (continued)

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Use of our report

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



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Christopher Aylott (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Cambridge
United Kingdom

30 September 2019

Inchcape Retail Limited

Profit and Loss Account for the Year Ended 31 December 2018

	Note	2018 £ 000	2017 £ 000
Turnover	3a	1,588,376	1,762,214
Cost of sales		(1,424,565)	(1,585,468)
Gross profit		163,811	176,746
Distribution costs		(90,921)	(82,218)
Administrative expenses		(82,929)	(85,314)
Operating (loss)/profit	3b	(10,039)	9,214
Amounts written off due to impairment of assets	11/12	(32,540)	-
Income from shares in group undertakings		-	2,618
Interest receivable and similar income	4	1,286	828
Interest payable and similar expenses	5	(825)	(839)
(Loss)/profit before taxation		(42,118)	11,821
Tax on (loss)/profit	9	2,046	(2,428)
(Loss)/profit for the financial year		(40,072)	9,393

The above results were derived from continuing operations.

Inchcape Retail Limited

Statement of Comprehensive Income for the Year Ended 31 December 2018

	2018	2017
	£ 000	£ 000
(Loss)/profit for the financial year	(40,072)	9,393
Other comprehensive expenses	(87)	-
Total comprehensive (expense)/income for the year	<u>(40,159)</u>	<u>9,393</u>

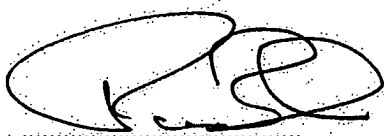
The notes on pages 13 to 32 form an integral part of these financial statements.

Inchcape Retail Limited

(Registration number: 194561)
Balance Sheet as at 31 December 2018

	Note	2018 £ 000	2017 £ 000
Fixed assets			
Intangible assets	10	12,663	14,192
Tangible assets	11	14,196	13,865
Investments	12	48,620	78,720
		<u>75,479</u>	<u>106,777</u>
Current assets			
Stocks	13	304,070	305,252
Debtors	14	153,174	190,355
Cash at bank and in hand	15	15,081	2,867
		<u>472,325</u>	<u>498,474</u>
Creditors: amounts falling due within one year	16	<u>(426,122)</u>	<u>(434,017)</u>
Net current assets		<u>46,203</u>	<u>64,457</u>
Total assets less current liabilities		<u>121,682</u>	<u>171,234</u>
Net assets		<u>121,682</u>	<u>171,234</u>
Capital and reserves			
Called up share capital	18	67,000	67,000
Share premium account	18	9,965	9,965
Profit and loss account	18	44,717	94,269
Total equity		<u>121,682</u>	<u>171,234</u>

The financial statements on pages 9 to 32 were approved and authorised by the Board on 30 September 2019 and signed on its behalf by:



James Brearley
Director

Inchcape Retail Limited

Statement of Changes in Equity for the Year Ended 31 December 2018

	Called up share capital £ 000	Share premium account £ 000	Profit and loss account £ 000	Total equity £ 000
At 1 January 2018	67,000	9,965	94,269	171,234
Loss for the financial year	-	-	(40,072)	(40,072)
Other comprehensive expense	-	-	(87)	(87)
Total comprehensive expenses for the year	-	-	(40,159)	(40,159)
Dividends (note 20)	-	-	(9,393)	(9,393)
At 31 December 2018	67,000	9,965	44,717	121,682

	Called up share capital £ 000	Share premium account £ 000	Profit and loss account £ 000	Total equity £ 000
At 1 January 2017	67,000	9,965	95,650	172,615
Profit for the financial year	-	-	9,393	9,393
Total comprehensive income for the year	-	-	9,393	9,393
Dividends (note 20)	-	-	(10,774)	(10,774)
At 31 December 2017	67,000	9,965	94,269	171,234

The notes on pages 13 to 32 form an integral part of these financial statements.

Inchcape Retail Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

1 Accounting policies

Summary of significant accounting policies and key accounting estimates

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.

Statement of compliance

The individual financial statements of Inchcape Retail Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" (FRS 102) and the Companies Act 2006.

Basis of preparation

Inchcape Retail Limited is a private company limited by shares incorporated in the United Kingdom under the Companies Act 2006, and is registered in England and Wales. The address of the Company's registered office is shown on page 1. These financial statements are prepared on a going concern basis, under the historical cost convention. The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in "Critical accounting judgements and estimation uncertainty" note 2. The financial currency of the Company is considered to be pounds sterling because that is the currency of the primary economic environment in which the company operates.

Going concern

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue as a going concern. As such, the Company continues to adopt the going concern basis in preparing the financial statements.

Summary of disclosure exemptions

The Company qualifies as a qualifying entity, as defined by paragraph 1.11 of FRS 102.

The Company has taken the following disclosure exemptions, as permitted by paragraph 1.12 of FRS 102:

- the requirement to prepare a statement of cash flows (section 7 of FRS 102 and paragraph 3.17(d))
- certain financial instrument disclosures (paragraphs 11.4(b), 11.41(c), 11.41(e), 11.41(f), 11.42, 11.44, 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c))
- certain share based payment disclosures (paragraphs 26.18(b), 26.19, 26.21 and 26.23)
- key management personnel compensation in total (paragraph 33.7)

Equivalent disclosures are provided in the financial statements of Inchcape Plc (Note 23).

Related party transactions

The Company has taken advantage of the disclosure exemption from disclosing transactions with wholly owned members of the Company's group.

Group financial statements not prepared

The Company is a wholly owned subsidiary of Inchcape plc and is included in the consolidated financial statements of Inchcape plc which are publicly available. The Company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its ultimate parent, Inchcape plc, a company incorporated in the United Kingdom.

Inchcape Retail Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

1 Accounting policies (continued)

Turnover

Turnover represents the invoiced value of goods and services provided, excluding Value Added Tax. The turnover is attributable to the principal activities of the company and is wholly derived in the United Kingdom.

Revenue recognition and dividend income

Revenue from the sale of goods and services sold is measured at the fair value of consideration receivable, net of rebates and any discounts, and includes lease rentals, agency sales and finance and insurance commission.

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured. In practice this means that revenue is recognised when vehicles or parts are invoiced and physically dispatched or when the service has been undertaken and invoiced to the customer. Revenue from commission is recognised when receipt of payment can be assured.

Dividend income is recognised when the right to receive payment is established and is recorded within income from shares in group undertakings.

Tax

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

Current tax is the amount of income tax payable in respect of the taxable profits for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expense in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

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

Inchcape Retail Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

1 Accounting policies (continued)

Tangible assets

Tangible assets are stated in the balance sheet at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of tangible assets includes directly attributable incremental costs incurred in their acquisition and installation.

Depreciation

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction, on a straight line basis, over their estimated useful lives, as follows:

Asset class	Depreciation method and rate
Plant and equipment	10%-33% per annum
Motor vehicles	20%-33% per annum

Goodwill

Goodwill recognised represents the excess of the fair value and directly attributable costs of the purchase consideration over the fair values to the Group's interest in the identifiable net assets, liabilities and contingent liabilities acquired. Purchased goodwill is written off over the Directors' estimate of its useful economic life of up to twenty years.

The Company evaluates the carrying value of goodwill in each financial year to determine if there has been an impairment in value which would result in the inability to recover the carrying amount. When it is determined that the carrying value exceeds the recoverable amount, the excess is written off to the profit and loss account.

Intangible assets

Computer software is stated at cost less accumulated amortisation and accumulated impairment losses. Software is amortised over its useful life, of between three and eight years, on a straight line basis.

Where factors, such as technological advancement or changes in market price, indicate that residual value or useful life have changed, the residual value, useful life or amortisation rate are amended prospectively to reflect the new circumstances. As a result, the Company has updated the amortisation policy for certain types of software so that this is now amortised over eight years rather than five years.

The assets are reviewed for impairment if the above factors indicate that the carrying amount may be impaired.

Investments

Fixed asset investments comprise investments in subsidiaries and are held at cost less provision for impairment. Fixed asset investments are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount and is charged to the profit and loss account, the recoverable amount being the higher of net realisable value and value in use.

Inchcape Retail Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

1 Accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is determined using the first-in, first-out (FIFO) method.

The cost of finished goods and work in progress comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. At each reporting date, stocks are assessed for impairment. If stocks are impaired, the carrying amount is reduced to its selling price less costs to complete and sell; the impairment loss is recognised immediately in profit or loss.

Stocks on consignment are deemed, in substance, to be assets of the Company. Stock on consignment and their related obligations are recognised in the current assets and creditors respectively on adoption of the consignment stock when the risks and rewards of ownership pass to the Company.

Leases

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

Dividends

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the reporting period in which the dividends are declared.

Defined benefit pension obligation

Each defined benefit plan is considered to be a group plan, that is a plan which shares risk between entities under common control. There is no contractual or stated policy for charging the net defined benefit costs of the plan as a whole to individual group entities. Therefore, the defined benefit plan, and associated costs are recognised in Inchcape International Holding Limited's financial statements and the cost of participation in the plan recognised in the Company's financial statements is the contributions payable in the period.

Further disclosure of the pension schemes, in the context of the Inchcape group as a whole, is provided in the Group's 2018 Annual Report and Accounts which does not form part of this report.

Defined contribution schemes

For defined contribution schemes the amount charged to the profit and loss account in respect of the pension costs and other retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Inchcape Retail Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

1 Accounting policies (continued)

Share based payments

The Company participates in a group cash settled share-based payment plan and it recognises and measures its share-based payment expense on the basis of a reasonable allocation of the expense recognised for the group. The basis of allocation is a pro-rata share determined based on the employees that are employed by the Company. This charge is recharged by another entity in the group to the Company.

Further details, in the context of the Inchcape Group as a whole, is provided in the Group's 2018 Annual Report and Accounts which does not form part of this report.

Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs).

Financial assets and liabilities are only offset in the balance sheet when, and only when there exists a legally enforceable right to set off the recognised amounts and the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Debt instruments which meet the conditions of being 'basic' financial instruments as defined in paragraph 11.9 of FRS 102 are subsequently measured at amortised cost using the effective interest method.

Debt instruments that have no stated interest rate and are classified as payable or receivable within one year are initially measured at an undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

Commitments to make and receive loans which meet the conditions mentioned above are measured at cost (which may be nil) less impairment.

Inchcape Retail Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

1 Accounting policies (continued)

Financial instruments (continued)

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Company transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Company, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

Equity instruments

Equity instruments issued by the Company are recorded at the fair value of cash or other resources received or receivable.

2 Critical accounting judgements and estimation uncertainty

In the application of the Company's accounting policies, which are described in note 1, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgements in applying the Company's accounting policies

There are no critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Company's accounting policies that have a significant effect on the amounts recognised in the financial statements.

Inchcape Retail Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

2 Critical accounting judgements and estimation uncertainty (continued)

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Stock provisioning

The Company retails cars, commercial vehicles and motor bikes. Such big ticket items are subject to seasonal demand and changes in consumer demand and trends. As a result it is necessary to consider the recoverability of the cost of the stock and the associated provisioning required. When calculating the stock provision, management considers the nature and condition of the stock, as well as applying assumptions around anticipated saleability of finished goods. See note 13 for the net carrying amount of the stock.

Intangible assets

The annual amortisation charge for intangible assets is sensitive to changes in the useful economic life of the computer software. The economic lives and residual value are re-assessed annually. They are amended where necessary to reflect current estimates, based on technological advancement, future investments and economic utilisation. See note 10 for the carrying value of the computer software.

Goodwill is tested at least annually for impairment in accordance with the accounting policy set out above. The recoverable amount is determined based on fair value or value in use calculations. These impairment calculations require the use of estimates including projected future cash flows.

Tangible assets

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful life and residual value of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates based on economic utilisation and physical condition of the assets. See note 11 for the carrying value of tangible assets.

Investments

Investments are reviewed annually for indicators of impairment in accordance with the accounting policy set out above. The recoverable amount is determined based on the recoverable amount being the higher of net realisable value and value in use. The recoverable amount calculations require the use of estimates including projected future cash flows.

Inchcape Retail Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

3a Turnover

The analysis of the Company's revenue for the year from continuing operations is as follows:

	2018 £ 000	2017 £ 000
Sales of goods	1,486,672	1,658,501
Rendering of services	101,704	103,713
	<u>1,588,376</u>	<u>1,762,214</u>

3b Operating (loss) / profit

Operating (loss)/profit is arrived at after charging/(crediting)

	2018 £ 000	2017 £ 000
Depreciation expense	4,514	4,154
Amortisation expense	3,753	4,686
Investment impairment (note 12)	30,100	-
Impairment of intangible assets	2,440	-
Rent expense	20,240	19,407
Employee costs	136,002	132,557
Operating lease expense - plant and machinery	458	400
Loss/(profit) on disposal of tangible assets	13	(59)

4 Interest receivable and similar income

	2018 £ 000	2017 £ 000
Interest income from group undertakings	1,286	774
Interest income on bank deposits	-	54
	<u>1,286</u>	<u>828</u>

5 Interest payable and similar expenses

	2018 £ 000	2017 £ 000
Interest on bank overdrafts and borrowings	825	839

Inchcape Retail Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

6 Staff costs

The aggregate payroll costs (including Directors' remuneration) were as follows:

	2018 £ 000	2017 £ 000
Wages and salaries	116,259	114,232
Social security costs	11,486	11,883
Other pension costs	8,257	6,442
	<u>136,002</u>	<u>132,557</u>

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

	2018 No.	2017 No.
Administration and management	987	1,004
Retail	983	967
Aftersales	1,482	1,439
	<u>3,452</u>	<u>3,410</u>

7 Directors' remuneration

The Directors' remuneration for the year was as follows:

	2018 £ 000	2017 £ 000
Remuneration	950	566

During the year the number of Directors who were receiving benefits and share incentives was as follows:

	2018 No.	2017 No.
Received or were entitled to receive shares under long term incentive schemes	4	2
Exercised share options	1	-
Accruing benefits under defined benefit pension scheme	2	1

The emoluments of three of the Company's Directors are paid by Inchcape Retail Limited and one Director by Inchcape Estates Limited. All four are Directors of Inchcape Retail Limited and Inchcape Estates Limited and a number of fellow subsidiaries, and it is not possible to make an accurate apportionment of their emoluments in respect of each of the subsidiaries.

Inchcape Retail Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

7 Directors' remuneration (continued)

In respect of the highest paid director:

	2018 £ 000	2017 £ 000
Remuneration	433	338
Defined benefit accrued pension entitlement at the end of the year	-	17

8 Auditor's remuneration

	2018 £ 000	2017 £ 000
Audit of the financial statements	287	281

Inchcape Retail Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

9 Tax on (loss)/profit

Tax (credited)/charged in the profit and loss account

	2018 £ 000	2017 £ 000
Current taxation		
UK corporation tax	(2,008)	3,056
UK corporation tax adjustment to prior periods	(893)	(21)
	<u>(2,901)</u>	<u>3,035</u>
Deferred taxation		
Arising from origination and reversal of timing differences	385	(693)
Deferred tax - prior year	470	86
	<u>855</u>	<u>(607)</u>
Total deferred taxation (Note 17)		
	<u>855</u>	<u>(607)</u>
Tax (credit)/charge in the profit and loss account	<u>(2,046)</u>	<u>2,428</u>

The tax on (loss)/profit before tax for the year is higher than the standard rate of corporation tax in the UK (2017: higher than the standard rate of corporation tax in the UK) of 19% (2017: 19.25%).

The differences are reconciled below:

	2018 £ 000	2017 £ 000
(Loss)/profit before taxation	(42,118)	11,821
Corporation tax at standard rate	(8,002)	2,276
Prior period items	(423)	65
Expenses not deductible for tax purposes	6,434	37
Tax rate changes	(55)	92
Non taxable income	-	(42)
	<u>(2,046)</u>	<u>2,428</u>
Total tax (credit)/charge		
	<u>(2,046)</u>	<u>2,428</u>

The Finance Act 2016 included legislation to reduce the rate of UK Corporation Tax to 17% with effect from 1 April 2020. Deferred tax has been measured at the rate at which they are forecast to reverse.

Inchcape Retail Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

10 Intangible assets

	Goodwill £ 000	Computer software £ 000	Total £ 000
Cost			
At 1 January 2018	10,523	30,131	40,654
Additions	-	2,474	2,474
Disposals	(250)	-	(250)
At 31 December 2018	10,273	32,605	42,878
Accumulated amortisation			
At 1 January 2018	5,429	21,033	26,462
Amortisation charge	658	3,095	3,753
At 31 December 2018	6,087	24,128	30,215
Carrying amount			
At 31 December 2018	4,186	8,477	12,663
At 31 December 2017	5,094	9,098	14,192

Inchcape Retail Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

11 Tangible assets

	Motor vehicles £ 000	Plant and equipment £ 000	Total £ 000
Cost			
At 1 January 2018	1,070	33,712	34,782
Additions	82	7,737	7,819
Disposals	(138)	(1,277)	(1,415)
At 31 December 2018	1,014	40,172	41,186
Accumulated depreciation & impairment			
At 1 January 2018	510	20,407	20,917
Charge for the year	156	4,358	4,514
Impairment	-	2,440	2,440
Eliminated on disposals	(76)	(805)	(881)
At 31 December 2018	590	26,400	26,990
Carrying amount			
At 31 December 2018	424	13,772	14,196
At 31 December 2017	560	13,305	13,865

Inchcape Retail Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

12 Investments

	2018 £ 000	2017 £ 000
Investments in subsidiaries	48,620	78,720

Subsidiaries	£ 000
Cost	
At 1 January 2018 and 31 December 2018	87,299
Provision	
At 1 January 2018	8,579
Impairment expense for the year	30,100
At 31 December 2018	38,679
Carrying amount	
At 31 December 2018	48,620
At 31 December 2017	78,720

During the year ended 31 December 2018 an impairment expense of £30,100,000 has been recognised against the Company's investment in The Cooper Group Limited, to reduce the carrying amount of the Investment to the net book value of the underlying net assets of The Cooper Group Limited.

Inchcape Retail Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

12 Investments (continued)

Details of undertakings

Details of the investments in which the company holds 20% or more of the nominal value of any class of share capital are as follows:

Undertaking	Country of incorporation	Holding	Proportion of voting rights and shares held	
			2018	2017
Subsidiary undertakings				
Chapelgate Holdings Limited	England & Wales	Ordinary	100%	100%
Inchcape East (Holdings) Limited	England & Wales	Ordinary	100%	100%
The Cooper Group Limited	England & Wales	Ordinary	100%	100%
Inchcape Trade Parts Limited	England & Wales	Ordinary	100%	100%
Inchcape UK Limited	England & Wales	Ordinary	100%	100%
Inchcape Park Lane Limited	England & Wales	Ordinary	100%	100%
Armstrong-Massey York Limited	England & Wales	Ordinary	100%	100%

Inchcape Retail Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

12 Investments (continued)

Chapelgate Holdings Limited did not trade during the year.

Inchcape East (Holdings) Limited did not trade during the year.

Inchcape UK Limited did not trade during the year.

Inchcape Park Lane Limited did not trade during the year.

Armstrong-Massey Limited did not trade during the year.

The principal activity of The Cooper Group Limited is the retailing of cars and commercial vehicles, sales of oils and spare parts together with service repair facilities, and vehicle rental.

The principal activity of Inchcape Trade Parts Limited is to undertake the supply of parts for the Volkswagen Group franchise in accordance with the terms of an agency agreement with Volkswagen.

The registered office for all Inchcape Retail Limited's subsidiaries is:

First Floor
Unit 3140 Park Square
Solihull Parkway
Birmingham Business Park
Birmingham
B37 7YN

Inchcape Retail Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

13 Stocks

	2018 £ 000	2017 £ 000
Work in progress	287	341
Finished goods - purchased inventory	219,447	240,728
Finished goods - consignment inventory	84,336	64,183
	<u>304,070</u>	<u>305,252</u>

Vehicles on consignment have been included in finished goods with the corresponding liability included within trade creditors. Payment becomes due when the title passes to the Company, which is generally the earlier of six months from delivery or the date of sale.

14 Debtors

	Note	2018 £ 000	2017 £ 000
Trade debtors		11,597	22,323
Amounts owed by group undertakings	22	103,571	128,530
Other debtors		8,289	1,050
Deferred tax assets	17	3,840	4,782
Prepayments		7,451	5,681
Accrued income		18,426	27,989
		<u>153,174</u>	<u>190,355</u>

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand, except as noted below:

Amounts owed by group undertakings include a loan due from Inchcape Estates Limited for £99,434,000 (2017: £75,407,000). This loan bears interest at 0.5% above Bank of England base rate and has no fixed date of repayment.

15 Cash at bank and in hand

	2018 £ 000	2017 £ 000
Cash at bank	<u>15,081</u>	<u>2,867</u>

Inchcape Retail Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

16 Creditors: amounts falling due within one year

	Note	2018 £ 000	2017 £ 000
Trade creditors		303,582	314,676
Amounts owed to group undertakings	22	77,025	77,470
Other creditors		1,469	2,376
Taxation and social security		3,568	16,955
Deposits received		3,528	2,997
Accruals and deferred income		36,950	19,543
		<u>426,122</u>	<u>434,017</u>

Amounts owed to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

The Company enters into vehicle funding agreements whereby the Company is able to refinance interest bearing amounts due to suppliers on similar terms. The total balance payable under vehicle funding agreements, including amounts due to suppliers, as of 31 December 2018 is £280,289,000 (2017: £285,663,000) of which £79,656,000 (2017: £68,061,000) is outstanding under refinancing agreements. Such amounts are included within trade creditors above and interest charged on these agreements is included within cost of sales.

17 Deferred tax asset

Analysis of deferred tax

	2018 £ 000	2017 £ 000
Difference between accumulated depreciation and amortisation and capital allowances	2,971	3,031
Other timing differences	869	1,751
Deferred tax asset	<u>3,840</u>	<u>4,782</u>

Inchcape Retail Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

17 Deferred tax asset (continued)

Deferred tax movement during the year:

	At 1 January 2018 £ 000	Recognised in income £ 000	Recognised in equity £ 000	At 31 December 2018 £ 000
Accelerated tax depreciation	3,031	(60)	-	2,971
Other	1,751	(795)	(87)	869
	4,782	(855)	(87)	3,840

18 Called up share capital and reserves

Allotted, called up and fully paid shares

	2018		2017	
	No. 000	£ 000	No. 000	£ 000
67,000,000 ordinary shares of £1 each	67,000	67,000	67,000	67,000

The company's other reserves are as follows:

The Share Premium account contains the premium arising on issue of equity shares, net of issue expenses.

The profit and loss reserve represents cumulative profits or losses, net of dividends paid and other adjustments.

19 Obligations under leases and hire purchase contracts

Operating leases

The total of future minimum lease payments is as follows:

	2018 £ 000	2017 £ 000
Not later than one year	457	181

The amount of non-cancellable operating lease payments recognised as an expense during the year was £Nil (2017 - £Nil).

The Company rents its properties from a fellow Group Company, Inchcape Estates Limited. These properties are not held on a formal lease and there is no associated operating lease commitment.

Inchcape Retail Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

20 Dividends

	2018 £ 000	2017 £ 000
Final dividend declared and paid of 14.02p (2017: 16.08p) per ordinary share.	9,393	10,774

21 Contingent liabilities

The Company is party to composite cross guarantees between banks, its ultimate parent undertaking and fellow subsidiaries. The Company's contingent liability under these guarantees at the year end was £33,233,000 (2017: £32,432,000).

22 Related party transactions

See note 7 for the disclosure of the Directors' remuneration.

The Company has taken the exemption from disclosing other related party transactions as they are with other companies that are wholly owned within the group.

23 Parent and ultimate parent undertaking

The Company's immediate parent is Inchcape International Holdings Limited, incorporated in England and Wales, of which the Company is a wholly owned subsidiary.

The ultimate parent is Inchcape plc, incorporated in England and Wales.

Both the smallest and the largest group of which the Company is a member and for which group financial statements are drawn up is that of Inchcape plc.

These financial statements are available upon request from:

The Company Secretary
Inchcape plc
22A St James's Square
London
SW1Y 5LP

The ultimate controlling party is Inchcape plc.

24 Subsequent events

During July 2019, as a direct result of the Company's strategy to optimise its retail market portfolio, the Company disposed of 7 VW and Audi retail sites in the UK.