REG VARDY LIMITED

REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2018

Registered Number : 00611190

REG VARDY LIMITED

CONTENTS

YEAR ENDED 31 DECEMBER 2018

PAGE

1 Strategic Report

2 Directors' Report

3 Statement of Directors' Responsibilities in respect of the Strategic Report and the Directors' Report and the Financial Statements

4 Independent Auditor's Report to the members of Reg Vardy Limited

5 Profit and Loss Account

6 Balance Sheet

7 Statement of Changes in Equity

8 Notes to the Financial Statements

STRATEGIC REPORT

YEAR ENDED 31 DECEMBER 2018

The Company is a wholly-owned subsidiary of Pendragon PLC and operates as part of its UK Motor division.

The Company's principal activity is that of motor retailers in the UK. The business consists of the sale of new and used vehicles and the service and repair of vehicles and operates 12 franchises from 12 locations. In addition the Company has a wholesale parts outlet.

There have not been any significant changes in the Company's principal activities in the year under review. The Directors are not, at the date of this report, aware of any likely major changes in the Company's activities in the next year.

As shown in the Company's profit and loss account on page 5, turnover increased by 1.5% from £241,851,000 in the prior year to £245,473,000 in the current year and the profit before tax for the financial year increased from £2,625,000 in the prior year to £9,988,000 (of which £7,000,000 (2017 : £1,000,,000) was in respect of dividends received) in the year. These increases in both turnover and profitability have been recorded despite difficult trading conditions experienced in the UK market.

Pendragon PLC manages its operations on a divisional basis. For this reason, the Company's directors believe that further key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of the UK Motor division, which includes the Company, is discussed in the 2018 financial statements of Pendragon PLC.

The balance sheet on page 6 of the financial statements shows that the net assets of the Company have decreased by £162,000, from £99,593,000 to £99,431,000, due to the profit for the year of £10,838,000 less the dividend paid of £11,000,000.

One of the main risks facing the business is a potential decline in new car registrations in the United Kingdom. This risk is partly mitigated by the sale of used cars and aftersales services. Other risks to the business include fluctuations in general economic conditions, such as interest rate increases, environmental concerns and legislation and the loss of key personnel. With regard to the UK's decision to leave the EU, we believe that the main risk factors are consumer confidence and the potential impact of Sterling/Euro exchange rates on vehicle prices. The Risk Control Group of Pendragon PLC has met to consider these risks and uncertainties, including the impact of Brexit, and will continue to monitor how these risks evolve. These risks are significant to the group and are also detailed in the group financial statements.

Reg Vardy Limited recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to mitigate any *adverse impact that might be caused by its activities. The Company operates in accordance with Pendragon PLC policies, as noted in Pendragon PLC's annual report*, which does not form part of this report. Initiatives aimed at minimising the Company's impact on the environment include safe disposal of manufacturing waste, recycling and reducing energy consumption.

The directors are of the opinion that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the annual report and accounts.

The directors are satisfied that the Company is well positioned to take advantage of future opportunities.

By order of the Board

M Willis
Director

30 September 2019

DIRECTORS' REPORT

YEAR ENDED 31 DECEMBER 2018

The directors have pleasure in submitting their report and the audited financial statements of the Company for the year ended 31 December 2018.

RESULTS AND DIVIDENDS

The results for the year are shown in the profit and loss account on page 5.

Dividends of £11,000,000 were paid during the year (2017 : £3,000,000). The directors recommend the payment of a final dividend of £3,000,000 subject to approval by the Board of Directors (2017 : £4,000,000).

EMPLOYEES

Details of the number of employees and related costs can be found in note 5 to the financial statements.

DIRECTORS

The directors who held office during the year were as follows:

T G Finn (resigned 31 March 2019)
T P Holden (resigned 31 March 2019)
M P Herbert (appointed 1 April 2019, resigned 30 June 2019)
M Willis (appointed 8 April 2019)
M S Casha
Pendragon Management Services Limited

EMPLOYMENT OF DISABLED PERSONS

The Company recognises its responsibilities in employing and training disabled persons. If any employee becomes disabled it is standard practice, in all but the most extreme circumstances, to offer an alternative job and provide retraining where necessary.

EMPLOYEE INVOLVEMENT

Regular contact and exchanges of information are maintained to keep employees informed of the progress of the business.

The Company participates in policies and practices to keep employees informed on matters relevant to them as employees through appropriate means, such as employee meetings and newsletters.

DISCLOSURE OF INFORMATION TO AUDITOR

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 auditor is 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 auditor is aware of that information.

RE-APPOINTMENT OF AUDITOR

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

On behalf of the Board

R J Maloney
Secretary

Loxley House, 2 Oakwood Court
Little Oak Drive
Annesley
Nottinghamshire
NG15 0DR
30 September 2019

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Opinion

We have audited the financial statements of Reg Vardy Limited ("the Company") for the year ended 31 December 2018 which comprise the profit and loss account, balance sheet, statement of changes in equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:
• give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
• have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
• have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance. Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:
• we have not identified material misstatements in the strategic report and the directors' report;
• in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
• in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:
• adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
• the financial statements are not in agreement with the accounting records and returns; or
• certain disclosures of directors' remuneration specified by law are not made; or
• we have not received all the information and explanations we require for our audit; or
• the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 3, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; 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; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

The purpose of our audit work and to whom we owe our responsibilities

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.

JLeech

John Leech (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

30 September 2019

PROFIT AND LOSS ACCOUNT

YEAR ENDED 31 DECEMBER 2018

Note		2018 £000	2017 £000
2	**TURNOVER**	**245,473**	241,851
	Cost of sales	**(221,117)**	(220,612)
	GROSS PROFIT	**24,356**	21,239
	Distribution costs	**(12,075)**	(11,933)
	Administrative expenses	**(9,445)**	(7,717)
4	Income from shares in group undertakings	**7,000**	1,000
3	**OPERATING PROFIT**	**9,836**	2,589
6	Interest receivable	**289**	234
7	Interest payable	**(137)**	(198)
	PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	**9,988**	2,625
8	Taxation on profit on ordinary activities	**850**	1,926
	PROFIT FOR THE FINANCIAL YEAR	**10,838**	4,551

All amounts relate to continuing operations.
There are no amounts to be recognised in a Statement of Other Comprehensive Income and as such no separate statement has been presented. The profit for the financial year represents total comprehensive income for the period.
Movements in reserves are shown in the Statement of Changes in Equity on page 7.
The notes on pages 8 to 16 form part of these financial statements.

BALANCE SHEET

AT 31 DECEMBER 2018

Note		2018 £000	2017 £000
	FIXED ASSETS		
10	Intangible assets	**46**	58
11	Tangible assets	**3,704**	2,702
12	Investments	**64,980**	64,567
		68,730	67,327
	CURRENT ASSETS		
13	Stocks	**56,443**	34,654
14	Debtors	**16,547**	21,400
	Cash at bank and in hand	**3,937**	8,968
		76,927	65,022
15	**CREDITORS:** amounts falling due within one year	**(46,226)**	(32,756)
	NET CURRENT ASSETS	**30,701**	32,266
	NET ASSETS	**99,431**	99,593
	CAPITAL AND RESERVES		
17	Called up share capital	**5,641**	5,641
	Share premium account	**54,761**	54,761
	Profit and loss account	**39,029**	39,191
	SHAREHOLDERS' FUNDS	**99,431**	99,593

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

M Willis
Director

Registered Company Number : 00611190

The notes on pages 8 to 16 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2018

	Called up share capital £000	Share premium account £000	Retained earnings £000	**Total equity £000**
Balance at 1 January 2017	5,641	54,761	37,640	**98,042**
Total comprehensive income for 2017				
Profit for the year	-	-	4,551	**4,551**
Total comprehensive income for the year	-	-	4,551	**4,551**
Transactions with owners, recorded directly in equity				
Dividends paid (see note 9)	-	-	(3,000)	**(3,000)**
Total contributions by and distributions to owners	-	-	(3,000)	**(3,000)**
Balance at 31 December 2017	5,641	54,761	39,191	**99,593**
Balance at 1 January 2018	5,641	54,761	39,191	**99,593**
Total comprehensive income for 2018				
Profit for the year	-	-	10,838	**10,838**
Total comprehensive income for the year	-	-	10,838	**10,838**
Transactions with owners, recorded directly in equity				
Dividends paid (see note 9)	-	-	(11,000)	**(11,000)**
Total contributions by and distributions to owners	-	-	(11,000)	**(11,000)**
Balance at 31 December 2018	5,641	54,761	39,029	**99,431**

The notes on pages 8 to 16 form part of these financial statements.

1 ACCOUNTING POLICIES

(a) Basis of preparation

Reg Vardy Limited is a company incorporated, domiciled and registered in England in the UK. The Company's registered number is 00611190 and the registered address is Loxley House, 2 Oakwood Court, Little Oak Drive, Annesley, Nottinghamshire, NG15 0DR.

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group accounts. These financial statements present information about the Company as an individual undertaking and not about its group.

These financial statements were 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 ('Adopted IFRSs'), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The financial statements are presented in thousands of UK pounds, rounded to the nearest £1,000. They have been prepared under the historical cost convention and where other bases are applied these are identified in the relevant accounting policy in the notes below.

The Company's ultimate parent undertaking, Pendragon PLC, includes the Company in its consolidated financial statements. The consolidated financial statements of Pendragon PLC are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from the Company Secretary, Pendragon PLC, Loxley House, Little Oak Drive, Annesley, Nottinghamshire, NG15 0DR.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:
• a Cash Flow Statement and related notes;
• Comparative period reconciliations for share capital, tangible fixed assets and intangible assets;
• Disclosures in respect of transactions with wholly owned subsidiaries ;
• Disclosures in respect of capital management;
• The effects of new but not yet effective IFRSs (including IFRS 16 Leases);
• Disclosures in respect of the compensation of Key Management Personnel.
• Disclosures of transactions with a management entity that provides key management personnel services to the Company.

As the consolidated financial statements of Pendragon PLC include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:
• Certain disclosures required by IAS 36 Impairment of assets in respect of the impairment of goodwill and indefinite life intangible assets;
• Certain disclosures required by IFRS 3 Business Combinations in respect of business combinations undertaken by the Company;
• Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements

The Company applies judgement in how it applies its accounting policies, which do not involve estimation, but could materially affect the numbers disclosed in these

financial statements. There are however no such key accounting judgements applied in these financial statements.

Accounting estimates

The preparation of financial statements in conformity with FRS 101 requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge of the amount, events or actions, actual results ultimately may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. 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. The directors consider the following to be the key estimates applicable to the financial statements, which have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year or in the long-term:

Key estimate area	Key assumption	Potential	Potential	Note reference
Investment impairment	The balances of investment in subsidiary companies are held at cost less any impairment. It is considered that these investments are one CGU. An impairment exists when their recoverable amount is less than the costs held in the accounts. There are a number of factors which could impact the recoverable amount which creates a risk of this recoverable amount being lower than the investment balance held.	✓	✓	12
Stock fair value (used vehicles)	The Company's assessment of fair values of used stock involves an element of estimation. The key assumption is estimating the likely sale period and the expected profit or loss on sale for each of our inventory items that are held at the year end point. We conduct this analysis by looking at stock by age category and comparing historical trends and our forward expectations on these assumptions.	✓		13

1 ACCOUNTING POLICIES (continued)

(a) Basis of preparation *continued*

Going concern

The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The directors have prepared cash flow forecasts for a period of 18 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the company will have sufficient funds, through funding from its ultimate parent company, Pendragon plc, to meet its liabilities as they fall due for that period.

Those forecasts are dependent on Pendragon plc providing additional financial support during that period. Pendragon plc has indicated its intention to continue to make available such funds as are needed by the company for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic Report on page 1.

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group accounts. These financial statements present information about the Company as an individual undertaking and not about its group.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

(b) Turnover. Turnover from the sale of goods is recognised in the profit and loss account, net of discounts, on satisfaction of the Company's performance obligations under the sale contracts, which is when the Company has satisfied its performance obligations to the customer and the customer has obtained control of the goods or services being transferred. In general this occurs when vehicles or parts have been supplied or when service has been completed. Turnover from aftersales services rendered is recognised in the profit and loss account in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by surveys of work performed or by reference to time expended on services that are charged on a labour basis.

The Company has quantified the effect of IFRS 15 on the reported turnover for the year ended 31 December 2017 and due to its amount being immaterial no comparison table is presented in these financial statements to quantify the impact of the adoption of IFRS 15.

Incentives received from manufacturers in respect of target achievements are accounted for as a deduction from the cost of the vehicles or parts to which they relate.

(c) Intangible assets. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units. It is not amortised but is tested annually for impairment. This is not in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 which requires that all goodwill be amortised. The directors consider that this would fail to give a true and fair view of the profit for the year and that the economic measure of performance in any period is properly made by reference only to any impairment that may have arisen. It is not practicable to quantify the effect on the financial statements of this departure.

Other intangible assets are stated at cost less accumulated amortisation and any impairment losses. This category of asset, which includes purchased computer software, are amortised by equal instalments over four years.

(d) Tangible fixed assets and depreciation. Depreciation is provided to write off the cost less the estimated residual value of other tangible fixed assets by equal instalments over their estimated useful economic life as follows:

Leasehold properties - 2% per annum or over the period of the lease if less than 50 years
Plant and equipment - 10 to 33% per annum
Motor vehicles - 20 to 25% per annum

(e) Investments. Investments held as fixed assets are stated at cost less any impairment losses. For Investments the recoverable amount is estimated at each balance sheet date. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

(f) Stocks.
(i) Motor vehicle stocks are stated at the lower of cost and net realisable value. Cost is net of incentives received from manufacturers in respect of target achievements. Fair values of motor vehicle stocks are determined by assessing the estimated sales point and sales price using historical trends for vehicles categorised by their time in stock and stock classification. The assessment of fair values involves an element of judgement and estimation, examples of which include assessing the current state of the market in a given segment, assessing the impact of the age and condition of the vehicle on its fair value and consideration of macro-economic factors as discussed in the risk overview. Whilst this data is deemed representative of current values it is possible that ultimate sales values can vary from those applied.
(ii) Consignment vehicles are new unregistered vehicles owned by the manufacturers, mainly located at the Company's premises, and insured by the Company.
(iii) Parts inventories are based on an average purchase cost principle and are written down to net realisable value by providing for obsolescence on a time in stock based formula approach.
New consignment vehicles in respect of which finance charges are levied are regarded as being effectively under the control of the Company and are included within stocks on the balance sheet even though legal title has not yet passed to the Company. The corresponding liability is included in creditors.

1 ACCOUNTING POLICIES (continued)

(g) Trade and other debtors .Trade and other debtors are recognised initially at fair value and are subsequently stated at amortised cost using the effective interest method, less any impairment losses.

(h)Trade and other creditors. Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

(i) Cash and cash equivalents. Cash and cash equivalents comprise cash balances and call deposits.

(j) Impairment excluding stocks and deferred tax assets.
Financial assets (including trade and other debtors)
A financial asset not carried at fair value through profit or loss is measured for impairment losses in accordance with IFRS 9, which replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost. Under IFRS 9, credit losses are recognised earlier than under IAS 39. The transition to IFRS and the subsequent change in accounting policy had no material effect on the financial position at 31 December 2017 and therefore no restatement was required. The calculation of ECLs are a probability-weighted estimate of credit losses. For trade receivables, the Company applies the simplified approach set out in IFRS 9 to measure expected credit losses using a lifetime expected credit loss allowance. This change in impairment methodology did not have a material impact on the Company's financial results. The Company considers a trade or other receivable to be in default when the borrower is unlikely to pay its credit obligations to the Company in full after all reasonable actions have been taken to recover the debt.

Non-financial assets
The carrying amounts of the Company's non-financial assets, other than stocks and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the 'cash-generating unit). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units ('CGU'). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

(k) Interest receivable and Interest payable. Interest payable and similar charges include interest payable and finance charges on shares classified as liabilities. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Other interest receivable and similar income include interest receivable on funds invested.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

(l) Taxation. Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not recognised: initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred income tax assets and liabilities are offset when there is a legally enforceable rights to offset current tax assets against current tax liabilities.

(m) Post-retirement benefits. The Company participates in a group wide pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Company. The Company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by IAS 19 'Employee benefits (2011)', accounts for the scheme as if they were a defined contribution schemes. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

NOTES TO THE FINANCIAL STATEMENTS continued

YEAR ENDED 31 DECEMBER 2018

1 ACCOUNTING POLICIES (continued)

(n) Leases. Leases are classified as operating leases wherever the lease does not transfer substantially all the risks and rewards of ownership to the Company. Rentals paid under operating leases are charged directly to the profit and loss account on a straight line basis over the period of the lease. Leases subject to predetermined fixed rental uplifts have their rentals accounted for on a straight line basis recognised over the life of the lease. Lease incentives received and paid are recognised in the profit and loss account as an integral part of the total lease expense over the term of the lease.

(o) Dividends on shares presented within shareholders funds. Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

(p) Accounting for acquisitions. The results of companies and businesses acquired are included from the effective date of acquisition. The purchase consideration is allocated to assets and liabilities on the basis of fair value at the date of acquisition. Costs related to the acquisition are expensed as incurred.

(q) Accounting for business disposals The results of businesses disposed of during the year are included up to the effective date of disposal using the acquisition method of accounting.

(r) Adopted IFRS not yet applied IFRS 16 Leases (effective date 1 January 2019) has been issued but has not been applied by the Company in these financial statements. The company intends to apply the modified retrospective approach with the cumulative effect of initially applying the standard recognised at the date of initial application as an adjustment to the opening balance of retained earnings.

2 TURNOVER

The Company has adopted and applied IFRS 15 Revenue from Contracts with Customers for the year ended 31 December 2018, using the cumulative effect method. The comparative information therefore has not been restated and continues to be reported under IAS 18 and IAS 11. The Company has quantified the effect of IFRS 15 on the reported turnover for the year ended 31 December 2017 and due to its amount being immaterial no comparison table is presented in these financial statements to quantify the impact of the adoption of IFRS 15. Accordingly the Company has not made any significant changes in its accounting policy for turnover.

The Company principally generates turnover from the sale of new and used motor vehicles, together with the supply of motor vehicle parts, servicing and repair activates, collectively referred to as aftersales. Products and services may be sold separately or in bundled packages. Examples of a bundled package will include the supply of a vehicle with an extended warranty or a servicing plan. For bundled packages, the Company accounts for individual products and services separately as they are distinct items, as each performance obligation within that contract is separately identifiable from other items in the bundled package. The consideration is allocated between separate products and services in a bundle based on their stand-alone selling prices. The stand-alone selling prices are determined based on the list prices at which the Company sells these items and are separately identified on the customer's invoice. Full details of these elements of the Company's turnover are provided in the consolidated financial statements of Pendragon PLC for the year ended 31 December 2018.

Turnover by major products/service lines	**2018** **£000**	2017 £000
New vehicle revenue	**78,360**	84,154
Used vehicle revenue	**149,823**	140,240
Aftersales revenue	**17,290**	17,457
Turnover from external customers	**245,473**	241,851

Timing of turnover recognition	**2018** **£000**	2017 £000
At point in time	**245,070**	241,568
Over time	**403**	283
Turnover from external customers	**245,473**	241,851

All turnover arises in the United Kingdom.

Contract balances	**2018** **£000**	2017 £000
Contract assets	**50**	34
Contract liabilities	**(1,164)**	(384)

Contract assets relate to the cost of parts supplied to and work performed on customers vehicles which has yet to be completed. Contract liabilities relate to the unearned proportion of warranty policies sold by the Company on which revenue is recognised over time.

3 OPERATING PROFIT

Operating profit has been arrived at after charging :	**2018** **£000**	2017 £000
Depreciation of tangible fixed assets - owned	**722**	707
Amortisation of intangible fixed assets	**17**	5
Auditor's remuneration- audit	**12**	12
Operating lease charges - Plant & Equipment	**80**	109
Operating lease charges - Land & Buildings	**2,077**	1,872

Amounts receivable by the Company's auditor in respect of services to the Company and its associates, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the Company's parent, Pendragon PLC.

4 INCOME FROM SUBSIDIARY UNDERTAKINGS

	2018 **£000**	2017 £000
Dividends receivable	***7,000***	*1,000*

5 EMPLOYEES

The average number of persons employed by the Company during the year in the following areas was:

	2018 Number	2017 Number
Sales	100	100
Aftersales	181	180
Administration	119	118
	400	398

Costs incurred in respect of these employees were :

	2018 £000	2017 £000
Wages and salaries	10,528	9,466
Social security costs	956	841
Other pension costs	344	196
	11,828	10,503

No director of the Company received or waived any remuneration for services to the Company during the year (2017 : £nil).

The directors are employed by Pendragon PLC and full details of their remuneration can be found in the Directors Remuneration Report section of that company's annual report. A management charge is levied on the Company which incorporates an element of recharge for the remuneration of the directors amounting to £62,000 (2017 : £64,000).

6 INTEREST RECEIVABLE

	2018 £000	2017 £000
Bank interest receivable	165	128
Intra group interest receivable	124	106
Total interest receivable	289	234

7 INTEREST PAYABLE

	2018 £000	2017 £000
Stocking loan interest payable	137	198

8 TAXATION

	2018 £000	2017 £000
UK corporation tax at the UK average statutory rate of 19.00% (2017 : 19.25%)		
Current tax on income for the year	553	322
Adjustments in respect of prior periods	(1,465)	(2,243)
Total current tax	(912)	(1,921)
Deferred taxation		
Origination and reversal of temporary differences	17	(5)
Adjustments in respect of prior periods	45	-
Total deferred tax	62	(5)
Tax credit on profit on ordinary activities	(850)	(1,926)

Factors affecting the tax credit for the year :
The tax assessed is lower (2017 : lower) than the standard rate of corporation tax in the UK of 19.00% (2017 : 19.25%). The differences are explained below:

	2018 £000	2017 £000
Profit on ordinary activities before tax	9,988	2,625
Tax on profit at the UK average statutory rate of 19.00% (2017 : 19.25%)	1,898	505
Effects of:		
Permanent differences arising in respect of fixed assets	3	2
Expenses not deductible in determining taxable profit	1	2
Investment income on which no tax liability arises	(1,330)	(193)
Effect of decrease in tax rate	(2)	1
Adjustments to tax charge in respect of previous periods	(1,420)	(2,243)
Tax credit on profit on ordinary activities	(850)	(1,926)

The reduction in the UK corporation tax rate to 19% (effective from 1 April 2017) was substantively enacted on 26 October 2015. A further reduction to 18% (effective 1 April 2020) was also substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future tax charge accordingly. The deferred tax asset as at 31 December 2018 has been calculated based on the expected long term rate of 17% substantively enacted at the balance sheet date.

9 DIVIDENDS PAID

	2018 £000	2017 £000
Ordinary shares		
Dividend paid - 5.318 pence (2017 : 5.318 pence) per share	**11,000**	3,000

10 FIXED ASSETS - INTANGIBLE ASSETS

	Software £000
Cost	
At 31 December 2017	**126**
Business acquisitions	**4**
Other additions	**3**
Business disposals	**(6)**
Other disposals	**(1)**
At 31 December 2018	**126**
Amortisation	
At 31 December 2017	**68**
Business disposals	**(5)**
Charge for the year	**17**
At 31 December 2018	**80**
Net book value	
At 31 December 2018	**46**
At 31 December 2017	**58**

Intangible assets amortisation is recorded in administrative expenses in the profit and loss account.

11 FIXED ASSETS - TANGIBLE ASSETS

	Short leasehold property £000	Plant & equipment £000	Motor vehicles £000	Total £000
Cost				
At 31 December 2017	188	3,604	1,640	**5,432**
Business acquisitions	-	446	174	**620**
Other additions	-	509	3,457	**3,966**
Business disposals	-	(272)	(61)	**(333)**
Other disposals	-	(101)	(2,931)	**(3,032)**
At 31 December 2018	188	4,186	2,279	**6,653**
Depreciation				
At 31 December 2017	41	2,546	143	**2,730**
Business disposals	-	(152)	(16)	**(168)**
Other disposals	-	(72)	(263)	**(335)**
Charge for the year	13	390	319	**722**
At 31 December 2018	54	2,712	183	**2,949**
Net book value				
At 31 December 2018	**134**	**1,474**	**2,096**	**3,704**
At 31 December 2017	147	1,058	1,497	2,702

12 INVESTMENTS

	Shares in subsidiary undertakings £000
At 31 December 2017	**64,567**
Additions	**413**
At 31 December 2018	**64,980**

Shares in subsidiary undertakings are stated at cost. As at 31 December 2018 Reg Vardy Limited owns directly 100% of the issued ordinary share capital. On 3 August 2018 Reg Vardy acquired the 5% shareholding in Reg Vardy (VMC) Limited owned by Vauxhall Motors Limited for a consideration of £413,000 and as such at this date Reg Vardy (VMC) Limited became 100% owned.

Incorporated in Great Britain having a registered office at Loxley House, 2 Little Oak Drive, Annesley, Nottingham, NG15 0DR:

Company	Principal Activity	Company	Principal Activity
Victoria (Bavaria) Limited	Motor retailer	Reg Vardy (TMG) Limited	Non trading
National Fleet Solutions Limited	Fleet vehicle supply	Rossleigh Limited	Non trading
Reg Vardy (VMC) Limited	Motor retailer	United Motor Group Limited	Non trading
Reg Vardy (AMC) Limited	Non trading	Vardy Contract Motoring Limited	Non trading
Reg Vardy (EBT) Limited	Non trading	Vardy (Continental) Limited	Non trading
Reg Vardy (MMC) Limited	Non trading	Vardy Marketing Limited	Non trading
Reg Vardy (Property Management) Limited	Non trading	Venture (RVL) Limited	Non trading
Reg Vardy (Rentals) Limited	Non trading		

Incorporated in Great Britain having a registered office at 221 Windmillhill Street, Motherwell, Lanarkshire, ML1 2UB:

Company	Principal Activity	Company	Principal Activity
Reg Vardy (Aberdeen) Limited	Non trading	Reg Vardy (MME) Limited	Non trading

13 STOCKS

	2018 £000	2017 £000
New and used vehicles	**53,643**	31,294
Consignment vehicles	**1,506**	2,114
Vehicle parts and other stocks	**1,294**	1,246
	56,443	34,654

During the year a £273,000 credit was recognised in respect of the write down of stocks (2017 : £626,000 credit).

Consignment stock is held by the Company though legal title remains with the supplier. The balance of the consignment stock is subject to interest at commercial rates with an initial interest free period, typically 30 days, being granted. In most cases, if the stock remains unsold after a set period, typically 180 days then the stock is invoiced to the Company. These terms can be varied at any time and certain stock lines may be subject to different terms to others. No deposits are paid in respect of consignment stock.

14 DEBTORS

	2018 £000	2017 £000
Trade debtors	**2,094**	3,151
Amounts owed by group undertakings	**12,325**	16,234
Deferred tax (see note 16)	**187**	245
Other debtors	**1,850**	1,519
Prepayments	**91**	251
	16,547	21,400

All amounts are due within one year with the exception of deferred tax.
Amounts owed by group undertakings are repayable on demand and bear no interest.

15 CREDITORS : amounts falling due within one year

	2018 £000	2017 £000
Payments received on account	**-**	165
Trade creditors	**37,171**	21,335
Consignment vehicle liabilities	**1,506**	2,114
UK corporation tax	**22**	1,752
Other taxation and social security	**(1,857)**	378
Accruals and deferred income	**9,384**	7,012
	46,226	32,756

16 DEFERRED TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	2018 £000	2017 £000
Deferred tax asset	**187**	245

The movement in the deferred tax assets for the year is as follows:

	Accelerated capital allowances £000	Short term timing differences £000	**Total £000**
At 1 January 2017	219	22	**241**
Transfer	(1)	-	**(1)**
Credited to profit and loss	4	1	**5**
At 31 December 2017	222	23	**245**
At 1 January 2018	222	23	**245**
Transfer	4	-	**4**
Charged to profit and loss	(50)	(12)	**(62)**
At 31 December 2018	176	11	**187**

The directors believe that the deferred tax asset recognised is recoverable as they expect taxable profits to arise in the foreseeable future.

The deferred tax asset in relation to fixed asset and other timing differences is shown within debtors (see note 14).

17 CALLED UP SHARE CAPITAL

	2018 £000	2017 £000
Allotted, called up and fully paid :		
56,413,262 (2017 : 56,413,262) ordinary shares of 10 pence each	**5,641**	5,641

18 ACQUISITIONS

During the year the Company acquired the trade and assets of two motor vehicle dealerships from Bramall Quicks Dealerships Limited, a company within the Pendragon PLC group. The total consideration of £3,408,000 was settled by way of an intra group balance.

The amounts recognised in the 2018 financial statements in respect of identifiable assets acquired and liabilities assumed are:

	Fair value £000
Intangible assets	**4**
Tangible fixed assets	**620**
Stocks	**6,374**
Debtors	**462**
Cash at bank and in hand	**59**
Creditors	**(4,111)**
Total consideration - satisfied by way of intra group balance	**3,408**

The acquired businesses contributed revenue of £26,413,000 and a profit before taxation of £119,000 in the period since acquisition. Had the businesses been acquired at the start of the annual reporting period the acquired businesses would have contributed revenue of £49,466,000 and a profit before taxation of £115,000.

There were no business acquisitions in the previous year

19 BUSINESS DISPOSALS

The Company disposed of one of its motor vehicle dealerships during the year for net proceeds of £2,753,000 to Evans Halshaw Limited, a member of the Pendragon PLC group. The proceeds of £2,753,000 were satisfied by way on an intra group loan. This sale was made as part of a reorganisation of the Pendragon PLC group.

Net assets at date of disposal

	Net book value £000
Intangible assets	**1**
Tangible fixed assets	**165**
Stocks	**2,030**
Debtors	**875**
Cash at bank and in hand	**1,651**
Creditors	**(1,969)**
Proceeds on sale (net of costs) satisfied by intra group loan	**2,753**

During the previous year, the Company disposed, on 1 January 2016, two motor vehicle dealerships to Evans Halshaw Limited. The net assets disposed of £2,362,000 were settled by way of an intra group loan. These sales were also made as part of a reorganisation of the Pendragon PLC group.

20 OPERATING LEASE ARRANGEMENTS

At the balance sheet date, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2018 £000	2017 £000
Within one year	**8**	43
In the second to fifth years inclusive	**-**	2
	8	45

The Company leases properties from Pendragon Property Holdings Limited on terms allowing immediate termination by either party. As such no lease commitment is shown in respect of these properties. In addition there are other leases in respect of items of plant and equipment, including the rental of motor vehicles. None of the leases includes contingent rentals.

The following amounts have been charged to the income statement as operating expenses during the year:

		2018 £000	2017 £000
Operating lease rentals payable	- hire of plant and machinery	**80**	109
	- property rentals	**2,077**	1,872

21 CONTINGENT LIABILITIES

The Company is party to multi-lateral cross guarantees in respect of the indebtedness of Pendragon PLC and its UK subsidiaries in favour of certain lenders to the Group.

22 PENSIONS

The defined contribution pension scheme was closed at the end of April 2006 and replaced by an alternative defined contribution scheme (group stakeholder arrangement). There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

The Company is a member of a funded group wide pension scheme, the Pendragon Group Pension Scheme providing benefits based on final pensionable pay. There is no stated policy for allocating assets and liabilities in relation to the scheme and therefore the Company accounts for its contributions on a straight line basis. At 31 December 2018 the scheme had a deficit on an IAS 19 basis of £68,300,000 (2017 : £62,800,000).

The Pendragon Group Pension Scheme is a funded defined benefit scheme that was set up during 2012 to receive the assets and liabilities of the Pendragon Group's previous six defined benefit schemes. The Scheme's actuarial valuation was carried out as at 31 December 2015 using the defined accrued benefits funding credit method. At this date the market value of the Scheme's assets was £396.9m; these assets represented 90% of the value of the technical provisions of £440.3m (excluding any defined contribution assets). The main assumptions used for this valuation were that the annual rate of return on existing investments would be 5% and the annual rate of pension increases would be between 1.8% - 3.7%. The employer contributions paid to the Scheme during the year was based upon actuarial advice.

The triennial valuation of the pension scheme reflecting the position as at 31 December 2015 was agreed by the Trustees on 13 March 2017. This has resulted in the Pendragon group raising its annual contribution to the pension scheme to £7.0m from 1 January 2017 from £2.8m in the prior year and will increase by 2.25% per annum. The next triennial valuation of the pension scheme will reflect the position as at 31 December 2018.

To comply with the Government's automatic enrolment legislation, the Company chose to participate in the People's Pension Scheme in April 2013. This is a defined contribution occupational pension scheme provided by B&CE.

The pension charge cost in respect of the group stakeholder arrangement and the People's Pension Scheme for the year was £344,000 (2017 : £196,000).

23 ULTIMATE PARENT COMPANY

The Company is a subsidiary undertaking of Pendragon PLC which is the ultimate parent company incorporated in the UK.

No other group financial statements include the results of the Company