

**REG VARDY (VMC) LIMITED**

**REPORT AND FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2017**

Registered Number : 04484230

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**REG VARDY (VMC) LIMITED**

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**STRATEGIC REPORT**

**YEAR ENDED 31 DECEMBER 2017**

The Company is a wholly owned subsidiary of Pendragon PLC and operates as part of the UK Motor division. On 3 August 2018, 5% of the Company previously owned by Vauxhall Motors Limited was acquired by reg Vardy Limited, a member of the Pendragon PLC group.

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 operated 3 franchises from 3 locations on 31 December 2017.

There have not been any significant changes in the Company's principal activities in the period 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 for the year ending 31 December 2017 was £53,089,000 compared to a turnover of £52,075,000 for the year ended 31 December 2016, an increase of 1.9%. There was a profit for the year ended 31 December 2017 of £1,485,000 compared to a profit for the year ended 31 December 2016 of £1,191,000.

The balance sheet on page 6 of the financial statements shows that the net assets of the Company have increased from £7,118,000 to £8,603,000 which is £1,485,000 (which is the profit in the year).

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 2017 financial statements of Pendragon PLC.

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. To date we have not experienced any noticeable change in our customers' behaviour. 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.

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.

Reg Vardy (VMC) 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



Pendragon Management Services Limited  
Director

24 September 2018

**DIRECTORS' REPORT continued**

**YEAR ENDED 31 DECEMBER 2017**

The directors have pleasure in submitting their report and the audited financial statements of the Company for the year ended 31 December 2017.

**RESULTS AND DIVIDENDS**

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

The directors recommend the payment of a final dividend of £5,000,000 subject to approval by the Board of Directors (2016 : £nil).

**DIRECTORS**

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

Pendragon Management Services Limited  
T G Finn  
Motors Directors Limited (resigned 3 August 2018)  
Motors Secretaries Limited (resigned 3 August 2018)

**EMPLOYEES**

Details of the number of employees and related costs can be found in note 4 to the financial statements.

**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.

**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.

**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



Pendragon Management Services Limited  
Director

Loxley House  
Little Oak Drive  
Annesley  
Nottinghamshire  
NG15 0DR  
24 September 2018

**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 (VMC) Limited ("the Company") for the year ended 31 December 2017 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 2017 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.

**Going concern**

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 twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

**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

**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**

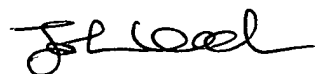
As explained more fully in their statement set out on page 3, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements 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.



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

24 September 2018

## PROFIT AND LOSS ACCOUNT

YEAR ENDED 31 DECEMBER 2017

Note		2017 £000	2016 £000
2	<b>TURNOVER</b>	<b>53,089</b>	<b>52,075</b>
	Cost of sales	(46,894)	(45,697)
	<b>GROSS PROFIT</b>	<b>6,195</b>	<b>6,378</b>
	Distribution costs	(2,729)	(2,790)
	Administrative expenses	(1,647)	(2,049)
3	<b>OPERATING PROFIT</b>	<b>1,819</b>	<b>1,539</b>
5	Interest receivable	68	68
6	Interest payable	(49)	(112)
	<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	<b>1,838</b>	<b>1,495</b>
7	Taxation on profit on ordinary activities	(353)	(304)
	<b>PROFIT FOR THE FINANCIAL YEAR</b>	<b>1,485</b>	<b>1,191</b>

All amounts relate to continuing operations.

Movements in reserves are shown in the Statement of Changes in Equity on page 7.

The notes on pages 8 to 15 form part of these financial statements.

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.

**BALANCE SHEET****AT 31 DECEMBER 2017**

Note		2017 £000	2016 £000
	<b>FIXED ASSETS</b>		
8	Intangible assets - Goodwill	32	32
8	Intangible assets - Other intangible assets	8	6
9	Tangible assets	525	450
		<b>565</b>	<b>488</b>
	<b>CURRENT ASSETS</b>		
10	Stocks	6,632	5,909
11	Debtors	2,156	2,510
	Cash at bank and in hand	3,353	2,136
		<b>12,141</b>	<b>10,555</b>
12	<b>CREDITORS:</b> amounts falling due within one year	<b>(4,103)</b>	<b>(3,925)</b>
	<b>NET CURRENT ASSETS</b>	<b>8,038</b>	<b>6,630</b>
	<b>NET ASSETS</b>	<b>8,603</b>	<b>7,118</b>
	<b>CAPITAL AND RESERVES</b>		
14	Called up share capital	1,500	1,500
	Other reserves	1,677	1,677
	Profit and loss account	5,426	3,941
	<b>SHAREHOLDERS' FUNDS</b>	<b>8,603</b>	<b>7,118</b>

Approved by the Board of Directors on 24 September 2018 and signed on its behalf by :



Pendragon Management Services Limited  
Director

Registered Company Number : 04484230

The notes on pages 8 to 15 form part of these financial statements.



**STATEMENT OF CHANGES IN EQUITY****YEAR ENDED 31 DECEMBER 2017**

	Called up share capital £000	Other reserves £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2016	1,500	1,677	2,750	5,927
Total comprehensive income for 2016				
Profit for the year	-	-	1,191	1,191
Total comprehensive income for the year	-	-	1,191	1,191
Balance at 31 December 2016	1,500	1,677	3,941	7,118
Balance at 1 January 2017	1,500	1,677	3,941	7,118
Total comprehensive income for 2017				
Profit for the year	-	-	1,485	1,485
Total comprehensive income for the year	-	-	1,485	1,485
Balance at 31 December 2017	1,500	1,677	5,426	8,603

The notes on pages 8 to 15 form part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED 31 DECEMBER 2017****1 ACCOUNTING POLICIES****(a) Basis of preparation**

Reg Vardy (VMC) Limited is a company incorporated, domiciled and registered in England in the UK. The Company's registered number is 04484230 and the registered address is Loxley House, Little Oak Drive, Annesley, Nottinghamshire, NG15 0DR.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101'). The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 have been applied.

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;
- 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.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next 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 impact within the next financial year	Potential impact in the longer term	Note reference
Goodwill impairment	Within the Goodwill calculation we undertake an exercise to estimate future cashflows from each Cash Generating Unit (CGU). We have key assumptions on the growth rates of revenue and gross margin in each of new, used and aftersales which impacts the profit assumed and hence cashflow generation in each CGU. These assumptions are key to calculation of the net present value of cashflows. The further key assumptions are the perpetuity growth rate and discount rate. Full details of these rates and their application can be found in the consolidated financial statements of Pendragon PLC.	✓	✓	8
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.	✓		10

**NOTES TO THE FINANCIAL STATEMENTS continued****YEAR ENDED 31 DECEMBER 2017****1 ACCOUNTING POLICIES (CONTINUED)****(a) Basis of preparation. continued****Going concern**

The Company is expected to continue to generate positive cash flows on its own account for the foreseeable future. The Company participates in the Pendragon group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries. 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 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.

Reg Vardy (VMC) Limited is a 95% owned subsidiary of Pendragon PLC. The Company's results are included in the consolidated financial statements of Pendragon PLC, which are publicly available.

(b) Turnover. Turnover from the sale of goods is recognised in the profit and loss account, net of discounts, when the significant risks and rewards of ownership have been transferred to the buyer. In general this occurs when vehicles or parts have been supplied or when service has been completed. Turnover from 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 labour rate basis.

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 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) 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) 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.

(f) Trade and other debtors. Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

(g) 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.

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

**(i) 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 assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

**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.

NOTES TO THE FINANCIAL STATEMENTS continuedYEAR ENDED 31 DECEMBER 2017

## 1 ACCOUNTING POLICIES (CONTINUED)

(i) Impairment excluding stocks and deferred tax assets. *continued*

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.

(j) 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.

(k) 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

(l) Post-retirement benefits. The Company participates in a group wide defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

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 it were a defined contribution scheme. 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.

(m) 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.

**NOTES TO THE FINANCIAL STATEMENTS continued****YEAR ENDED 31 DECEMBER 2017****1 ACCOUNTING POLICIES (CONTINUED)**

(n) Related parties. As a joint venture undertaking between Pendragon PLC and Vauxhall Motors Limited during the year ended 31 December 2017, the Company has related party relationships with the following:

Pendragon PLC - Joint venture partner in Reg Vardy (VMC) Limited	Pinewood Technologies PLC - subsidiary of Pendragon PLC
Vauxhall Motors Limited - Joint venture partner in Reg Vardy (VMC) Limited	Pendragon Premier Limited - subsidiary of Pendragon PLC
Pendragon Management Services Limited - Director and subsidiary of Pendragon PLC	CD Bramall Dealerships Limited - subsidiary of Pendragon PLC
Pendragon Group Services Limited - Director and subsidiary of Pendragon PLC	Alloy Racing Equipment Limited - subsidiary of Pendragon PLC
Motor Directors Limited - Director	Derwent Vehicles Limited - subsidiary of Pendragon PLC
Motors Secretaries Limited - Director	Chatfields Limited - subsidiary of Pendragon PLC
Pendragon Motor Group Limited - subsidiary of Pendragon PLC	Pendragon Used Cars Limited - subsidiary of Pendragon PLC
Reg Vardy Limited - subsidiary of Pendragon PLC	Evans Halshaw Limited - subsidiary of Pendragon PLC
Bramall Quicks Dealerships Limited - subsidiary of Pendragon PLC	Pendragon Property Holdings Limited - subsidiary of Pendragon PLC
Stripestar Limited - subsidiary of Pendragon PLC	Pendragon Sabre Limited - subsidiary of Pendragon PLC
Pendragon Vehicle Management Limited - subsidiary of Pendragon PLC	Victoria (Bavaria) Limited - subsidiary of Pendragon PLC
Pendragon Stock Finance Limited - subsidiary of Pendragon PLC	Reg Vardy (MML) Limited - subsidiary of Pendragon PLC

During the year, the following turnover was received from related parties in respect of vehicle sales, finance commissions and head office costs:

	2017 £000	2016 £000
Pendragon Motor Group Limited	4,596	5,647
Stripestar Limited	2,163	1,976
Pendragon Used Cars Limited	1,892	1,256
Bramall Quicks Dealerships Limited	1,096	1,074
Reg Vardy Limited	982	979
Pendragon Finance & Insurance Services Limited	490	374
Evans Halshaw Limited	405	422
Pendragon Management Services Limited	227	104
Alloy Racing Equipment Limited	158	41
Derwent Vehicles Limited	95	21
Pendragon Premier Limited	91	-
Pendragon Vehicle Management Limited	63	48
Chatfields Limited	15	-
Victoria (Bavaria) Limited	13	7
	<b>12,286</b>	<b>11,949</b>

During the year, the following amounts were paid to related parties in respect of parts and vehicle purchases, computer services and property rents:

	2017 £000	2016 £000
Pendragon Motor Group Limited	4,425	4,320
Pendragon Management Services Limited	3,906	5,114
Stripestar Limited	2,637	2,437
Bramall Quicks Dealerships Limited	1,669	1,283
Pendragon Used Cars Limited	1,352	469
Reg Vardy Limited	1,260	1,466
Alloy Racing Equipment Limited	1,158	158
Pendragon Property Holdings Limited	488	438
Pendragon Vehicle Management Limited	432	613
Evans Halshaw Limited	398	381
Pendragon Premier Limited	211	148
Pinewood Technologies PLC	161	118
Derwent Vehicles Limited	107	195
Victoria (Bavaria) Limited	25	29
Pendragon Sabre Limited	22	-
Pendragon Stock Finance Limited	16	14
	<b>18,267</b>	<b>17,183</b>

At the year end, £363,000 was due to the Company's related parties (2016 : due to £8,500).

On 3 August 2018 the Company became a wholly owned subsidiary of Pendragon PLC.

**2 TURNOVER**

All turnover arises in the United Kingdom from the Company's principal activities.

**3 OPERATING PROFIT**

Operating profit has been arrived at after charging :

	2017 £000	2016 £000
Depreciation of tangible fixed assets	123	116
Amortisation of intangible fixed assets	2	2
Operating lease charges- land and buildings	494	444
Auditor's remuneration- audit	5	5

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.

**NOTES TO THE FINANCIAL STATEMENTS continued****YEAR ENDED 31 DECEMBER 2017****4 EMPLOYEES**

The average number employed by the Company in the following areas was:

	2017 Number	2016 Number
Sales	27	26
Aftersales	48	46
Administration	31	30
	<b>106</b>	<b>102</b>

Costs incurred in respect of these employees were :

	2017 £000	2016 £000
Wages and salaries	2,713	2,648
Social security costs	248	248
Other pension costs	66	68
	<b>3,027</b>	<b>2,964</b>

No director of the Company received or waived any remuneration for services to the Company during the period (2016 : £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 £nil (2016 : £30,000).

**5 INTEREST RECEIVABLE**

	2017 £000	2016 £000
Bank interest receivable	56	52
Intra group interest receivable	12	16
	<b>68</b>	<b>68</b>

**6 INTEREST PAYABLE**

	2017 £000	2016 £000
Interest payable on loans wholly repayable within five years :		
Stocking loan interest	49	112

**7 TAXATION**

	2017 £000	2016 £000
UK corporation tax at the UK average statutory rate of 19.25% (2016 : 20.00%)		
Current tax on income for the year	340	281
Adjustments in respect of prior periods	-	7
Total current tax	<b>340</b>	<b>288</b>
Deferred taxation		
Origination and reversal of temporary differences	13	22
Adjustments in respect of prior periods	-	(6)
Total deferred tax	<b>13</b>	<b>16</b>
Tax on profit on ordinary activities	<b>353</b>	<b>304</b>

Factors affecting the tax charge for the period:

The tax assessed is lower (2016 : higher) than the standard rate of corporation tax in the UK of 19.25% (2016 : 20.00%). The differences are explained below:

	2017 £000	2016 £000
Profit on ordinary activities before tax	<b>1,838</b>	<b>1,495</b>
Tax on profit at the UK average statutory rate of 19.25% (2016 : 20.00%)	<b>354</b>	<b>299</b>
Effects of:		
Effect of decrease in tax rate	(1)	4
Adjustments to tax charge in respect of previous periods	-	1
Tax on profit on ordinary activities	<b>353</b>	<b>304</b>

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 2017 has been calculated based on the expected long term rate of 17% substantively enacted at the balance sheet date.

## NOTES TO THE FINANCIAL STATEMENTS continued

## YEAR ENDED 31 DECEMBER 2017

## 8 FIXED ASSETS - INTANGIBLE ASSETS

	Goodwill £000	Software £000	Total £000
<b>Cost</b>			
At 31 December 2016	32	26	58
Additions	-	4	4
Disposals	-	-	-
At 31 December 2017	32	30	62
<b>Amortisation</b>			
At 31 December 2016	-	20	20
Disposals	-	-	-
Charge for the period	-	2	2
At 31 December 2017	-	22	22
<b>Net book value</b>			
At 31 December 2017	32	8	40
At 31 December 2016	32	6	38

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

## Impairment testing

Goodwill considered significant in comparison to the Company's total carrying amount of such assets have been allocated to cash generating units or groups of cash generating units as follows:

	2017 £000	2016 £000
Vauxhall franchise	32	32

Full details of the key assumptions of cash flow projections, management's approach to determining values assigned to each key assumption, the period over which cash flows are projected and the growth rates used can be found in consolidated financial statements of Pendragon PLC for the year ended 31 December 2017.

The recoverable amount of the franchises has been calculated with reference to its value in use.

## 9 FIXED ASSETS - TANGIBLE ASSETS

	Short leasehold property £000	Plant & equipment £000	Motor vehicles £000	Total £000
<b>Cost</b>				
At 31 December 2016	41	786	138	965
Additions	-	188	326	514
Disposals	-	(28)	(338)	(366)
At 31 December 2017	41	946	126	1,113
<b>Depreciation</b>				
At 31 December 2016	10	497	8	515
Disposals	-	(24)	(26)	(50)
Charge for the period	1	95	27	123
At 31 December 2017	11	568	9	588
<b>Net book value</b>				
At 31 December 2017	30	378	117	525
At 31 December 2016	31	289	130	450

## 10 STOCKS

	2017 £000	2016 £000
New and used vehicles	6,359	5,716
Parts and sundry stocks	273	193
	6,632	5,909

During the year £5,000 was recognised as a credit in respect of the write down of stocks (2016 : £nil).

## 11 DEBTORS

	2017 £000	2016 £000
Trade debtors	192	221
Amounts owed by group undertakings	1,639	1,654
Deferred taxation (see note 13)	85	98
Other debtors	203	503
Prepayments and accrued income	37	34
	2,156	2,510

All amounts are due within one year, with the exception of deferred tax.

**NOTES TO THE FINANCIAL STATEMENTS continued****YEAR ENDED 31 DECEMBER 2017****12 CREDITORS : amounts falling due within one year**

	2017 £000	2016 £000
Payments received on account	33	47
Trade creditors	2,849	2,622
UK Corporation tax	340	281
Other taxation and social security	182	191
Accruals and deferred income	699	784
	<b>4,103</b>	<b>3,925</b>

Amounts owed to group undertakings are repayable on demand and bear no interest.

**13 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:

	2017 £000	2016 £000
Deferred tax assets	85	98

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

	Accelerated capital allowances £000	Other short term temporary differences £000	Total £000
At 1 January 2016	110	4	114
Charged to profit and loss	(15)	(1)	(16)
At 31 December 2016	95	3	98
At 1 January 2017	95	3	98
Charged to profit and loss	(12)	(1)	(13)
At 31 December 2017	83	2	85

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

Deferred tax asset is shown within debtors (see note 11).

**14 CALLED UP SHARE CAPITAL**

	2017 £000	2016 £000
Allotted, called-up and fully paid		
75,000 (2016 : 75,000) 'A' Ordinary £1 shares	75	75
1,425,000 (2016 : 1,425,000) 'B' Ordinary £1 shares	1,425	1,425
	<b>1,500</b>	<b>1,500</b>



NOTES TO THE FINANCIAL STATEMENTS continuedYEAR ENDED 31 DECEMBER 2017

## 15 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:

	2017 £000	2016 £000
Within one year	2	-

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:

	2017 £000	2016 £000
Operating lease rentals payable - property rentals	494	444

## 16 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.

## 17 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 2017 the scheme had a deficit on an IAS 19 basis of £62,800,000 (2016 : £103,200,000).

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

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 £66,000 (2016 : £68,000).

## 18 JOINT VENTURE PARTIES

Reg Vardy (VMC) Limited was a joint venture undertaking between Reg Vardy Limited and Vauxhall Motors Limited for the year ended 31 December 2017 presented in these financial statements. Pendragon PLC is the ultimate parent company of Reg Vardy Limited. On 3 August 2018 Reg Vardy Limited acquired the 5% shareholding held by Vauxhall Motors Limited, consisting the entire issued 'A' ordinary share capital of the Company. As a consequence the Company has reverted its status as a joint venture to that of a wholly owned subsidiary of Pendragon PLC. Copies of the financial statements of Pendragon PLC and Vauxhall Motors Limited can be obtained from their respective Company Secretaries at the following addresses:

Pendragon PLC, Loxley House, Little Oak Drive, Annesley, Nottinghamshire, NG15 0DR.  
Vauxhall Motors Limited, Griffin House UK, 1-101-135 Osborne Road, Luton, Bedfordshire, LU1 3YT.