

**STRIPESTAR LIMITED**

**REPORT AND FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2018**

Registered Number : 03786959



**STRIPESTAR LIMITED**

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**YEAR ENDED 31 DECEMBER 2018**

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STRATEGIC REPORTYEAR ENDED 31 DECEMBER 2018

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

The Company's principal activity is that of motor retailers and parts distributors in the UK. The business consists of the sale of new and used vehicles and the service and repair of vehicles. On 1 January 2019 the Company sold the trade and assets of all of its motor vehicle dealerships to Evans Halshaw Limited, another company in the Pendragon group for a consideration of £136.2m. At this point the Company has ceased to trade.

As shown in the Company's profit and loss account on page 5, turnover increased by 1.2% from £1,087,334,000 in the prior year to £1,100,840,000 in the current year and the result for the financial year increased from a £14,117,000 profit in 2017 to a profit of £20,373,000 in the current year. The increase in turnover has been achieved despite a 3% fall in the number of new and used vehicles sold, but improving margins and an increase in aftersales activity have resulted in the increase in profitability.

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 increased by £20,366,000 to £78,301,000. This was due the profit of £20,373,000 for the year less the net share based payments debit of £12,000.

The Company ceased trading on 1 January 2019 when it sold its trade and assets. Consequently the Company's risk exposure has reduced and therefore market and employment risks are no longer relevant. The Company however still considers fluctuations in general economic conditions, environmental concerns and legislation all risks, though at a lower level than when it was actively trading. The Risk Control Group of Pendragon PLC has met to consider these risks and uncertainties 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.

Stripestar 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.

By order of the Board



M S 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. The directors recommend the payment of a final dividend of £44,000,000 subject to approval by the Board of Directors (2017 : £nil).

**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 S Willis (appointed 8 April 2019)  
M S Casha  
Pendragon Management Services Limited

**EMPLOYEES**

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

**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.

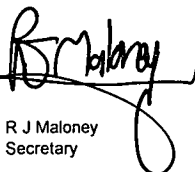
**DISCLOSURE OF INFORMATION TO AUDITOR**

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  
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 Stripestar 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.

**Brexit other matter paragraph**

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.

**Emphasis of matter - non-going concern basis of preparation**

We draw attention to the disclosure made in note 1 to the financial statements which explains that the financial statements have not been prepared on the going concern basis for the reasons set out in that note. Our opinion is not modified in respect of this matter.

**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.



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	1,100,840	1,087,334
	Cost of sales	(981,642)	(976,069)
	GROSS PROFIT	119,198	111,265
	Distribution costs	(54,999)	(57,510)
	Administrative expenses	(36,731)	(33,963)
3	OPERATING PROFIT	27,468	19,792
5	Interest receivable	879	709
6	Interest payable	(3,222)	(3,077)
	PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	25,125	17,424
7	Taxation on profit on ordinary activities	(4,752)	(3,307)
	PROFIT FOR THE FINANCIAL YEAR	20,373	14,117

All amounts relate to discontinuing 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 15 form part of these financial statements.

BALANCE SHEETAT 31 DECEMBER 2018

Note		2018 £000	2017 £000
	<b>FIXED ASSETS</b>		
8	Intangible assets - Goodwill	1,547	1,547
8	Intangible assets - Other intangible assets	144	149
9	Tangible assets	18,913	16,832
		<b>20,604</b>	<b>18,528</b>
	<b>CURRENT ASSETS</b>		
10	Stocks	272,540	269,595
11	Debtors	23,938	21,131
	Cash at bank and in hand	60,273	51,204
		<b>356,751</b>	<b>341,930</b>
12	CREDITORS: amounts falling due within one year	(298,954)	(302,418)
	<b>NET CURRENT ASSETS</b>	<b>57,797</b>	<b>39,512</b>
	<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>78,401</b>	<b>58,040</b>
13	CREDITORS : amounts falling due in more than one year	(100)	(100)
	<b>NET ASSETS</b>	<b>78,301</b>	<b>57,940</b>
	<b>CAPITAL AND RESERVES</b>		
15	Called up share capital	8,600	8,600
	Share premium account	24,900	24,900
	Profit and loss account	44,801	24,440
	<b>SHAREHOLDERS' FUNDS</b>	<b>78,301</b>	<b>57,940</b>

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



M S Willis  
Director

Registered Company Number : 03786959

The notes on pages 8 to 15 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	8,600	24,900	10,550	44,050
Total comprehensive income for 2017				
Profit for the year	-	-	14,117	14,117
Total comprehensive income for the year	-	-	14,117	14,117
Transactions with owners, recorded directly in equity				
Share based payments	-	-	(221)	(221)
Income tax relating to share based payments	-	-	(6)	(6)
Total contributions by and distributions to owners	-	-	(227)	(227)
Balance at 31 December 2017	8,600	24,900	24,440	57,940
Balance at 1 January 2018	8,600	24,900	24,440	57,940
Total comprehensive income for 2018				
Profit for the year	-	-	20,373	20,373
Total comprehensive income for the year	-	-	20,373	20,373
Transactions with owners, recorded directly in equity				
Income tax relating to share based payments	-	-	(12)	(12)
Total contributions by and distributions to owners	-	-	(12)	(12)
Balance at 31 December 2018	8,600	24,900	44,801	78,301

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

## NOTES TO THE FINANCIAL STATEMENTS

## YEAR ENDED 31 DECEMBER 2018

## 1 ACCOUNTING POLICIES

## (a) Basis of preparation.

Stripestar Limited is a company incorporated, domiciled and registered in England in the UK. The Company's registered number is 03786959 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').

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:

- IFRS 2 Share Based Payments in respect of group settled share based payments;
- Certain disclosures required by IAS 36 Impairment of assets in respect of the impairment of goodwill and indefinite life intangible assets;
- Disclosures required by IFRS 5 Non-current Assets Held for Sale and Discontinued Operations in respect of the cash flows of discontinued operations;
- 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 estimate applicable to the financial statements, which has 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
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 2018

## 1 ACCOUNTING POLICIES continued

## (a) Basis of preparation. continued

## Going concern

As explained in the Strategic Report, the entity transferred its trade, assets and liabilities to a fellow subsidiary on 1 January 2019 and has ceased trading. As required by IAS 1 Presentation of Financial Statements, management has prepared the financial statements on the basis that the entity is no longer a going concern. No material adjustments arose as a result of ceasing to apply the going concern basis. All assets and liabilities were transferred to the fellow subsidiary at their carrying amounts.

(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 after-sales 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 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) 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.

(f) 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.

(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 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.

## NOTES TO THE FINANCIAL STATEMENTS continued

## YEAR ENDED 31 DECEMBER 2018

## 1 ACCOUNTING POLICIES continued

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

An impairment loss in respect of goodwill is reversed if and only if the reasons for the impairment have ceased to apply.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(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 right to offset current tax assets against current tax liabilities.

(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) Share based payments. The Group operates a number of employee share option schemes. The fair value at the date at which the share options are granted is recognised in the profit and loss account on a straight line basis over the vesting period, taking into account the number of options that are expected to vest. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The number of options that are expected to become exercisable is reviewed at each balance sheet date and if necessary estimates are revised.

(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.

## NOTES TO THE FINANCIAL STATEMENTS continued

## YEAR ENDED 31 DECEMBER 2018

## 1 ACCOUNTING POLICIES continued

(o) Classification of financial instruments issued by the Company. In accordance with IAS 32, financial instruments issued by the Company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- i) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- ii) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds, are dealt with as appropriations in the Reconciliation of Movements in Shareholders' Funds.

(p) 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 activities, 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	493,497	500,167
Used vehicle revenue	558,407	541,750
Aftersales revenue	48,936	45,417
Turnover from external customers	1,100,840	1,087,334
Timing of turnover recognition	2018 £000	2017 £000
At point in time	1,099,046	1,086,064
Over time	1,794	1,270
Turnover from external customers	1,100,840	1,087,334

All turnover arises in the United Kingdom.

Contract balances	2018 £000	2017 £000
Contract assets	527	377
Contract liabilities	(1,985)	(1,722)

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	4,899	5,053
Amortisation of other intangible assets	52	49
Auditor's remuneration- audit	19	19
Operating lease charges - Plant & Equipment	68	42
Operating lease charges - Land & Buildings	8,296	8,397

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 2018

## 4 EMPLOYEES

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

	2018 Number	2017 Number
Sales	517	537
Aftersales	935	970
Administration	613	636
	<b>2,065</b>	<b>2,143</b>

Costs incurred in respect of these employees were :

	2018 £000	2017 £000
Wages and salaries	52,147	52,057
Social security costs	4,656	4,670
Other pension costs	1,567	970
Share based payments	-	(221)
	<b>58,370</b>	<b>57,476</b>

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 £190,000 (2017 : £243,000).

## 5 INTEREST RECEIVABLE

	2018 £000	2017 £000
Bank interest receivable	879	709

## 6 INTEREST PAYABLE

	2018 £000	2017 £000
Stocking loan interest	1,735	1,797
Intra group loan interest	1,487	1,280
	<b>3,222</b>	<b>3,077</b>

## 7 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	4,678	3,420
Adjustments in respect of prior periods	(122)	(181)
Total current tax	<b>4,556</b>	<b>3,239</b>
Deferred taxation:		
Origination and reversal of temporary differences	97	(79)
Adjustments in respect of prior periods	99	147
Total deferred tax	<b>196</b>	<b>68</b>
Tax on profit on ordinary activities	<b>4,752</b>	<b>3,307</b>

Factors affecting the tax charge for the period:

The tax assessed for the year 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	<b>25,125</b>	<b>17,424</b>
Tax on profit at the UK average statutory rate of 19.00% (2017 : 19.25%)	<b>4,774</b>	<b>3,354</b>
Effects of:		
Permanent differences arising in respect of fixed assets	13	10
Expenses not deductible in determining taxable profit	-	(34)
Effect of decrease in tax rate	(12)	11
Adjustments to tax charge in respect of previous periods	(23)	(34)
Tax on profit on ordinary activities	<b>4,752</b>	<b>3,307</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 2018 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 2018

## 8 FIXED ASSETS - INTANGIBLE ASSETS

	Goodwill £000	Software £000	Total £000
<b>Cost</b>			
At 31 December 2017	1,547	460	2,007
Additions	-	49	49
Disposals	-	(31)	(31)
At 31 December 2018	1,547	478	2,025
<b>Amortisation</b>			
At 31 December 2017	-	311	311
Charge for the year	-	52	52
Disposals	-	(29)	(29)
At 31 December 2018	-	334	334
<b>Net book value</b>			
At 31 December 2018	1,547	144	1,691
At 31 December 2017	1,547	149	1,696

All intangible assets are classified as held for sale at 31 December 2018 and were sold at their net book value on 1 January 2019.

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:

	2018 £000	2017 £000
Ford Motor Company franchise	1,547	1,547

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 2018.

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 2017	740	20,344	12,577	33,661
Additions	89	2,973	21,110	24,172
Disposals	-	(740)	(19,742)	(20,482)
At 31 December 2018	829	22,577	13,945	37,351
<b>Depreciation</b>				
At 31 December 2017	402	14,490	1,937	16,829
Disposals	-	(702)	(2,588)	(3,290)
Charge for the year	68	1,870	2,961	4,899
At 31 December 2018	470	15,658	2,310	18,438
<b>Net book value</b>				
At 31 December 2018	359	6,919	11,635	18,913
At 31 December 2017	338	5,854	10,640	16,832

All tangible fixed assets are classified as held for sale at 31 December 2018 and were sold at their net book value on 1 January 2019.

## 10 STOCKS

	2018 £000	2017 £000
New and used vehicles	267,696	264,037
Consignment vehicles	937	547
Vehicle parts and other stocks	3,907	5,011
	272,540	269,595

During the year £812,000 was recognised as a credit in respect of the write down of stocks (2017 : £921,000 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.

## 11 DEBTORS

	2018 £000	2017 £000
Trade debtors	10,017	7,879
Deferred tax (see note 14)	1,381	1,589
Prepayments	2,453	1,988
Other debtors	10,087	9,675
	23,938	21,131

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

## NOTES TO THE FINANCIAL STATEMENTS continued

## YEAR ENDED 31 DECEMBER 2018

## 12 CREDITORS : amounts falling due within one year

	2018 £000	2017 £000
Consignment vehicle liabilities	937	547
Payments received on account	1,487	1,499
Trade creditors	202,531	212,607
Amounts owed to group undertakings	55,325	62,409
UK Corporation tax	4,678	-
Other taxation and social security	14,393	7,022
Accruals and deferred income	19,603	18,334
	<b>298,954</b>	<b>302,418</b>

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

## 13 CREDITORS : amounts falling due in more than one year

	2018 £000	2017 £000
Shares classified as liabilities (see note 15)	100	100

## 14 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 assets	1,381	1,589

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 2017	1,629	34	1,663
(Charged) to profit and loss	(63)	(5)	(68)
(Charged) to equity	-	(6)	(6)
At 31 December 2017	1,566	23	1,589
At 1 January 2018	1,566	23	1,589
(Charged) to profit and loss	(200)	4	(196)
(Charged) to equity	-	(12)	(12)
At 31 December 2018	1,366	15	1,381

The deferred tax asset in relation to fixed asset and other timing differences is shown within debtors (see note 11).

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

## 15 CALLED UP SHARE CAPITAL

	2018 £000	2017 £000
Allotted, called up and fully paid :		
8,600,000 (2017 : 8,600,000) Ordinary shares of £1.00 each	8,600	8,600
100,000 (2017 : 100,000) Preference shares of £1.00 each	100	100
	<b>8,700</b>	<b>8,700</b>
Shares classified as liabilities (see note 13)	100	100
Shares classified in shareholders' funds	8,600	8,600
	<b>8,700</b>	<b>8,700</b>

## 16 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	224	116
In the second to fifth years inclusive	229	36
	<b>453</b>	<b>152</b>

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	68	42
- hire of plant and machinery		
- property rentals	8,296	8,397

## 17 SHARE BASED PAYMENTS

The Company's parent, Pendragon PLC, has granted rights to its equity instruments to certain employees of the Company. Full details of these schemes are provided in the consolidated financial statements of Pendragon PLC for the year ended 31 December 2018.

The Company recognised no charge (2017 : £221,000 credit) relating to equity-settled share based payment transactions.



## NOTES TO THE FINANCIAL STATEMENTS continued

## YEAR ENDED 31 DECEMBER 2018

## 18 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.

## 19 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 £1,567,000 (2017 : £970,000).

## 20 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

## 21 POST BALANCE SHEET EVENT

On 1 January 2019 the Company sold its trade and assets to Evans Halshaw Limited, another Pendragon group company for a consideration of £136.2m. At this point the company has ceased trading.