Marshall Motor Holdings plc

Annual Report & Accounts 2020

PUTTING OUR CUSTOMERS ABOVE ALL ELSE SINCE 1909

22 BRAND PARTNERS
128 OPERATING UNITS
28 COUNTIES NATIONWIDE

Volkswagen ID.4

Contents

STRATEGIC REPORT

Chairman's Statement ... 8
Operating Review ... 10
Financial Review ... 34
Principal Risks and Uncertainties ... 40
Board Decision Making (s.172 Statement) ... 46

GOVERNANCE

Board of Directors ... 50
Directors' Report ... 52
Corporate and Social Responsibility ... 56
Corporate Governance Report ... 66
Audit Committee Report ... 72
Remuneration Committee Report ... 78
Directors' Remuneration Policy ... 82
Directors' Remuneration Report ... 86
Statement of Directors' Responsibilities ... 90

FINANCIAL STATEMENTS

Independent Auditor's Report ... 91

Consolidated Financial Statements

Consolidated Statement of Comprehensive Income ... 99
Consolidated Balance Sheet ... 100
Consolidated Statement of Changes in Equity ... 101
Consolidated Cash Flow Statement ... 102
Net Debt Reconciliation ... 103
Notes to the Consolidated Financial Statements ... 104

Parent Company Financial Statements

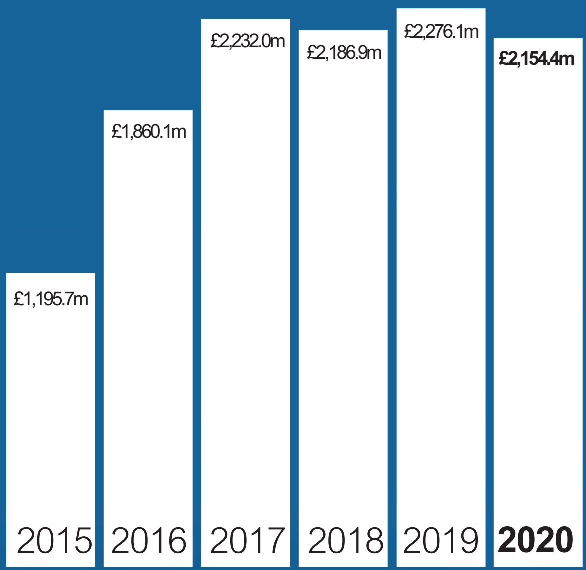
Parent Company Balance Sheet ... 160
Parent Company Statement of Changes in Equity ... 161
Notes to the Parent Company Financial Statements ... 162

COMPANY INFORMATION ... 171

Marshall
Motor Holdings plc

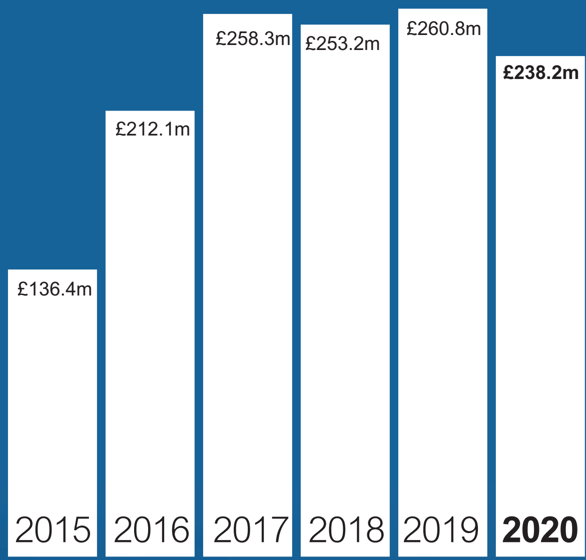
Historical Financial Trends

Revenue £m
excluding discontinued leasing segment



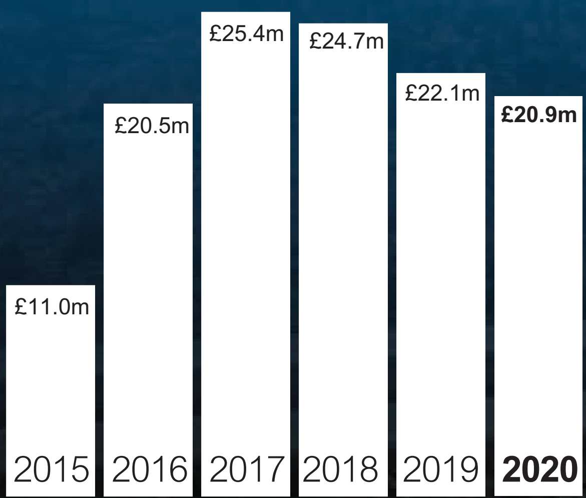
CAGR 12.5%

Gross Profit £m
excluding discontinued leasing segment

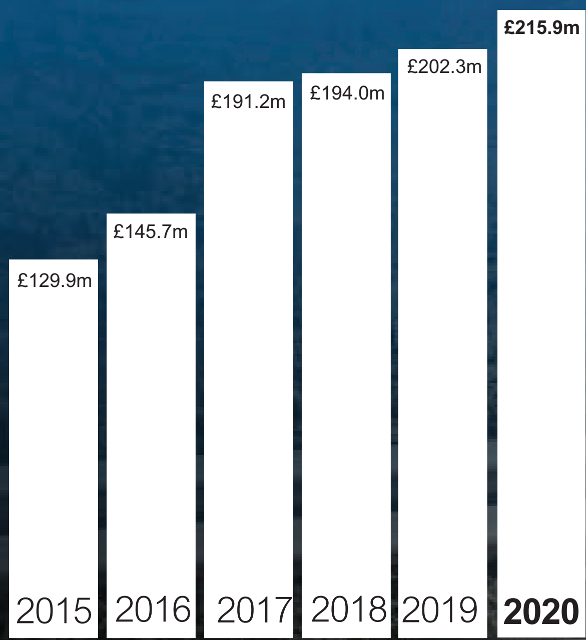


CAGR 11.8%

Underlying Profit Before Tax*/** £m



Net Assets £m



* underlying profit before tax is presented excluding non-underlying items (see Note 7)

** 2018 has been restated following the adoption of IFRS 16 "Leases" (see Note 3)

2020 Quick Overview

£2.2bn
Revenue

£20.9m
Underlying Profit Before Tax

87,439
New and Used Units Sold

£215.9m
Net Assets

£31.1m
Underlying Operating Profit

128
Operating Units

3,691
Colleagues
at 31 December 2020

No.1
Automotive
Retail Employer

Great Place To Work.

Ranked 6 years running by our colleagues in the best UK workplaces

MOTOR TRADER INDUSTRY AWARDS 2020
WINNER

Employer of the Year
& Social Media Awards

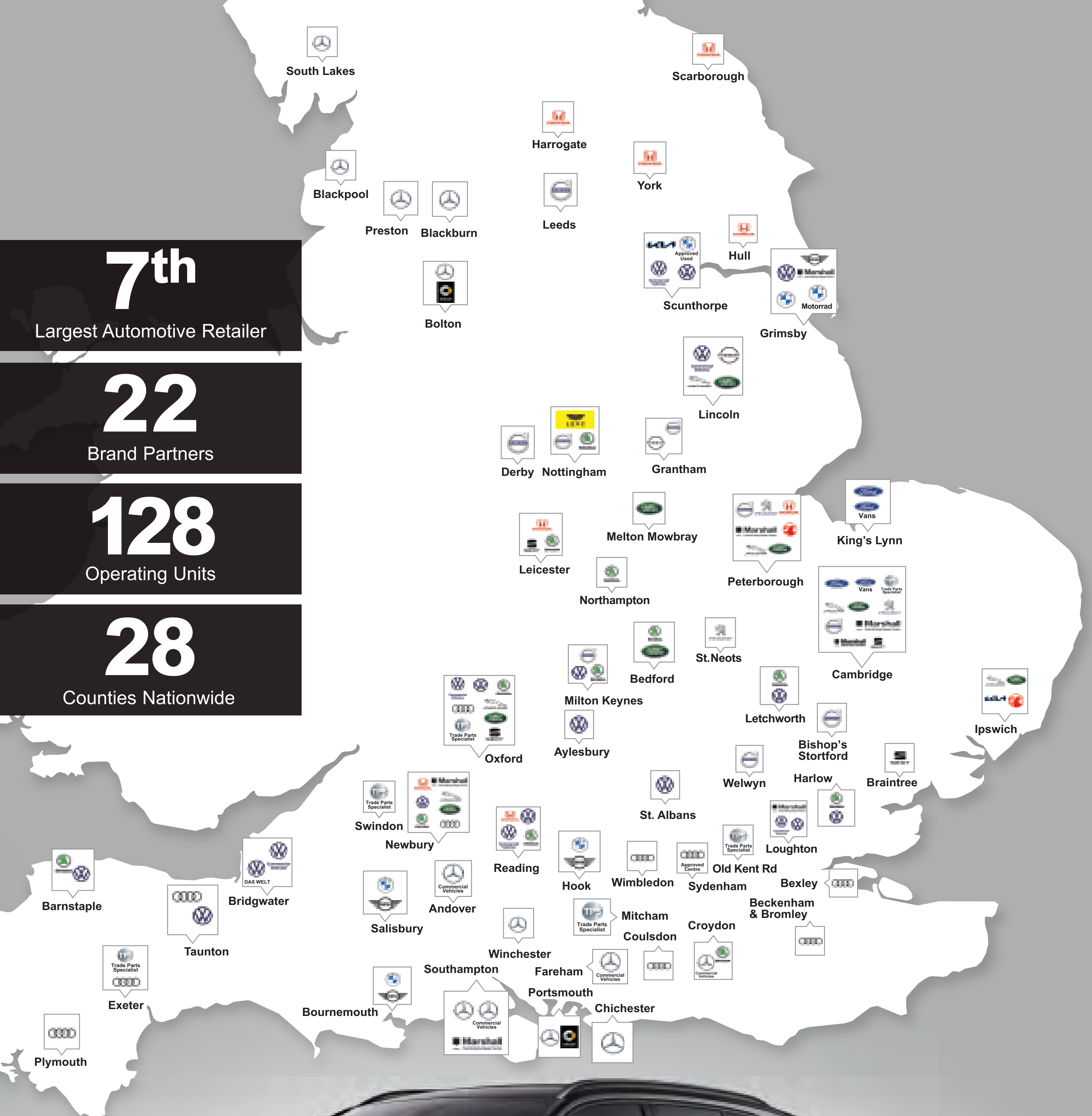
Jaguar F-TYPE

7th
Largest Automotive Retailer

22
Brand Partners

128
Operating Units

28
Counties Nationwide



Volvo XC40 T5

Retail Franchised Dealerships

Beckenham & Bromley, Bexley, Coulsdon, Exeter, Newbury, Oxford, Plymouth, Taunton and Wimbledon

Bournemouth, Grimsby (with Motorrad), Hook and Salisbury

Cambridge and King's Lynn

Harrogate, Hull, South Leicester, Newbury, Peterborough, Reading, Scarborough and York

Cambridge, Ipswich, Lincoln, Newbury, Oxford and Peterborough

Ipswich, Scunthorpe

Bedford, Cambridge, Ipswich, Lincoln, Melton Mowbray, Newbury Oxford and Peterborough

Blackburn, Blackpool, Bolton, Chichester, Portsmouth, Preston, Southampton, South Lakes and Winchester

Bournemouth, Grimsby, Hook and Salisbury

Grantham and Lincoln

Cambridge, Peterborough and St. Neots

Braintree, Cambridge, Leicester and Oxford

Barnstaple, Bedford, Croydon, Harlow, Leicester, Letchworth, Milton Keynes, Newbury, Northampton, Nottingham, Oxford and Reading

Bolton and Portsmouth

Ipswich and Peterborough

Aylesbury, Barnstaple, Bridgwater, Grimsby, Harlow, Letchworth, Loughton, Milton Keynes, Newbury, North Oxford, South Oxford, St. Albans, Reading, Scunthorpe and Taunton

Bishops Stortford, Cambridge, Derby, Grantham, Leeds, Milton Keynes, Nottingham, Peterborough and Welwyn Garden City

Commercial Vehicle Dealerships

Cambridge and King's Lynn

Andover, Fareham and Southampton

Bridgwater, Lincoln, Loughton, Oxford, Reading and Scunthorpe

Other Stand-Alone Operating Units

Cambridge, Exeter, Mitcham, Old Kent Road / Dartford, Oxford and Swindon

Cambridge, Greenham Prep Centre, Grimsby, Loughton, New Forest and Peterborough

Audi Sydenham, BMW Scunthorpe and Cambridge Used Cars

Croydon Service Centre

Nottingham

Cambridge

Chairman's Statement

"Our priority in responding to the COVID-19 pandemic has been the safety and wellbeing of our colleagues and customers and doing our duty to the broader society to which we belong."

Professor
Richard Parry-Jones CBE
Chairman

Introduction

I am pleased to present our annual results for the year ended 31 December 2020 (the "Year").

The Year was, inevitably, dominated by the impact of COVID-19 and the measures put in place to control the spread of the virus. As a result, there were prolonged periods of the Year during which all, or some elements, of our physical retail business were required to close. Whilst this clearly affected trading during those periods, we recognise and are grateful for, the fact that our sector was not as negatively impacted as others.

As a sector, we benefited from a number of tailwinds following the reopening of our businesses after the initial national lockdown: we were permitted to open our retail businesses earlier than other retailers on 1 June 2020 and we benefited from the release of pent-up demand in both sales and aftersales, an increased preference for private mobility and robust used car valuations as a result of supply constraints for new cars.

We also benefitted significantly from Government support measures; including business rates relief, retail grants and the Coronavirus Job Retention Scheme (CJRS). We are grateful that these measures enabled us to protect the vast majority of jobs within the Group as well as our liquidity.

Our brand partners and suppliers have been extremely supportive during this challenging period and we are thankful for this support. In challenging times such as those experienced during the Year, the importance of the symbiotic relationship with each of our strong, global franchise partners was clearly demonstrated.

I am incredibly proud of how our management team and colleagues across the Group responded to the challenges with which we were presented during the Year. Our priority in responding to the COVID-19 pandemic has been the safety and wellbeing of our colleagues and customers and doing our duty to the broader society to which we belong. As well as ensuring our businesses were safe environments in line with COVID-19 secure guidelines, we worked hard to support colleagues, both financially and through wider wellbeing initiatives.

From a trading perspective, our continued outperformance of the wider market was significant and (in combination with the support measures and sector tailwinds referred to above) enabled us to achieve a strong financial result for the Year despite the challenges we faced.

Strategy

The Group's strategy of close partnership with major global automotive brands has served us well over many years, none more so than in 2020 when the strength and depth of our partnerships was clearly demonstrated. Whilst completed corporate activity during the Year was more limited as a result of COVID-19, our clear strategy, strong financial position and support of our key brand partners will enable us to take further growth opportunities as they arise. We also believe that those automotive retailers with both scale and a diverse portfolio will be best placed to succeed in a changing market and continue to explore ways to increase our scale with high quality, financially attractive acquisitions.

The automotive sector was already undergoing a period of evolution, driven by a combination of environmental, technological and social change factors. COVID-19 has accelerated a number of these developments, in particular, the progression towards a more flexible, consumer-centric retail model incorporating remote sales utilising technology such as video consultations, online purchases with vehicle delivery and 'click and collect' services. We have embraced these developments and the operational efficiencies and improved customer choice of experience they offer.

Nevertheless, COVID-19 has also demonstrated the importance of our physical presence. Despite widespread use of remote sales channels throughout the pandemic, vehicle sales during the Year were significantly impacted by the closure of showrooms for prolonged periods with research consistently showing that the majority of consumers continue to opt for a showroom experience as part of the car buying process.

Along with our manufacturer partners, we continue to believe that a strong retail franchise network will be a crucial component of the future automotive sector. This perfectly complements our increasingly strong online presence and is positioning us to provide the 'best of both worlds' to our customers, offering a bespoke customer experience with warm human relationships at its heart.

Results

The Group delivered a strong financial performance in what was a very challenging year.

The Group achieved reported revenue (including 2019 acquisitions) of £2.2 billion (2019: £2.3 billion). Underlying profit before tax* ('PBT') for Year was £20.9m (2019: £22.1m). The Board considers this to be a strong result given the circumstances and, as stated above, was achieved as a result of a combination of continued market outperformance, sector tailwinds and significant Government support.

The Group's balance sheet is also strong, with adjusted net cash** of £28.8m at 31 December 2020 (2019: adjusted net debt of £30.6m). Net assets rose to £215.9m, underpinned by £125.8m of freehold land and buildings.

Dividend

The Board has considered the position in relation to dividends extremely carefully. The Board is cognisant of the fact that, in light of the uncertainty caused by COVID-19, it suspended and subsequently cancelled the previously announced final dividend for 2019 and did not declare an interim dividend for 2020. The Board continues to believe this was the right action to take to maximise the Group's financial resilience in the face of an extremely unpredictable trading environment.

In relation to 2020, whilst the Group has performed well and its financial position is strong, the Board is mindful of the significant support the Group has received both from Government measures such as business rates relief and CJRS and from other stakeholders.

As a result, the Board feels it would be inappropriate to recommend the payment of a final dividend for 2020. The Board understands the importance of dividends to shareholders and intends to resume the payment of dividends as soon as conditions allow and will consider the position next at the time of release of its interim results in August 2021. Our approach to management bonuses supports this position: while we value management's efforts and commitment enormously, the Board and management have collectively agreed that no executive management bonuses should be paid until to the Group can restore dividends.

AGM

Our annual general meeting will be held on 20 May 2021. The Board would prefer to hold a physical meeting at which shareholders are able to attend in person, but that may not be possible.

Summary

The impact of COVID-19 continues to dominate the social and economic environment in 2021. Our experience of meeting these challenges during the Year, coupled with the demonstrable resilience and flexibility of our business model, leads to our belief in being able to navigate through the headwinds that may arise in the short term.

Our strategic focus and tried and tested business model, together with our exceptionally strong relationships with our brand partners, gives us confidence in the Group's future prospects and success. The Group's balance sheet remains strong and we continue to be well positioned to take advantage of further growth and consolidation opportunities as they arise.

I would like to thank the leadership team, our brand partners, business suppliers, shareholders and colleagues throughout the Group for their wholehearted support during a very challenging year.

Finally, I would also like to thank all of our customers throughout the UK who continue to choose Marshall for their mobility products and services. We believe in putting our customers at the heart of everything we do and we never lose sight of the fact that our sustained success as a business is dependent on meeting and exceeding their expectations.

Professor Richard Parry-Jones CBE
Chairman
8 March 2021

* Underlying profit before tax is presented excluding non-underlying items (see Note 7 to the financial statements).

** Adjusted net cash/(debt) is presented excluding the impact of IFRS16 *Leases*.

LEVC VN5 van

Operating Review

"The response of colleagues across our businesses during the Year was outstanding. Despite significant uncertainty, our colleagues went above and beyond, rising to the challenges we collectively faced."

Daksh Gupta
Chief Executive Officer

Overview

2020 was dominated by COVID-19 and the impact of measures put in place to control the spread of the virus, both in the UK and globally. In common with many other businesses, there were prolonged periods during the Year when our physical retail businesses were required to close, in full or in part, which clearly had a significant impact on trading.

Nevertheless, through a combination of support received from both the Government and our business partners, a number of one-off sector tailwinds and our continued and significant outperformance of the wider market, we are pleased to report an underlying profit before tax for the Year of £20.9m (2019: £22.1m). Our financial position also remains strong, with adjusted net cash at 31 December 2020 of £28.8m (2019: adjusted net debt of £30.6m).

Our priority in responding to the COVID-19 pandemic was and remains the safety and wellbeing of our colleagues and customers. As well as ensuring our businesses were COVID-19 secure in line with Government guidelines, we worked hard to support colleagues, both financially and through wider wellbeing initiatives, further details of which are set out later in this report.

In recognition of the vital role our aftersales operations play in supporting essential vehicle mobility, we continued to provide essential vehicle aftersales services during periods of national and local lockdown to support the emergency services, commercial vehicle operators, vulnerable customers and key workers. The Board believed it was appropriate for the Company to continue to offer these services, notwithstanding they operated at a small loss, to support the country, particularly in light of the various Government support schemes provided to businesses through this period.

The response of colleagues across our businesses during the Year was outstanding. Despite significant uncertainty, our colleagues went above and beyond, rising to the challenges we collectively faced. Their contribution to our financial result cannot be underestimated and we thank them all for their dedication and commitment.

Whilst the impact of COVID-19 will continue to dominate the social and economic environment in 2021, our success in meeting these challenges to date, coupled with the demonstrable resilience and flexibility of our business model, gives us confidence in our ability to successfully navigate the coming months.

Like-for-like revenue
£1.9bn
(2019: £2.2bn)

Underlying PBT
£20.9m
(2019: £22.1m)

Financial Highlights:

- Reported revenue of £2.2 billion, down 5.3% (2019: £2.3bn), with like-for-like revenue of £1.9 billion, down 13.5% (2019: £2.2bn), despite significant market decline as a result of national lockdowns;
- Underlying profit before tax of £20.9m (2019: £22.1m), reported profit before tax of £20.4m (2019: £19.6m);
- Total new vehicle unit sales down 9.2%, with like-for-like total new vehicle unit sales down 19.4%, heavily impacted by COVID-19 but a strong double-digit outperformance against a UK market registration decline of 29.4%;
  - Total new vehicle unit sales to retail customers down 4.6% with like-for-like down 16.9%, an outperformance against a UK retail market registration decline of 26.6%;
  - Total new vehicle unit sales to fleet customers down 16.8% with like-for-like down 23.2%, an outperformance against a UK fleet market registration decline of 31.7%;
- Total used vehicle unit sales down 5.3% with like-for-like unit sales down 14.6%, compared with used vehicle transactions down 14.9%, a pleasing result given showroom closures;
- Reduced impact in aftersales with total revenue down 6.7% and like-for-like revenue down 13.5%;
- Total overheads of £207.1m, down by 9.5% (2019: £228.8m), reflecting Government and partner support combined with strong management actions;
- Adjusted net cash at 31 December 2020 of £28.8m, an increase of £59.4m from 31 December 2019 as a result of a combination of Government COVID-19 support measures, working capital control and management cash preservation actions taken during 2020;
- Positive cash position enabled voluntary repayment, 18 months early, of £10.9m being all amounts due under the VAT Payment Deferral Scheme;
- £120m revolving credit facility extended in July until 2023; COVID-19-related covenant amendments agreed;
- No final dividend for Full Year 2020 proposed

Strategic and Operational Highlights:

- The Group added three further locations with the acquisition of Aylesbury Volkswagen and start-ups of Oxford Seat and King's Lynn Ford Commercial Vehicles;
- Eleventh consecutive year of Great Place to Work status and sixth consecutive year of being ranked as one of the UK's best workplaces;
- Further development of the Group's digital strategy, including the introduction of 'click and collect' and online reservation services;
- Continued promotion of the 'Marshall' brand with a number of national TV marketing campaigns and continuation of our award-winning social media activities;
- Ongoing portfolio management with the closure of four sub-scale, loss making businesses.

Land Rover Defender

COVID-19: impact and timeline

As stated above, 2020 was dominated by the impact of COVID-19 and the Year was characterised by four distinct trading periods:

1) Pre-COVID-19: strong trading ***(Jan to late March 2020)***

In our 2019 results announcement on 10 March 2020, we reported that our order-book for the important March 2020 plate-change month had been encouraging. As the month progressed, the Group continued to perform strongly and was confident of achieving an excellent operational and financial performance in the first quarter of the Year.

Notwithstanding the temporary closure of our physical sites in what is traditionally the busiest week of the year, we were able to significantly outperform the wider UK new car market in the first quarter:

- Like-for-like new unit sales for the three months to 31 March 2020 were down 10.6% compared to the 31.0% decline in new vehicle registrations reported by the Society of Motor Manufacturers and Traders (SMMT) over that period. This outperformance reflected both strong order-take throughout the first quarter of the Year and a focus on completing customer handovers in anticipation of the potential closure of our operations given the emerging situation with COVID-19;
- Like-for-like used unit sales were down 9.7%, a pleasing result given the fact that our showrooms were closed in the busiest week of the year;
- Like-for-like aftersales revenues were down just 3.1% despite the loss of seven trading days at the end of March;
- Total like-for-like revenue was down 6.9% in the first quarter of the Year.

2) Safeguarding our business through the closure period ***(Late March to June 2020)***

Our priority in responding to the COVID-19 pandemic was the safety and wellbeing of our colleagues and customers and we announced the temporary closure of our dealerships on 23 March 2020, prior to Government restrictions requiring car showrooms and all non-essential businesses to close, impacting the busiest week of the year.

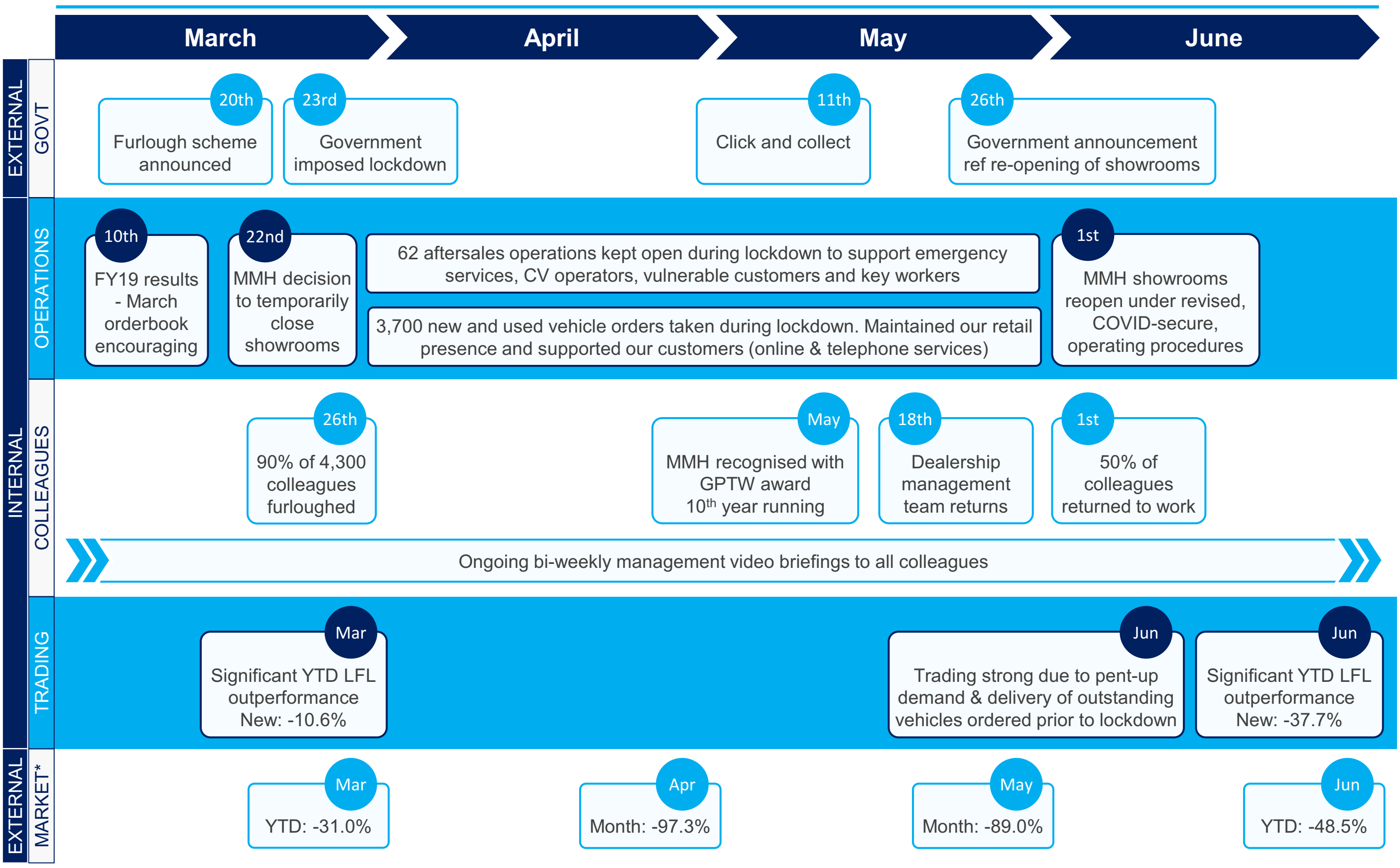
In recognition of the vital role our services play in supporting essential vehicle mobility, the Group kept 62 of its aftersales operations open across the country to support the emergency services, commercial vehicle operators, vulnerable customers and key workers throughout the COVID-19 national emergency. The Board believed it was appropriate for the Company to continue to offer these services, notwithstanding they operated at a small loss, to support the country, particularly in light of the various COVID-19 Government support schemes provided to businesses through this period.

We continued to operate online and on the telephone to manage customer enquiries for sales. During the closure period from late March to June 2020, the Group took orders for over 3,700 new and used vehicles. This was, inevitably, significantly down on the comparable prior year period during which c.19,000 new and used vehicle orders were taken.

During this period, the Group furloughed around 90% of its 4,300 colleagues. The Group acknowledges the support provided by Government through the Coronavirus Jobs Retention Scheme (CJRS) which enabled the Group to support colleagues and protect their employment.

Further details of how the Group supported colleagues during their period of furlough are set out in the ‘People Centric’ section below. These included the additional financial support we provided to supplement CJRS, through regular video communications and a focus on supporting colleagues’ mental wellbeing.

COVID-19 timeline – H1



3) Re-opening under COVID-19 secure operating procedures *(June to October 2020)*

The Group reopened all its showrooms and other operating units from the 1 June 2020. Detailed preparations were made to ensure our business reopened under revised, COVID-19 secure, operating procedures to safeguard our colleagues, customers and all other visitors to our businesses.

Through its close connections with the National Franchised Dealers Association (NFDA) and working alongside the SMMT, the Group was pleased to contribute to the COVID-19 safety guidelines issued by the Government for motor retailers. The Group carried out detailed risk assessments, mandatory colleague training ahead of return to the business (with a required pass mark of 100%) and implemented robust auditing by our Health & Safety team to provide assurance that our COVID-19 secure procedures were being implemented and followed.

Trading from June to October was strong, benefitting from a number of sector tailwinds including a release of pent-up demand (including the delivery of outstanding vehicle orders not completed prior to the closure period and those taken during that period), extended vehicle financing agreements coming to an end and a shift from use of public transport towards vehicle ownership with an increase in first-time car purchasers. Resilient consumer demand was augmented by strong margin retention and robust used car valuations as a result of supply constraints in new cars following the prolonged closure of many manufacturers' factories during the first lockdown period.

In addition to these sector tailwinds, the Group's outperformance of the wider market during this period was significant. As announced in October 2020, the Group's outperformance of the market in the important plate-change month of September was particularly strong. Against the SMMT-reported decline in total new vehicle registrations in September 2020 of 4.4%, the Group's like-for-like total new vehicle sales were up 18.4%. Across the third quarter of the Year as a whole, the Group's total new unit sales were up 11.8% on a like-for-like basis compared with SMMT-reported new vehicle registrations down 0.5%.

This strong period of trading enabled the Group to eliminate losses from the first lockdown period and gave the Board the confidence to target a significant upgrade to our adjusted profit before tax for the Year.

4) Second National Lockdown and Geographical Tiers *(November to December 2020)*

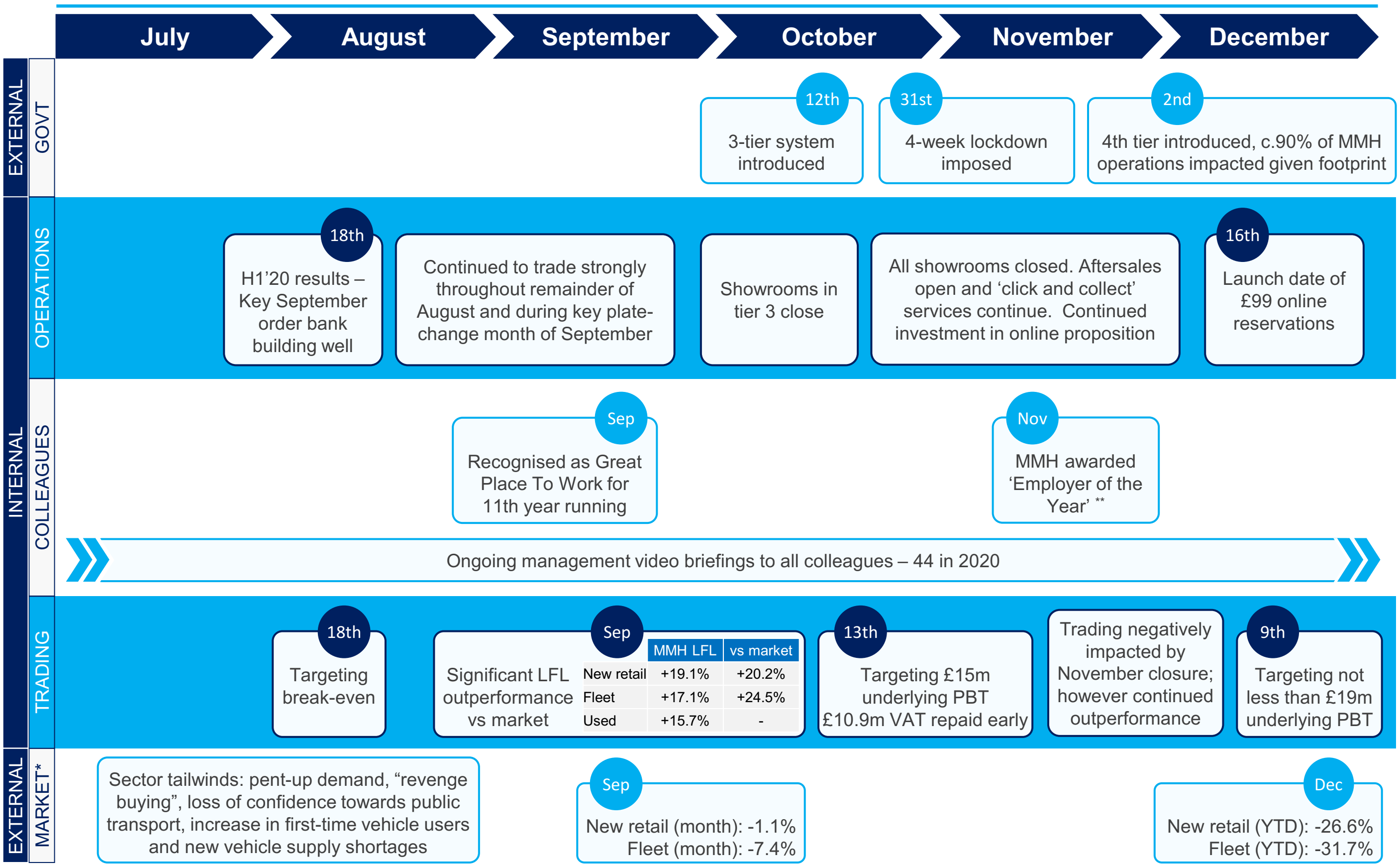
The second national lockdown in November 2020 and the subsequent introduction of Tier 4 restrictions during December 2020 and the closure of all non-essential retail (including vehicle showrooms), again impacted trading during the last two months of the Year.

With the Group's strong presence in the south and east of the country which were first to be impacted by the tier system during December 2020, around 90% of our dealerships were required to close during the last month of the Year. The Group was, however, able to continue to operate 'click and collect' retailing of new and used vehicles during this period.

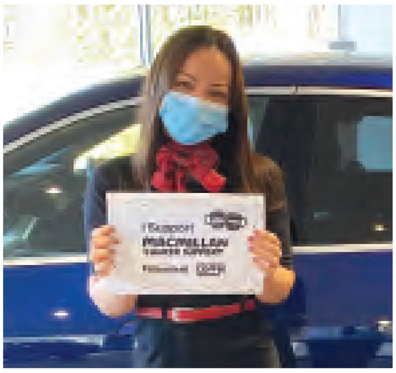
The work and investment made in ensuring we could operate effectively on a 'click and collect' basis mitigated the impact of the closure of our physical showrooms to customers. We were encouraged by the level of order-take and deliveries utilising telephone, online and 'click and collect' services.

This trading environment has continued into 2021 and whilst it has resulted in reduced order-take, the impact has been markedly less than that experienced during the first lockdown period.

COVID-19 timeline – H2



**Source: SMMT; **Motor Trader Magazine*



People are at the heart of our success

Despite the uncertain and difficult times we have experienced since March, all the things that make our business so special have carried on regardless. We couldn't be prouder of our colleagues for continuing to keep spirits high, look out for each other, support our business and the community. Never have our values been more evident.

Our vision

To be the UK's premier automotive retail group

Class leading returns

The Group aims to deliver benchmarked class leading returns for its shareholders.

Customer first

Customer service is at the core of the Group as it drives repeat car sales and the purchase of higher margin aftersales products.

Retailing excellence

The Group maintains its competitive edge by investing in the best people supported by cutting-edge technology in the sector.

People centric

The Group is committed to recruiting, training, and retaining the best talent in the industry.

Strategic growth

The Group aims to grow both organically and through acquisitions, building scale with its existing brand partners and extending its geographic footprint.

Underpinned by five strategic pillars

Strategy

The Group's strategic vision to be the UK's premier automotive group remains central to everything we do. The five strategic pillars, which underpin our vision are: **class leading returns**; putting our **customers first**; delivering **retailing excellence** for the benefit of our customers; being **people-centric** by focusing on employee engagement; and pursuing **strategic growth** both organically and through targeted acquisitions in line with the Group's strategy.

The Group aims to deliver benchmarked class leading returns for its shareholders.

Class leading returns

Although the past Year has been challenging, the Group has delivered a resilient performance by continuing to focus on the basics of customer service combined with margin, stock and cost control. The Group continues to focus on market outperformance. In addition, the Group continues to drive sales of used vehicles and aftersales, thereby mitigating the effects of a decline in the new vehicle market.

The Group's strategy of building a balanced brand portfolio with the right brand partners in the right geographic locations, helps allow for the cyclical nature of individual brands as well as regional variations in performance resulting from local economic issues.

In the medium to longer-term, continued growth with our brand partners will enable the Group to access additional benefits of scale across a number of areas of the business, supported by the use of the Marshall brand across the entire portfolio. The Group has a robust platform which is scalable for further future growth and is well placed to take advantage of a consolidating market. The has been most recently demonstrated by the successful integration of the twenty new business units acquired in 2019. The Board anticipates further rationalisation of manufacturer dealer networks over the coming years and given the Group's strong balance sheet and manufacturer relationships, is confident of continued future acquisitive growth.

Putting our customers above all else since
1909

Customer first

Customer satisfaction is an important element of the Group's strategy, driving repeat business and loyalty to the Marshall brand.

Our in-house developed management information system, Phoenix 2, provides daily customer satisfaction information by dealership, which allows management to proactively respond to customer needs. The Group centrally monitors customer satisfaction for both sales and aftersales across all locations and brand partners on a weekly basis. This ensures we remain focused on delivering on our brand partners' key measures whilst ensuring consistency of internal performance monitoring.

The Group's continued expansion and scale provides customers with a wider choice of location, stock and products, increasing both customer satisfaction and sales.

The Group's ability to adapt effectively to changing consumer preferences was demonstrated during the Year as we responded to the various restrictions imposed as a result of COVID-19. By utilising existing customer interaction capabilities (including through our website, our award-winning social media channels, online chat and use of video) we were able to respond effectively to the challenges presented by the closure of our physical showrooms.

We also accelerated plans already in place to further improve our website enabling online vehicle reservations and aftersales bookings. Further development of our online capabilities are underway, including the functionality to enable customers to complete the entire vehicle purchase and part exchange process online. Whilst fully online sales remain low across the sector as a whole, we recognise it is a growing area of interest for certain consumer groups and we are investing significantly in further improving our digital capabilities to enhance customer experience, improve our operational efficiencies and ensure consistent compliance.

Compliance

The Group operates in a regulated environment and takes its commitment to compliance seriously as well as recognising the benefit it can bring our customers. The Group recognises that compliance is an ongoing process and adopts a culture of continual improvement focused on training and awareness, system and process development, compliance monitoring and internal audit. Key compliance areas for the Group include environmental, health and safety, data protection and financial services. The Group has established compliance committees attended by cross functional colleagues from both compliance and internal audit and from operations and members of the senior management team.

Supported by the Group's experienced team of compliance professionals, the Group made detailed preparations for the introduction of the Financial Conduct Authority's 'Senior Managers and Certification Regime' (SMCR). These include clear statements of responsibility for the Group's Approved Persons, the identification and certification of the Group's 'Certification Employees' and group-wide training on SMCR and related conduct rules.

Customer service is at the core of the Group as it drives repeat car sales and the purchase of higher margin aftersales products.

Retailing excellence

The Marshall brand is synonymous with good customer service and the Group continues to leverage the use of the 'Marshall' brand consistently across all of its franchises. This brand consistency is unique amongst the large multi-brand motor retail groups in the UK.

A single brand approach allows the Group to have a single online point of entry for users with an instantly recognisable brand name. The Group's recently relaunched website, marshall.co.uk accommodates all of the Group's brand partners and stock, allowing for much wider customer choice in one place.

The Group has continued to leverage the Marshall brand during 2020 in a number nationwide marketing campaigns, including advertising at televised premier league and EFL football matches, England's Six Nations rugby matches and England cricket matches. These campaigns have reached a combined live audience of over 100 million and enjoyed over 330 million page impressions online. In addition, the Group has recently announced the sponsorship of a trio of leading professional darts players for the 2021 season. The sponsorship includes shirt branding and the Group will be running competitions, personal appearances and online game challenges over the next 12 months.

Another key differentiator for the Group in achieving retailing excellence, is a focus on technology and data to drive performance. Phoenix 2, the Group's bespoke MI system, supports local decision-making combined with central oversight to ensure consistency of performance and a focus on what makes a difference. One of the key benefits of Phoenix 2 is the integration of third party external used car pricing and transaction data. This enables visibility of pricing comparison to the market, including regional and market desirability variations, all of which leads to greater customer transparency and optimal pricing. The Group continues to see Phoenix 2 as one of the key drivers behind its market outperformance.

The Group maintains its competitive edge by investing in the best people supported by cutting-edge technology in the sector.

25

Industry digital marketing accolades since 2015

MOTOR TRADER INDUSTRY AWARDS 2020
WINNER

Social media winner at the Motor Trader awards

100m+

Marshall adverts at UEFA Nations League, Premiership, Championship and FA cup football, cricket, darts and rugby viewed live by over 100m+ people

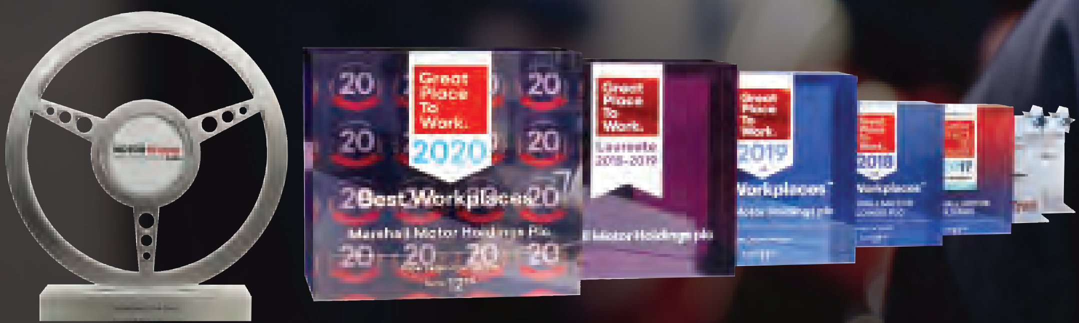
People centric

The Group is proud of its people-centric culture and this has been reflected in the level of support provided to our colleagues during these challenging times. One of our main priorities during the COVID-19 pandemic has been the safety and wellbeing of our colleagues. During the first lockdown period the Group furloughed around 90% of our 4,300 colleagues. Throughout this furlough period, the Group supplemented the support provided by the CJRS, enhancing colleague pay during the closure period to 100% for March, 90% for April and 85% for May and not imposing the CJRS cap of £2,500 per month. Whilst they continued to work throughout, the Board and other senior members of the management team voluntarily reduced their pay in line with the reductions for furloughed colleagues in April and May, and also forfeited holiday accrued. The Group has also provided additional financial support, including salary advances through our ‘Pay it Forward’ initiative.

In addition to providing financial support to colleagues and recognising the importance of ongoing communication, regular management briefings have been issued to all colleagues via video message from members of the Executive Committee and other members of the senior management team. This enabled the Company to stay in touch with everyone and provide updates on the actions the Company has been taking during the closure period. Furloughed colleagues were encouraged to complete modules of the Company's bespoke training programme via its online learning platform. As well as 'business as usual' training programmes relating to financial services and data protection compliance, all colleagues completed a mandatory formal training and assessment programme on our revised operating procedures and social distancing guidelines before returning to the workplace.

Feedback from colleagues throughout the Year has been extremely positive, demonstrating why, for the eleventh consecutive year, the Group has been recognised by Great Place to Work UK as a ‘great place to work’ based on colleagues surveyed during 2020. At 79%, this continues to be significantly ahead of the 65% threshold score required to be considered a Great Place to Work®. We also enjoyed an exceptionally high participation rate of 84%, which compares to 70% nationally, and demonstrates the high degree of trust and engagement in the organisation. This result is also particularly pleasing given the number of new businesses the Group has integrated over recent years.

Based on the results of the 2019 survey and an extensive audit of people policies, procedures and programmes, the Group was ranked 12th in the super large category of the 2020 Best UK Workplaces programme, which included employers such as Admiral, CISCO, MARS UK, Deloitte and EY. 2020 was the sixth year running that the Group was ranked amongst the best employers in the UK.



The Group is committed to recruiting, training, and retaining the best talent in the industry.

6

Years in a row ranked in the Best UK Work Places

MOTOR TRADER INDUSTRY AWARDS 2020
WINNER

Award

'Employer of the Year' at the Motor Trader awards

12

Consecutive years as a 'Great Place to Work'

Great Place To Work

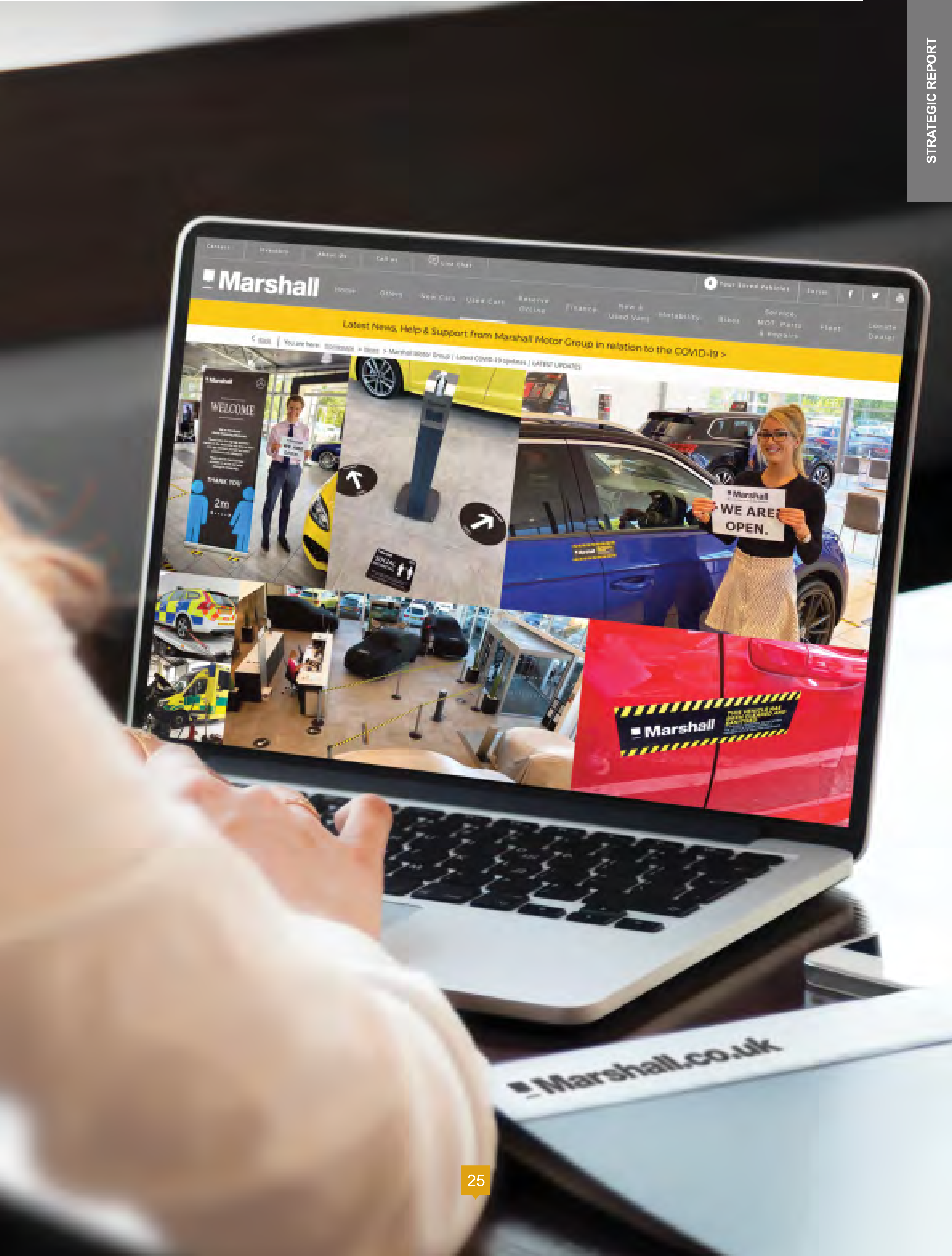
The Group aims to grow both organically and through acquisitions, building scale with its existing brand partners and extending its geographic footprint.

167

Business acquisitions and disposals since 2008

Strategic growth

As set out at the time of the Group's IPO and demonstrated since then, the Group's strategy is to grow scale with existing brand partners in new geographical territories. As evidenced recently, there continues to be considerable consolidation in the UK motor retail market with both Ford and Vauxhall rationalising their network and Mitsubishi announcing its exit from the European market. The Group, with its scalable platform, is very well positioned to take advantage of the opportunities arising given its strong balance sheet and excellent manufacturer relationships. The Group continually seeks to maximise return on capital employed and closely monitors and reviews its portfolio to ensure optimal returns.


Marshall
Latest News, Help & Support from Marshall Motor Group in relation to the COVID-19 >
WELCOME
THANK YOU
2m
WE ARE OPEN.
Marshall
Marshall.co.uk

Acquisitions and Disposals

During 2019, 20 new business units were added to our portfolio through eight acquisitions or start-ups. These additions significantly expanded our representation with a number of our key brand partners including ŠKODA, Honda, Volkswagen and Volvo and were in line with our strategy to grow with key brand partners. Although trading in these businesses during the year was impacted by COVID-19 related lockdowns, we have been very encouraged with the progress made and anticipate that these businesses will make positive contributions to the Group's future profitability.

On 10 July 2020, the Group completed the acquisition of Aylesbury Volkswagen. The Aylesbury business formed part of the strategic acquisition announced in December 2019 with its completion being deferred pending resolution of certain property issues. All deferred consideration has now been paid to the seller, Jardine Motor Group UK Limited.

The Group announced in October 2020 that it had secured the opportunity to represent Ford Commercial Vehicles in King's Lynn, which will operate from our existing Ford freehold site. We also agreed to represent SEAT at an open point in Oxford, which will operate from a leasehold site adjacent to the Group's existing Jaguar Land Rover and Volkswagen businesses. These new businesses commenced trading in early 2021 following completion of associated corporate identity upgrades.

The Group has continued to focus on driving operational efficiencies and responding to a number of its brand partners' network rationalisation strategies and the ongoing impact of COVID-19. As a result of a review of its portfolio, and with the full support and approval of its brand partners, during the Year the Group announced the closure of four sub-scale franchised dealerships: Cambridge Hyundai, Bury St Edmunds Ford, Knebworth Vauxhall and Poole Mercedes-Benz Commercial Vehicles. In the year ended 31 December 2019, these dealerships made a combined revenue contribution of £47.3m and a loss of £0.1m.

The Group now consists of 113 franchises representing 22 brand partners trading in 28 counties nationwide. In addition, the Group operates six trade parts specialists, two used car centres, six standalone body shops and a pre-delivery inspection (PDI) centre. The Group operates a balanced portfolio of volume, premium and alternate premium brands including all of the top five premium brands.

The Group's scale and diversified spread of representation helps mitigate the effect of the cyclical nature of individual brand performance. The Group's strategy is to develop strong relationships with its brand partners, targeting a 5% share or more of UK sales for each brand partner. We now exceed that threshold with nine of our key brand partners and our strategy is to increase that scale further.

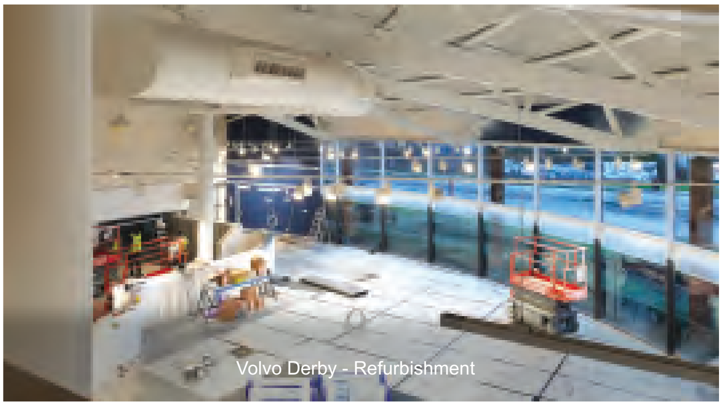
Audi Newbury - Corporate Identity redevelopment


BMW & MINI Grimsby - Refurbishment project to commence

Ford Commercial Vehicles King's Lynn


Audi Wimbledon - Audi City Concept

TPS Deptford - Relocated


Volvo Derby - Refurbishment

Volvo Derby - Refurbishment

Investment in New Retail Locations and Major Developments

As part of our cash preservation actions, the Group's capital expenditure programme was reviewed and, in collaboration with our brand partners where necessary, a number of planned projects have been deferred.

As a result, capital expenditure in the Period was £11.7m, a reduction of £7.7m versus 2019.

The Group will continue to review investment requirements closely and will reinstate the investment programme at the appropriate time.

Projects undertaken or commenced in the Year include:

- **Newbury Audi** – showroom corporate identity and building refurbishment;
- **Wimbledon Audi** – completion of Audi's "city concept", the first of its type in the UK;
- **Derby Volvo** – site refurbishment to Volvo VRE standards following purchase in 2019;
- **Welwyn Volvo** – purchase of freehold;
- **Oxford Seat** – preparation for opening of new franchise opportunity;
- **King's Lynn Ford CV** – preparation for opening of new franchise opportunity on current freehold site;
- **South London TPS** – Relocation from Old Kent Road to new premises in Deptford in-line with Volkswagen TPS hub and spoke strategy; and
- **Newbury ŠKODA** – Relocation of aftersales business to new premises.

In addition to large scale redevelopments, the Group continues to invest in upgrading existing businesses to enhance the customer experience, satisfy brand requirements, electrification and increase sales and aftersales capacities.

Since IPO in 2015, the Group has invested over £110m in its property estate, including corporate identity upgrades, freehold and long-leasehold acquisitions and ongoing maintenance capital expenditure.


Honda Civic


BMW M 1000 RR


smart EQ forfour


Nissan Micra

Market and business update

New vehicles

			Growth	
	2020	**2019**	**Total**	**LFL**
Retail units	27,913	29,249	**(4.6%)**	(16.9%)
Fleet units	15,021	18,054	**(16.8%)**	(23.2%)
Total units	42,934	47,303	**(9.2%)**	(19.4%)

As reported by the SMMT, sales of new vehicles during 2020 were significantly impacted by COVID-19. During the Year, new car registrations to retail and fleet customers declined by 26.6% and 31.7% respectively, with total registrations of new vehicles in the UK (including the impact of dealer self-registration activity) declining by 29.4%. These declines were predominantly experienced during April and May 2020 when total UK new registrations were down 97.3% and 89.0% respectively. The key registration month of March 2020 was also heavily impacted by the timing of the first national lockdown with the market registering c200k fewer units year on year. Some pent-up demand was evident as we exited the first lockdown but further restrictions including a second national lockdown in November 2020 and tiered restrictions in December 2020 meant that new vehicle registrations in most months of the Year were below the comparative months in 2019.

Against this challenging market backdrop, the Group sold a total of 42,934 new vehicles during the Year, a decrease of 9.2% versus 2019. The Group's like-for-like new unit sales decreased by 19.4%, a significant outperformance compared to the wider market.

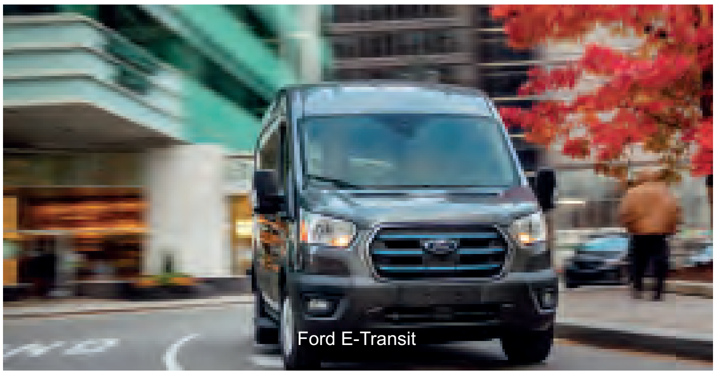
The Group's total sales of new vehicles to retail customers decreased by 4.6% in the Year, with like-for-like sales down by 16.9% an outperformance of 9.7% versus the market.

The Group's total sales of new vehicles to fleet customers decreased by 16.8% in the Year, with like-for-like sales down by 23.2% an outperformance of 8.5% versus the market.

The Group is increasing its focus on the growing commercial vehicle segment and appointed a Head of Commercial Vehicle Sales during the Year. We now have 18 sites which sell commercial vehicles.

Overall, new vehicle margins declined by 84bps in the Year versus 2019. This margin reduction was driven by the lower volumes which in turn impacted the Group's ability to achieve manufacturer overperformance bonus targets, in particular in the peak trading month of March 2020. The Group experienced improving margins in the second half of the Year towards more normalised levels.

Mercedes-Benz eSprinter



Ford E-Transit

Kia Picanto

SEAT Ateca

Used vehicles

			Growth	
	2020	**2019**	**Total**	**LFL**
Total units	44,505	46,974	**(5.3%)**	(14.6%)

The sale of used vehicles is a much larger market than new vehicles and there are a larger number of market participants, including franchised dealers, independent traders and private sellers. The SMMT reported at total market of 6,752,959 units in 2020, representing a decline of 14.9% versus 2019.

The Group is pleased that, against this challenging backdrop, its used sales decline was contained at 5.3% on a total basis and 14.6% on a like-for-like basis. This was a pleasing result given the franchised sector was more adversely affected by showroom closures.

Residual values remained strong throughout the Year due to increased demand. Following a strong second half, margin performance full year margins were flat versus 2019.

Aftersales

			Growth	
	2020	**2019**	**Total**	**LFL**
Revenue (£m)	240.6	258.1	**(6.7%)**	(13.5%)

Aftersales is a key strategic focus for the Group, providing future revenue and profit assurance during periods of a more challenging economic environment and the associated impact on vehicle sales. In addition to our retail centre-based aftersales facilities, the Group operates six standalone bodyshops, six trade parts centres and one PDI centre. 65 of our aftersales businesses remained open during the first national lockdown to support critical services and key workers. These businesses operated at a small loss during that period.

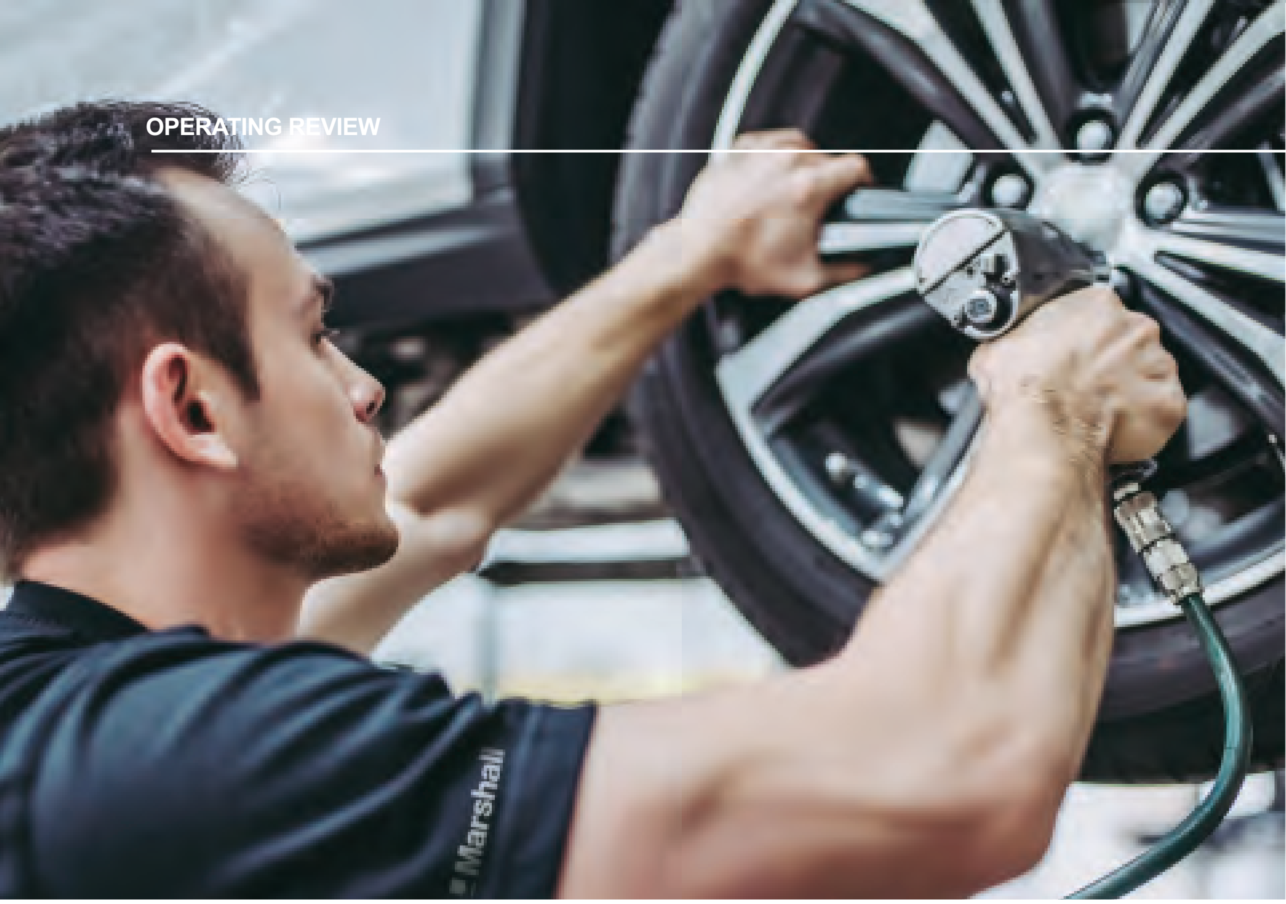
Aftersales contributed 45.8% of total gross profit during the Year and, therefore, made a significant financial contribution to the Group which was important in the context of the sharp decline in vehicle sales in the Year.

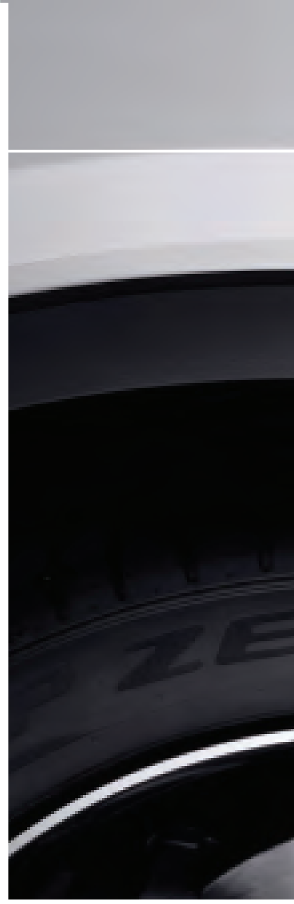
Our aftersales performance was impacted by the lockdown periods due to the closure of a number of our sites, the deferral of MOT and servicing work in some cases and also fewer miles being travelled by customers during the lockdown periods.

We were, however, encouraged by the rate at which aftersales activity levels picked up post-lockdown.

The reduction in aftersales revenue was partially offset by productivity and efficiency improvements and a greater focus on higher margin maintenance work with overall aftersales margins improving by 74bps versus 2019.

Service plans continue to play an important part of our aftersales retention strategy and also have the benefit of allowing customers to plan and budget for service costs. These plans are often included in the monthly payment of a vehicle and are, therefore, very convenient for customers.





Industry strategic landscape

As previously reported, the automotive sector is undergoing an exciting period of evolution, driven by a combination of technology, environmental and social change factors. The Group's strategy anticipates the impact that these macro factors will have for automotive retailers in the future.

The COVID-19 pandemic has materially disrupted businesses globally, including those in the automotive sector. Automotive retailers have responded to these challenges by adapting their business models, changing the way they interact with customers (which, by necessity, has moved increasingly online) and introducing more efficient ways of operating. The COVID-19 pandemic has therefore accelerated many of the industry changes which the Group's strategy had anticipated occurring over a number of years.

Macro change factors

Climate change and BEVs

Climate change and the response of international governments to these issues, in combination with technological developments by vehicle manufacturers, will have a significant impact on the automotive sector over the coming years.

The global response to the issue of climate change, including the Paris Agreement target for carbon neutrality by 2050, has instigated a shift from traditional internal combustion engines ('ICE') to battery electric vehicles ('BEVs'). That process is now well underway, driven by regulatory interventions such as the Clean Air for Europe programme ('CAFE'). 2020 saw the introduction of punitive financial penalties for those vehicle manufacturers which did not achieve significantly reduced fleet average Co2 emissions.

Vehicle manufacturers have responded to these changes with the launch, active promotion and attractive consumer offers on a wide range of new BEV and hybrid vehicles in 2020. In particular, the Jaguar iPace, Mercedes' EQ range, BMW's 'i' range and the much-anticipated Volkswagen ID.3 were extremely popular choices in 2020. 2021 will see the launch of a host of further new electric and hybrid vehicles, including the Volkswagen ID.4, the Audi e-tron GT and Q4 e-tron, the BMW iX3 and the ŠKODA Enyaq.

BEV registrations accounted for 6.6% of registrations in the UK in 2020, up from 1.6% in 2019 and this proportion of sales will continue to grow, driven by a combination of both consumer demand and manufacturer 'push' given the severe financial implications of not meeting CAFE targets. In addition, national governments, including the UK, are setting their own targets for the cessation of sales of new ICE vehicles (including hybrids) over the next 15-20 years.

All major vehicle manufacturers have, and continue to invest heavily in the development, and launch of hybrids and BEVs. The substantial investment requirements of these developments has already led to significant collaboration and consolidation between vehicle manufacturers, including the acquisition of Vauxhall Opel by Groupe PSA, the merger of Fiat Chrysler Automobiles and Groupe PSA and the alliance between Volkswagen Group and Ford in relation to the development of future commercial vehicles.

Connected Cars
Other technological developments will also have an increasing influence on the automotive sector in the future. Connected car capabilities have existed for a number of years and have facilitated a variety of new sharing and subscription models of vehicle use. In addition, autonomous technologies, whilst still many years away in terms of the potential for fully autonomous vehicles, have introduced a range of comfort and safety features to modern motor vehicles.

Digital Consumers
The COVID-19 pandemic has accelerated progress towards a more integrated digital and physical approach to retailing in the automotive sector. Many of these developments were already well underway at the start of the pandemic but during lockdown periods, automotive retailers were reliant on their ability to interact effectively with their customers, utilising and developing their online presence, using video to showcase products and moving the buying process, including vehicle financing, online.

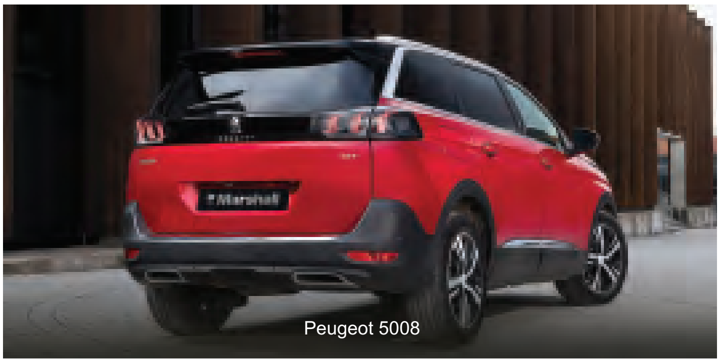
Consumers are increasingly comfortable undertaking elements of the vehicle purchasing process remotely, particularly in terms of research, advice, price comparison and negotiation and the completion of associated paperwork. Nevertheless, experience from the COVID-19 pandemic has also demonstrated a strong preference amongst many consumers for making final purchasing decisions after the opportunity to physically view and test drive vehicles, particularly used vehicles.

This consumer preference for an omni-channel approach to retailing in the automotive sector has been demonstrated by recent moves of supposedly ‘online-only’ used vehicle retailers investing significantly in physical retail and aftersales support infrastructure to augment their online sales channels. A recent YouGov survey commissioned by The Motor Ombudsman showed that nearly two thirds of UK drivers would prefer to visit a retailer in person to buy a new or used car, rather than completing the entire vehicle ordering and purchase process on online.

As such, the distinction between these new entrants and traditional retailers has become far less marked: traditional retailers have embraced the efficiencies and consumer preferences for a digital sales experience and new entrants have recognised the requirement and consumer demand for a physical presence.

Regulatory Change
As previously reported, in the past two years the FCA has introduced a number of changes which have impacted motor retailers. First, changes introduced following the FCA’s thematic review of general insurance distribution chains have impacted commission arrangements between insurance providers and insurance intermediaries such as the Group in relation to the sale of vehicle-related insurance products (including GAP). Secondly, changes have been recently introduced which affect, inter alia, commission arrangements between credit brokers such as the Group and the providers of motor vehicle finance.

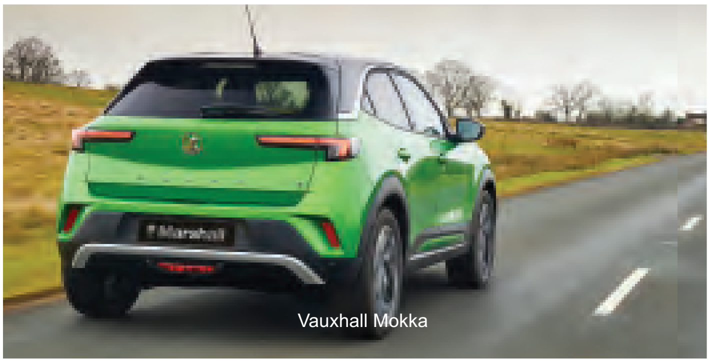
The combined impact of these changes has been to reduce the proportion of profitability for new and used vehicle sales which are attributable to the sale of finance and insurance products. In each of these reviews, the FCA has acknowledged that retailers are not making excessive profits overall but expected the balance between the profitability of the vehicle sale itself and the sale of ancillary financial and insurance products, to be realigned.



Peugeot 5008


ŠKODA Octavia

Mini electric



Vauxhall Mokka

Impact and opportunities for automotive retailers

The macro change factors outlined above present a number of potential challenges and opportunities for motor retailers in the future:

- The increasing proportion of BEVs in the vehicle parc is likely to impact traditional aftersales activities, including the sale of parts and oil products. However, these new technologies, and the associated expertise and facilities required to service them, can also offer opportunities for certain franchised dealers. Close partnerships with vehicle manufacturers and the ability to invest in infrastructure, training and expertise required to service BEVs, differentiates their franchised dealers from much of the independent aftersales sector.
- Connected car technology will provide further opportunities for manufacturers, through their franchised dealer networks, to improve retention rates for older vehicles within their aftersales networks.
- Ancillary revenue streams including digital services, the sale of charging points and tyres (given increased replacement cycles for BEVs) are also areas of opportunity for retailers able and willing to invest.
- The impact of regulatory changes following the FCA's review of motor finance is yet to been seen but, as stated above, the FCA expects the balance between the profitability of vehicle sales itself and the sale of ancillary financial and insurance products, to be realigned and the sector as whole will be working through these changes in 2021.
- A number of vehicle manufacturers have announced plans to move towards an agency model for new vehicle sales, either across their entire ranges or for certain models. Whilst this would impact dealers' reported revenues, there are potentially significant benefits for dealers of an agency model for new vehicle sales, including a material reduction in vehicle stocking costs.
- The franchised sector's close partnerships and symbiotic relationships with vehicle manufacturers, the ability to sell new vehicles supported by manufacturer sales and financing incentives and the opportunity to fulfil vehicle manufacturers' sales and aftersales retention strategies (including the opportunities presented by connected car capabilities) are important differentiators from the independent sector.
- Further consolidation of vehicle manufacturers and the anticipated reduction of retail networks by up to c25% over the coming years should assist in higher throughput and profitability per retail location.

Marshall Strategy

The Board believes that the Group's long-standing strategy of partnering with the right brands in the right locations has positioned it well to benefit from the changes ahead.

The Group's key manufacturer partners are strong and are taking leading positions in the development of future mobility technologies. With its strong investment in both technology and colleague training the Group will benefit from the continued success of their brands.

The Board also believes that the Group's portfolio of dealerships are in the right locations and markets to benefit from the expected rationalisation and consolidation of dealer networks in the UK.

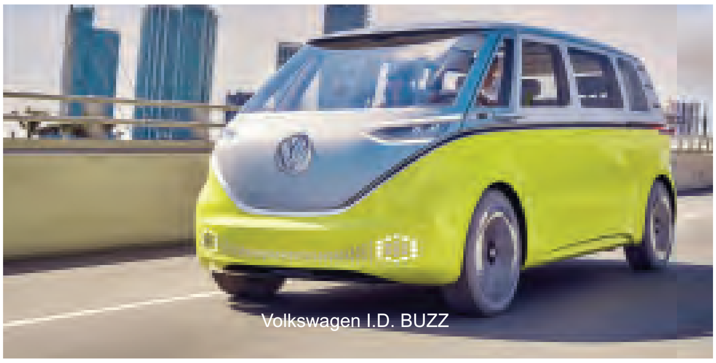
The Group is supportive of the changes introduced by the FCA, both in terms of the extension of SMCR to solo-regulated firms such as the Group and the changes made in connection with the sale of finance and insurance products. The Group believes these changes will be embraced by well-established retailers such as the Group which have the scale to invest in effective, professional internal compliance expertise and recognises the benefits and confidence it will bring to our customers.

Finally, and importantly, the Group's growing scale and depth of relationships with its manufacturer partners will help to ensure it remains a relevant and important part of their future retail and aftersales strategies.


Vauxhall Vivaro-e Life


Cupra E-Racer


Ford S-MAX


Volkswagen I.D. BUZZ

Summary and Outlook

The unprecedented political, economic and social impact of the COVID-19 pandemic in 2020 challenged governments, businesses and individuals across the world. Whilst this resulted in a record fourth consecutive year of decline in the new vehicle market in the UK, the automotive retail sector also benefited from a number of unforeseen tailwinds and demonstrated great resilience in comparison to many other sectors, including some other areas of retail.

The Board recognises the impact of these sector tailwinds, one-off market distortions and significant Government support measures to the Group's strong financial performance in 2020. It also recognises the contribution made by the Group's response to the challenges of 2020: its strengthening market outperformance; its operational and financial discipline; and its flexibility to adapt to a new trading environment, including the highly effective adoption of 'click and collect' retailing for new and used cars.

The SMMT's latest forecast for the new car market in 2021 is an increase of 15.7% on 2020 to 1.887m registrations but it is important to note this remains down 18.3% on 2019. The national lockdown from the beginning of 2021 has impacted the market in the build up to the important March plate-change month.

As a result, the Board anticipates the first half of 2021 to once again be dominated by the immediate impact of COVID-19 and is also mindful of the likely longer-term economic impact of the pandemic. The Board also notes the potential impact of the changes introduced by the FCA in relation to motor finance commissions and the possibility of some continued new vehicle supply constraints. The Board welcomes the positive resolution of negotiations regarding the UK's future trading relationship with the European Union which had created uncertainty for the sector over the past five years.

In relation to current trading, whilst both vehicle sales and aftersales have inevitably been impacted by the current national lockdown, the Board has been encouraged by demand for remote and 'click and collect' vehicle sales and the Group continued to outperform the wider new car market in both January and February 2021. Understandably, the current national lockdown has impacted our order bank for the important plate-change month of March 2021. Based on experience from 2020, the Board anticipates an element of pent-up demand release once physical car showrooms are able to reopen (currently expected to be 12 April 2021) with the outlook for the remainder of the year correlating to the nationwide easing of COVID-19 restrictions.

The Group's balance sheet remains strong and we continue to be well positioned to take advantage of further growth and consolidation opportunities as they arise. Our resilient business model, ability to adapt to changing consumer behaviours, such as those enforced by showroom closures, together with our exceptionally strong relationships with our brand partners, gives us confidence in the Group's future prospects and success.

On behalf of the Board, I would like to thank our brand and business partners for their exceptional support throughout 2020. I would also like to give special thanks to our team of outstanding colleagues across the Group who, throughout this extremely challenging period, once again demonstrated their dedication and commitment both to our business and our customers.

Daksh Gupta
Chief Executive Officer
8 March 2021

Financial Review

Richard Blumberger
Chief Financial Officer

"In the face of a difficult and turbulent year due to the impact of COVID-19, we have delivered a creditable result and further strengthened our asset base."

Overview

I am pleased to present the Group's 2020 annual results.

Due to the impact of COVID, 2020 has been a difficult and turbulent year, but a year where once again our colleagues have risen to the challenges, helping deliver a very creditable financial performance. Key for us during the Year was to ensure we contributed towards containing the pandemic but also to keep the country moving. This has seen us invest significantly in making our businesses COVID-19 secure for our colleagues and our customers, but also to keep our essential aftersales businesses open to support the massive effort of the nation in response to COVID-19.

Despite the tumultuous environment, I am pleased to confirm that we successfully renegotiated our revolving credit facility ("RCF") in July 2020, securing our facility for a further 2.5 years through to January 2023. This is testament to the strength of the Group and gives us significant firepower to continue capitalising on opportunities as they arise.

During the Year, given the uncertainties, we focused on conserving capital and therefore our investment in acquisitive growth and capital expenditure in 2020 was lower than in previous years. Nevertheless, where we could and deemed it appropriate, we continued to invest in our business, with the acquisition of Aylesbury Volkswagen in July 2020 which completed the Volkswagen acquisitions from 2019.

Despite the difficult trading environment, the contribution from the acquisitions made in 2019 was very encouraging. These investments will deliver long term shareholder value.

We have also invested in two business start-ups for key brand partners at open points. We now represent SEAT in Oxford which will operate from a leasehold site adjacent to the Group's existing Jaguar Land Rover and Volkswagen businesses and Ford Commercial Vehicles in King's Lynn, which will operate from our existing King's Lynn Ford freehold site. We also finalised our capital expenditure programmes at our Audi businesses in Newbury and Wimbledon, commenced our investment at Derby Volvo, which we acquired in 2019, and took the opportunity to acquire the freehold of our Volvo Welwyn site.

We continuously review our portfolio, and due to a lack of overall scale with the brand, we decided to exit our Hyundai business in Cambridge in September, as well as closing some sub scale, loss-making dealerships during the Year. It is imperative for us in ensuring we best utilise our capital, that we continue to review our portfolio on an ongoing basis.

Reported revenue for the Year was down 5.3% versus 2019, with like-for-like revenue down 13.5% as a consequence of COVID-19. Overall like-for-like unit sales were down 17.1% which was a very strong market outperformance. New retail unit sales were down 16.9% on a like-for-like basis, which was up 9.7% versus the market and used unit sales were down 14.6%, marginally ahead of the market.

We experienced a strong bounce-back after the first national lockdown fuelled by pent-up demand, in-part driven by previously extended vehicle finance agreements coming to an end and first-time buyers who have lost confidence in public transport. New car margins were impacted in the first six months of 2020 due to site closures in the critical March plate change month affecting our ability to overachieve targets which in turn affected manufacturer bonuses. Overall margins experienced a recovery in the second half, in part due to overachieving of targets but also as a result of factory closures in the early part of 2020 which led to supply shortages, positively impacting demand for used cars.

Overall, the Group delivered an underlying profit before tax of £20.9m which was only marginally down on 2019, but was significantly supported by COVID-19 support measures provided both from Central and Local Governments of £27.6m. Without this support, the Group may have had to consider taking more significant structural mitigating actions. The Group remains grateful for the Government's intervention with the furlough scheme and the many jobs this has protected, as well as the support from our brand and other business partners. Reported PBT of £20.4m was £0.8m up on 2019.

Cash was also impacted by the unique and unprecedented trading environment we faced in 2020. A working capital inflow of £43.2m, combined with reduced capital expenditure, disposal of non-operating properties, proactive cash management and no dividends declared, resulted in a strong Adjusted Net Cash position of £28.8m at 31 December 2020. During the Year, the Group utilised the VAT deferment scheme available for Q1 2020 but given our strong trading following the first national lockdown, we voluntarily paid these deferred amounts back early in September 2020, up to 18 months before we were required to.

Despite the further national lockdown at the start of 2021, the Group remains in an excellent position to capitalise on growth opportunities.

COVID-19 Impact on Results

There have been a significant number of external and internal COVID related factors impacting our financial performance in the Year, both from a profit and loss and cash perspective as summarised below.

- The national lockdowns and tier system, which required our showrooms to close for prolonged periods, reduced our revenue significantly. Like-for-like units were down by 17.1% in the Year having previously delivered like-for-like growth every year since being listed;
- the Group claimed £20.4m under the Government Job Retention Scheme against salary costs of furloughed employees of £22.4m, leaving a net £2.0m enhancement funded by the Company;
- the Group benefited from the Government's business rates holiday scheme with net savings of £7.2m during the Period;
- £1.2m of expenditure relating to personal protective equipment ensuring that are businesses were COVID secure;
- working capital benefits of revised vehicle stocking payment periods implemented by our brand partners and other funding providers to support dealer networks;
- replanning of capital expenditure programme;
- cancellation of the 2019 final dividend and non-declaration of the 2020 interim dividend.

Reported Financial Performance

	2020	2019	Var %
Revenue	2,154.4	2,276.1	(5.3%)
Gross profit	238.2	260.8	(8.7%)
Operating expenses*	(207.1)	(228.8)	9.5%
Operating profit*	**31.1**	**32.0**	**(2.8%)**
Net finance costs	(10.2)	(9.9)	(2.3%)
PBT underlying*	**20.9**	**22.1**	**(5.2%)**
Non-underlying items	(0.6)	(2.4)	75.8%
PBT reported	**20.4**	**19.6**	**3.6%**
Tax	(6.4)	(4.1)	(58.3%)
PAT reported	**13.9**	**15.6**	**(10.6%)**

* Excludes Non-Underlying Items.

As a result of the COVID pandemic, reported revenue (including 2019 acquisitions) decreased by 5.3% to £2,154.4m. This was a pleasing performance given a 29.4% decline in the new vehicle market.

The Group's operating profit, on an underlying basis, was £31.1m compared to £32.0m in 2019. Underlying PBT in the Year was £20.9m compared to £22.1m in 2019. This decline was driven by a combination of reduced trading as a result of sustained periods of lockdown and margin pressures. These declines were partially offset by Government and business partner support, together with other decisive cost control actions.

Our reported PBT of £20.4m (2019: £19.6m) included one-off non-underlying items of £0.6m (2019: £2.4m) as set out in Note 7 to the financial statements.

Analysis of Reported Revenue and Gross Profit

The segmental mix, on a reported basis, is shown in the table below, with like-for-like analysis covered later in this report.

Twelve months ended 31 December 2020

	Revenue		Gross Profit	
	£m	mix*	£m	mix
New Vehicles	988.1	44.9%	65.1	27.9%
Used Vehicles	971.1	44.1%	63.7	24.8%
Aftersales	240.6	11.0%	108.6	47.3%
Internal/Other	(45.4)	-	0.8	-
Total	**2,154.4**	**100.0%**	**238.2**	**100.0%**

Twelve months ended 31 December 2019

	Revenue		Gross Profit	
	£m	mix*	£m	mix
New Vehicles	1,079.5	46.4%	80.1	30.8%
Used Vehicles	986.7	42.5%	65.5	25.2%
Aftersales	258.1	11.1%	114.6	44.0%
Internal/Other	(48.2)	-	0.6	-
Total	**2,276.1**	**100.0%**	**260.8**	**100.0%**

* mix calculation excludes Internal/Other Sales

Audi e-tron GT

Finance Costs

Net finance costs increased by £0.3m in the Year to £10.2m (2019: £9.9m). Increases in bank financing costs have been partially offset by savings in stock financing charges due to reduced inventory levels.

Shareholder Returns

Profit before tax and non-underlying items was £20.9m (2019: £22.1m), £20.4m after non underlying items (2019: £19.6m). The total reported effective tax rate was 31.6% (21.1% on an underlying basis), further details are included in tax section below. Profit from continuing operations after tax was £13.9m (2019: £15.6m), resulting in reported basic continuing earnings per share of 17.8p, a decrease of 10.6% on the prior year. Basic underlying earnings per share was 21.1p (2019: 22.9p).

The Group's strategy of organic growth incorporating cost control and sound working capital management, combined with strategic acquisitions, provides a platform for further improving shareholder returns.

Non-Underlying Items

The Income Statement includes a separate presentation of non-underlying items to provide a consistent understanding of the performance of the Group year on year.

Non-underlying items in the Year comprise the following:

£m	**2020**	**2019**
Acquisition costs	-	0.8
Restructuring costs	2.1	2.1
Gain on revaluation of investment properties	-	(0.6)
(Profit)/loss on disposal of investment property/assets held for resale	(1.7)	0.1
Goodwill impairment	0.2	-
Total	**0.6**	**2.4**

During the Year, following a review of current profitability and prospects, we decided to close four of the Group's sites. The costs associated with these closures are included in restructuring costs in non-underlying items and represent redundancy costs, asset impairment, and unavoidable costs associated with contracts which related to these sites. In addition to these costs, the goodwill held in respect of our Vauxhall businesses has been impaired in full.

Consistent with our property strategy, the Group sold two freehold properties (including one investment property) during the Year, realising a gain on disposal net of costs of £1.7m which has been included in non-underlying items.

Classification of COVID-19 Related Costs

At the time of reporting our interim results, it was anticipated that the impact of COVID-19 and the associated costs of providing a COVID secure environment for our colleagues and customers would be relatively short-term. Since then the country experienced a tiering system and further lockdowns both of which have materially impacted our business. It is now considered likely that COVID-19 and the impact on businesses and ways of working are not one off in nature but more medium term. As a consequence of this we have reclassified COVID-related costs into our underlying trading result.

BMW M3 Competition

Like-for-Like Performance

Basis of Comparatives

Due to the unprecedented impact of COVID-19 on the Group's results described above, comparatives are significantly distorted. To enable some degree of meaningful comparison of the Group's year-on-year performance, units and revenue are shown on a like-for-like basis, excluding the impact of acquisitions and closures during 2019 and 2020. However, given the distortions in the gross and operating profit measures for the 2020 annual report there will be no Alternative Performance Measures other than units and revenue as it would not give the users of the accounts any more insight or interpretation. The full definition of an Alternative Performance Measure can be found in Note 2 to the financial statements.

Like-for-Like Unit Analysis

	2020	2019	Growth
New Retail Units	22,428	27,003	(16.9%)
New Fleet Units	13,545	17,642	(23.2%)
Total New Units	**35,973**	**44,645**	**(19.4%)**
Used Units	36,709	43,003	(14.6%)

The market for new car registrations to retail and fleet customers declined by 26.6% and 31.7% respectively, with total registrations of new vehicles in the UK (including the impact of dealer self-registration activity) declining by 29.4% in the Year. The Group's like-for-like new unit sales volumes outperformed the overall market, by 9.7% in new retail units and 8.5% in fleet unit sales.

Like-for-like used unit sales declined by 14.6% versus an overall market decline of 14.9%. It should be noted that the overall market includes all used vehicle sales including private sales which continued during the first national lockdown period at a time when commercial operators were required to close.

Like-for-like Revenue

	2020		2019		
	£m	Mix*	£m	Mix*	Var %
New Vehicles	869.0	45.4%	1,035.7	47.0%	(16.1%)
Used Vehicles	834.9	43.7%	928.8	42.1%	(10.1%)
Aftersales	208.3	10.9%	240.9	10.9%	(13.5%)
Internal/Other	(45.8)	-	(48.3)	-	-
Total	**1,866.4**	**100%**	**2,157.1**	**100%**	**(13.5%)**

** mix calculation excludes Internal/Other sales*

Like-for-like revenue in the Year was £1,866.4m (2019: £2,157.2m), a decline of 13.5% and heavily impacted by the COVID-19 pandemic. Faced with significant market declines in both the new and used markets, this was a pleasing result.

As expected, new vehicle revenues suffered the sharpest declines, falling by 16.1% to £869.0m (2019: £1,035.7m). This decline was significantly lower than the overall new car market decline of 26.6%.

Revenue relating to the sale of used vehicles, whilst faring better than new revenues, was still down 10.1% at £834.9m (2019: £928.8m), a strong performance against a used vehicle market which experienced a unit declined of 14.9%. We believe that the franchise dealership model, with its strong links to the vehicle manufacturers, provides customers with a degree of assurance when purchasing a used vehicle. This has been particularly evident during a year in which first-time vehicle owners moved away from public transport and purchased their first cars.

Like-for-like aftersales revenue decreased by 13.5% to £208.3m (2019: £240.9m). Our aftersales businesses were heavily impacted during the first lockdown where a high proportion were closed. Those remaining open focused on supporting emergency services, transport companies and key workers. Deferrals of MOTs, servicing and routine maintenance work as a result of reduced vehicle usage during lockdown periods also had an impact, however we have been encouraged by the rate at which activity levels improved once out of lockdown.

Shareholder Returns

For the reasons described in the Chairman's statement, the Board is not recommending the payment of a final dividend for 2020. The Board understands the importance of dividends to shareholders and intends to resume the payment of dividends as soon as conditions allow and will consider the position next at the time of release of its interim results in August 2021.

ROCE

Return on capital employed, defined as Underlying Operating Profit Before Tax divided by average capital employed, was 14.9% (2019: 16.2%).

Reported Balance Sheet

£m	2020	2019
Goodwill and intangibles	119.5	119.3
Freehold land and buildings	125.8	124.9
Right-of-use assets	98.8	108.0
Other	35.4	39.5
Fixed assets	**379.5**	**391.6**
Inventory	362.9	470.7
Trade/other receivables	65.8	87.5
Cash & equivalents	33.8	0.1
Assets held for sale	0.7	0.8
Current tax assets	0.3	-
Current assets	**463.5**	**559.1**
Vehicle funding	(364.9)	(443.7)
Trade/other payables	(132.4)	(140.6)
Lease liabilities	(99.3)	(108.1)
Bank/other debt	(5.0)	(30.7)
Other liabilities	(25.5)	(25.2)
Total liabilities	**(627.1)**	**(748.4)**
Net assets	**215.9**	**202.3**
Adjusted net cash/(debt) (£m)	28.8	(30.6)

Goodwill and other intangible assets

Consistent with the requirements of accounting standards, the Group has carried out an impairment assessment of the carrying value of goodwill and other intangible assets. This assessment, which is based upon the Group's annual budget and medium-term plan, indicated an impairment of the goodwill of £0.2m held in respect of the Group's Vauxhall businesses as a result of the decision made during the Year to close one of the Group's three remaining Vauxhall dealerships.

Following the completion of the acquisition of Aylesbury Volkswagen in July 2020, goodwill and other intangible assets increased by £1.1m, being £0.4m associated with the Aylesbury business and £0.7m which was related to the seven other Volkswagen and ŠKODA businesses acquired as part of the same acquisition in 2019, payment of which was contingent on the completion of the acquisition of the Aylesbury business.

During 2020 the BMW business has shown substantial improvement despite the trading uncertainty experienced during the year. A number of the performance improvement initiatives have been successfully delivered and the cash flow projections for the CGU indicate a continued improvement over the plan period as other management and manufacturer initiatives are delivered.

Acquisitions

The Group acquired Aylesbury Volkswagen during the Year after resolution of certain property matters. This transaction was part of the larger Volkswagen acquisition completed during December 2019.

Trading in the businesses acquired during 2019 has been impacted by COVID-19 related lockdowns. However, we have been very encouraged with the progress made and anticipate that these businesses will make significant future contributions to the Group's profitability.

Freehold Land & Buildings

The Group incurred a total of £10.3m capital expenditure during the Year, including £2.6m in respect of the purchase of the freehold of our Volvo Welwyn business (previously leasehold site).

The net book value of the Group's property, plant and equipment at 31 December 2020 was £158.3m (2019: £159.3m), of which £123.7m related to freehold land and buildings (2019: £123.2m).

Our property strategy continues to be a key component of the Group's success, with targeted freehold purchases reducing ongoing operating costs, together with the disposal of surplus properties delivering significant profits, including £1.6m during the Year.

Strong Working Capital Management

Given the significant challenges we faced in the Year, disciplined capital allocation and cash management was an even greater focus area for management. During the Year, the Group benefited from a working capital inflow of £43.2m, supported by extended stock facilities and strong working capital management.

Inventory, net of provisions, at £362.9m reduced by 22.9% (£107.8m) versus 2019. This significant reduction was largely due to automotive factory closures during 2020. At 31 December 2020, inventory was funded by £364.9m of vehicle finance, a level of 100.6%, in part caused by a changing sales profile due to lockdown, versus 94.3% at the end of 2019. This high level of funding is expected to reduce during 2021 as stock levels returns to more normalised levels.

A decline in trade and other receivables of £21.7m in the Year was driven by a combination of a lower level of fleet debtors at the end of Year, combined with a greater focus on debt collection.

Trade and other payables remained stable across the Year. The Group voluntarily repaid all amounts from which it benefitted under the Government's VAT Payment Deferral Scheme which were not due to be fully paid until March 2022. All other suppliers have been paid in the normal course of business.

Cash Conversion

Despite the turbulent year, the Group was able to deliver a strong cash generation performance with cash flow from operations during the Year of £96.0m (2019: £53.3m). This performance was driven by a strong second half EBITDA, the deferral of non-critical capital expenditure, reductions in stock holding, and tightened controls over the collection of receivables and the provision of credit to trade customers.

The Group continues to use operating cash flow conversion (being total cash flow generated by operations divided by operating profit from continuing operations before interest, tax, depreciation, amortisation and depreciation on right-of-use assets) as a key metric for managing operational performance.

During the Year, total cash inflows from operations represented an operating cash conversion ratio of 183% (2019: 108%).

Net Debt and Facilities

At 31 December 2020, the Group's adjusted net cash was £28.8m (2019: adjusted net debt of £30.6m).

The Group's current finance facilities include a £120m revolving credit facility, which was extended in July 2020 and is committed until January 2023 with a mutual option to step down by up to £20m at the first anniversary.

Net debt (including IFRS 16 lease liabilities) at 31 December 2020 was £70.5m (2019: £138.6m).

Tax

Consistent with its published Tax Strategy, the Group focuses on ensuring that tax compliance risks are managed and therefore the Group pays the appropriate amount of tax. The Group's Tax Strategy is reviewed at least annually and is approved by the Board.

The Group's tax charge before non-underlying items for the Year was £4.4m (2019: £4.2m), an effective tax rate of 21.1% (2019: 18.9%). The effective tax rate for the year end 31 December 2019 was lower due to the one-off benefit of certain tax losses to offset in year profits.

The Group's effective tax rate including non-underlying items was 31.6% (2019: 20.7%). The effective tax rate for 2020 increased due to the revaluation of the Group's deferred tax liabilities following a change in the rate of corporation tax from 17% to 19% which was enacted in the Finance Bill 2020 in July 2020.

Pensions

The Group has no current commitments to defined benefit pension schemes, with all Group pension plans being on a defined contribution basis.

During the previous financial year, the Group settled the residual liability of £5.6m to the Marshall Group Executive Plan, a defined benefit pension scheme in which the Group ceased to be a participating employer during the year ended 31 December 2018.

Richard Blumberger
Chief Financial Officer
8 March 2021

Mercedes-Benz EQA

Principal Risks and Uncertainties

The Group faces a range of risks and uncertainties which variously arise from the Group's operations, are specific to the sector, or are due to wider macro-economic circumstances. The processes that the Board has established to monitor business risks and put in place mitigating actions in order to safeguard both shareholder value and the assets of the Group are described in the Corporate Governance report.

The principal risks and uncertainties the Directors believe could have the most significant adverse impact on the Group's business, together with the principal controls in place to mitigate those risks are set out below. The risk trend column indicates the Board's view on whether, from a Group perspective, taking into account mitigating actions, the potential for each risk to have a material impact upon the Group has increased, remained relatively stable or decreased over the past 12 months. The risks and uncertainties described below are not intended to be an exhaustive list and is likely to evolve over time due to the dynamic nature of the Group's business, the sector, and the political and economic circumstances of the UK.

COVID-19

The Directors draw specific attention to the pervasive impacts of the ongoing COVID-19 pandemic. This represents a risk influenced by circumstances and events that have evolved during the past 12 months. The ongoing COVID-19 pandemic has caused major disruption to businesses across the world, including the Group. As health and other government authorities' responses to the pandemic continue to evolve and the full macro-economic impacts of the pandemic continue to unfold, the duration and extent of the disruption are in part unknown at this time. The Group continues to follow all government guidance to ensure a COVID-19 secure operating environment for all customers and colleagues. A regular assessment of the personal and commercial impacts and mitigating actions required continues to be carried out at both a Group and local geographical level by the Directors and Board. Communications and guidance on revised policies and procedures implemented in response to the impacts of COVID-19 are being regularly issued internally to support colleagues and customers. Furthermore, the Directors have taken appropriate cost mitigation actions and the Group is benefiting from the support provided by the UK Government, by vehicle manufacturers, by supply chain partners and by the Group's funding facility providers.

Further details of the impact of COVID-19 to the relevant Risk Areas and the mitigating actions taken are included below. Although the outlook appears positive with the rollout of the vaccination programme, these risks and uncertainties are expected to remain in existence for the foreseeable future and could continue to have as material an impact on the Group's performance as they have in the past 12 months.

**Note the trend direction relates to the underlying inherent risk and does not take into consideration any increased level of risk due to the current pandemic*

Risk	Impact	Mitigations	Risk Trend*
Business Interruption			
Failure to recover, in an acceptable time frame and/or to an acceptable level, from an unplanned event or series of events and circumstances that have impacted the company's ability to continue operating at planned levels	• The Group misses its financial targets • Reduction in confidence of key stakeholders • Reputational damage impacting employees and customers **Impacts of Pandemic** • Uncertainty regarding the duration and extent of disruption are unknown impacting the ability to effectively plan for reopening of sites • Business is open and requires personnel, but sales are not sufficient to cover costs	• Crisis Management Team in place at the executive level supported by senior management in all areas of the business • Tried and tested communication channels in place for all stakeholders • Internal communications from the CEO to all employees as and when required enabling changes to be implemented promptly **Additional Pandemic Mitigations** • A regular assessment of the personal and commercial impacts and mitigating actions required continues to be carried out at both a Group and local geographical level by the Directors and Board • The Directors take appropriate cost mitigation actions, accessing support, as required provided by the UK Government, by vehicle manufacturers, by supply chain partners and by the Group's funding facility providers • Increased focus on omni-channel with a seamless customer experience from selecting a new vehicle, reserving online, arranging part exchanges and financing. Supported by video calls, live messaging on website, telephone appointments, click and collect or home deliveries	**NEW**
Strategy and Business Relationships			
Failure to adopt the right business strategy and/or failure to implement strategy successfully	• The Group misses its financial targets or is unable to invest in its businesses • Reduction in confidence of key stakeholders (shareholders, brand partners, lenders, and employees) • Poor investment decisions/ failure to achieve targeted investment returns **Impacts of Pandemic** • Uncertainty regarding the duration and extent of disruption are unknown impacting the ability to accurately determine financial targets • Missing or overachieving financial targets impacting confidence of key stakeholders • Not being in a position to pay dividends impacting confidence of shareholders and potential investors	• Annual strategy review by the Board to guide business planning and investment decisions • Monthly reporting and monitoring of key financial information and performance with prompt investigation of significant variances • Detailed business planning and due diligence prior to potential acquisitions • Review of capital expenditure plans to ensure that the Group's return on capital objectives are achievable • Capital investment appraisal process with Board review of major investments • Diversity of franchises mitigates the cyclical nature of, and an over reliance on individual vehicle brands • Focus on efficient use of working capital supported by bank credit lines and stock financing facilities **Additional Pandemic Mitigations** • A regular assessment of the personal and commercial impacts and mitigating actions required continues to be carried out at both a Group and local geographical level by the Directors and Board • The Directors take appropriate cost mitigation actions access support, as required, provided by the UK Government, by vehicle manufacturers, by supply chain partners and by the Group's funding facility providers • Increased focus on omni-channel with a seamless customer experience from selecting a new vehicle, reserving online, arranging part exchanges and financing. Supported by video calls, live messaging on website, telephone appointments, click and collect or home deliveries	=
Manufacturer Relationships	• Failure, or downturn in performance, of manufacturer partners impacting vehicle sales and profitability of those franchises • Failure to maintain good relations with manufacturers impacting revenue and profitability • Loss of a franchise leading to a reduction in revenue and profitability and the risk of vacant properties and/or onerous leases • Poor manufacturer relationships impacting acquisition and/or growth opportunities	• Ongoing portfolio management focused on strengthening key franchise relationships/divestment of non-core businesses • Diverse franchise representation avoids over reliance on any single manufacturer • Close contact and regular review with manufacturers (through CEO, Operations, Commercial and Franchise Directors) to ensure our respective goals are communicated, understood and aligned • Continued track record of achieving brand targets, investing in brand CSI requirements and facilities, being a partner whom the brands can trust	=

Risk	Impact	Mitigations	Risk Trend*
Strategy and Business Relationships (Continued)			
Failure to integrate acquisitions successfully	• Loss of key personnel/customers • Brand partner relationship damage • Reduced financial performance of acquired businesses • Failure to achieve targeted synergies • Damage to manufacturer and/or customer relationships	• Detailed business planning and due diligence on potential acquisitions • Integration plan developed prior to acquisition and implemented in a timely manner thereafter • Group-wide single dealer management platform and Phoenix management system implemented immediately after acquisition • Prompt implementation of Group policies and procedures. • Group target for Internal Audit to verify successful implementation of Group processes within 12 months of acquisition	=
Disruption to franchise business model	• Alternative business models impacting franchised dealer model • Direct sales channels circumventing franchised dealers • Adoption of agency model for new vehicle sales • Revenues and profits may fall due to competitor action 'Mobility as a service' leading to reduced private vehicle ownership • Electric and alternative fuel vehicles leading to a decline in sales for traditional vehicle manufacturers and/or reduced demand for aftersales services	• Ongoing development of customer experience to ensure the Group maintains a competitive advantage • Increased focus on omni-channel with a seamless customer experience from selecting a new vehicle, reserving online, arranging part exchanges and financing. Supported by video calls, live messaging on website, telephone appointments, click and collect or home deliveries. • IT developments to maintain competitive advantage (e.g. development of website/Phoenix management system) • Maintaining close relationships with manufacturer partners to ensure each party's mutual aims are achieved • Agency model for new vehicle sales has a number of financial and operational advantages for dealers • Close working relationship and partnership with brands who are responding effectively to the cleaner technology, automation and 'mobility as a service' potential disruptive factors • Connected car technology reinforces link between customers and manufacturers through franchised dealers • Annual strategy review by the Board considers market and technology trends and applies this information to guide business planning and investment decisions • The Group scale and financial position leaves it in a good position to benefit from market changes as technology and customer requirements evolve • The Group strategy of partnering with key brands ensures we have a strategic relationship with those brands	=

Risk	Impact	Mitigations	Risk Trend*
Economic and Political			
Deterioration in economic conditions/ consumer confidence	• Increased inflation and falling consumer confidence leading to lower vehicle sales/margins and a reduction in revenue and profitability • Reduction in used vehicle values impacting stock values • Weakening Sterling impacting new vehicle prices and sales • Manufacturers' focus on the UK automotive retail market may decline leading to reduced output and sales • Interest rate rises impacting availability and affordability of vehicle finance Increased costs of servicing the Group's borrowings **Impacts of Pandemics** • Economic disruption impacting consumer confidence and demand for new vehicles • Government guidance to 'Stay at Home' and some customer reluctance to purchase new car without visiting showroom • Disruption to supply chains resulting in limited supply of new vehicles which has also had a consequential impact on the used car market (including a positive impact on used vehicle prices)	• Board monitoring of economic conditions and forecasts with appropriate actions being developed and implemented to reduce adverse impact upon the Group as whole • Detailed stock management & reporting provided through the Group's bespoke Phoenix information system • Stock level information is used to enforce the Group's prudent stock polices (including a standard stock holding period of 56 days for used vehicles) • Maintaining close relationships with manufacturers enables the Group to assess the level of commitment to the UK market and seek to support and reinforce this commitment • Managing the day-to-day working capital of the Group and the acquisition strategy to maintain, on average, a low level of net debt with substantial facility headroom **Additional Pandemic Mitigations** • Continual monitoring of UK government rules and responding accordingly • Increasing focus to obtain and sell used vehicles • Increased focus on omni-channel with a seamless customer experience from selecting a new vehicle, reserving online, arranging part exchanges and financing. Supported by video calls, live messaging on website, telephone appointments, click and collect or home deliveries • Close communication with manufacturers to understand and respond to any identified supply chain impacts	↑
UK's withdrawal from the European Union ('Brexit')	• Negative impact on UK economy: increased inflation and falling consumer confidence leading to lower vehicle sales/margins and a reduction in revenue and profitability • Reduction in used vehicle values impacting stock values • Weakening Sterling impacting new vehicle prices and sales • Manufacturers' focus on the UK automotive retail market may decline leading to reduced output and sales • Potential regulatory changes may impact franchising model in the UK (including potential changes to EU Block Exemptions) • The change to Freedom of Movement impacts the UK labour market and potentially impacts the ability of the Group to attract and retain staff • VAT on used cars sold from England to the Republic of Ireland resulting in VAT fraud on purchases in Northern Ireland being sold onto the Republic of Ireland	• Board monitoring of economic conditions and forecasts with appropriate actions being developed and implemented to reduce adverse impact upon the Group as whole • Impact of any deterioration in consumer confidence mitigated by PCP renewal cycle (primarily in the new car market) • Stock management and monitoring with appropriately prudent policies, including a standard stock holding period of 56 days for used vehicles, to mitigate impact of any falling vehicle values • Maintaining close relationship with manufacturers The Group is not a direct importer of vehicles and parts from the EU Diversity of the Group's portfolio of brand partners which includes UK, EU and non-European manufacturers • The Group is not directly reliant upon labour from EU countries and overall mitigations, detailed below, address the risk of attracting and retaining staff • Sales to Northern Ireland are flagged and reviewed to ensure vehicles are not sold onto the Republic of Ireland or other EU countries without relevant taxes being paid	↓
Increased Operating Costs	• Increased operating and non-controllable costs (e.g. employment costs, Apprentice Levy, business rate changes, IT and marketing costs) impacting profitability **Impacts of Pandemics** • Increased operating costs including: purchase of Personal Protective Equipment, communication to employees and customers, increased IT costs for remote working	• Operating and non-controllable costs are monitored through monthly management reporting and the weekly operational forecasts against expectations set in the annual budget • Cost reduction and efficiency initiatives to offset structural cost increases **Additional Pandemic Mitigations** • Cost mitigations depending on level of Lock Down, including deferral of capital expenditure, reduction in marketing and use of the Coronavirus Job Retention Scheme (CJRS) • Additional financial support provided by the UK Government, by vehicle manufacturers, supply chain partners and the Group's funding facility providers	=

Risk	Impact	Mitigations	Risk Trend*
Finance and Treasury			
Liquidity & credit	• Credit availability/withdrawal of financing facilities impacting trading ability • Breach of covenants or inability to meet debt obligations • Increased stock funding costs	• In July 2020, the Group renewed its £120m revolving credit facility until 2023 • Managing the day to day working capital of the Group and the acquisition strategy to maintain, on average, a low level of net debt with substantial facility headroom • The Group's track record and current financial position leave it well placed to secure funding; however, market factors and the macro-economic situation are leading to increased funding costs	
Vehicle residual values volatility	• Fluctuations in used vehicle values adversely impacting the value of the Group's vehicle inventory	• Stock management & monitoring (including a standard stock holding period of 56 days for used vehicles	
Legal and Regulatory			
Legal & Regulatory Changes and Compliance	• Non-compliance with key legal and regulatory codes (Financial Conduct Authority ("FCA"), Driver & Vehicle Standards Agency, Information Commissioner's Office, etc.) leading to fines, litigation, authorisation suspension and/or reputational damage • Regulatory intervention into the market (for example the FCA motor finance review and the FCA Thematic Review of General Insurance Distribution Chains) may impact operations	• Monitoring of regulatory announcements/market studies to identify potential changes in regulatory requirements and implementation of any changes necessary to meet new requirements • Group compliance team tasked with developing policies/procedures, training, and monitoring compliance • Compliance team deliver an annual programme of reviews to a scope approved by the Compliance Oversight Committee • On-going programme of systems and software development to support the sale process providing consistency and enhanced monitoring capability • A programme of training has been delivered across the Group to meet the requirements of the FCA's Senior Managers & Certification Regime • This training has also been incorporated into the induction procedures for new employees	
Environmental and Health & Safety			
Environmental and Health & Safety	• Failure to ensure colleagues and customers safe environments leading to accidents, litigation, fines and regulatory intervention • Non-compliance with environmental laws & regulations leading to fines, penalties and compensation and clean-up costs and disruption to operations **Impacts of Pandemics** • Failure to implement COVID-19 specific rules leading to closure of sites, fines and reputational damage	• The Group Environment, Health & Safety team develop and support sites in implementing policies and procedures to promote safe places of work. These procedures include: A programme of audits across Group Regular inspection of plant and equipment Waste management procedures and employee training • The Group Environment, Health & Safety team monitors compliance and promotes a health and safety helps culture • Compliance with policies and incident response is a standing agenda item for the Board and the operational management meetings • Environmental due diligence is carried out for new site acquisitions with appropriate environmental and remediation works being carried and insurance being put in place for higher risk sites **Additional Pandemic Mitigations** • Risk Assessment conducted on all sites versus government guidelines, standards set and implemented • Requirement for all colleagues to complete mandatory formal training and assessment on revised operating procedures and social distancing guidelines • Ongoing programme of audits to ensure standards are being adhered to • Monitoring and adherence to evolving Government guidelines and risks we see in our business	
Climate Change	• The Group have identified Climate Change as an emerging risk and will closely monitor its impact on the business both directly and indirectly through the changes in regulations and consumer demand towards greener technologies	• The direct risk of extreme weather events is mitigated as sites are spread geographically across the country • Our brand partners are driving the change towards greener technologies	

Risk	Impact	Mitigations	Risk Trend*
IT and Cyber Security			
Failure of key IT systems	• Loss of key information systems, downtime and business interruption	• The Group IT strategy is set by the Board with delivery being monitored by an IT steering committee • The Group IT team monitors systems and implements upgrade programmes as required following approval by the IT steering committee • IT system contingency and disaster recovery plans are in place	
Cyber Security	• Potential to corrupt, affect or destroy key systems and data (email, DMS & customer records), denial of service attacks and business interruption leading to lost revenue **Impacts of Pandemics** • The increase in remote working has led to an increase in the risk of malware and phishing attacks across all organisations	• The Group has clear protocols/policies in place regarding use and access to the Group's IT systems • Cyber security defences are in place and include: ▪ Network unified threat management/Firewall ▪ Anti-virus software ▪ Inbound and outbound email scanning and filtering	
People			
Failure to attract, develop, motivate and retain key employees	• Loss of key personnel and skilled workers (e.g. technicians) impacting operational performance, and relationships with key brand partners and suppliers **Impacts of Pandemics** • Loss of key personnel due to sickness, requirement to self-isolate and/or childcare issues. • Colleague engagement deteriorates due to difficulties experienced directly or indirectly by the pandemic	• Appropriate remuneration packages which reward performance and include long-term incentive plans for senior employees which are aligned with the interests of shareholders • Guaranteed earnings scheme for new sales staff to assist recruitment and retention Promotion of "Great Place to Work" culture • Training and career development programmes in place to provide opportunities for promotion within the Group **Additional Pandemic Mitigations** • During the furlough period, the Group supplemented the support provided by the CJRS enhancing colleague pay and not imposing the CJRS cap of £2,500 per month • The Group has provided additional financial support to colleagues including salary advances • The Board and other senior members of the management team voluntarily reduced their pay in line with reductions for furloughed employees • Video messages from the CEO and other members of the executive committee and senior management team, to all colleagues enabled the Group to stay in touch and provide updates to reassure colleagues on actions being taken to address the risks facing the business and also to direct colleagues to support available to them • 'Stay Marshall Colleague Hub' designed for two-way communication, regularly updated with internal initiatives and details of where colleagues can obtain support such as our Colleague Assistance Programmes with Ben and Aviva	

Board Decision Making (s.172 Statement)

The Board is accountable to shareholders for the management, performance and long-term success of the Company. The Directors have regard to their duty under Section 172 of the Companies Act 2006 to act in the way which they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole and, in doing so, have regard (amongst other matters) to:

(i) the likely consequences of any decision in the long term;

(ii) the interests of the Company's employees;

(iii) the need to foster the Company's business relationships with suppliers, customers and others;

(iv) the impact of the Company's operations on the community and the environment;

(v) the desirability of the Company maintaining a reputation for high standards of business conduct; and

(vi) the need to act fairly as between members of the Company.

Section 172 therefore requires the Board to consider wider stakeholder interests when discharging their duty to promote the success of the Company

For the purposes of decision making, the Directors have identified key stakeholder groups, have evaluated their interests, and describe below how they have engaged with and responded to the interests of those stakeholders during the Year.

Stakeholder Group	Interests	How does the Group Engage and Respond
Customers	• Dealing with a trusted and transparent organisation. • Maintaining a relationship over the long term. • Receiving balanced advice when purchasing a vehicle or having a vehicle serviced or repaired. • Having clarity as to the pricing of vehicles as well as the additional products and services. • Achieving good value for money. • Responding promptly and appropriately to any customer complaints or concerns.	• A "Sales Orientation Programme", which all new Sales Executives attend, to ensure that they deliver a consistent and high-quality customer experience. • A customer focused culture, supported by clearly defined sales processes. • Effective governance supported by an independent compliance team, a detailed understanding of the regulatory environment, coupled with monitoring and training to drive continuous improvement. • The Group's scale of operations, strong manufacturer and other supplier relationships support the delivery of value-for-money for the customer. • Frequent customer satisfaction surveys. • Independent complaint handling by the Group's internal Compliance Team in relation to regulated activities. Monitoring of customer complaints to identify any themes, with appropriate actions taken to address identified issues • During the Year, many of the Group's decisions relating to the operation of its retail businesses during the COVID-19 pandemic were centred around our customers' health and safety and providing them services in a manner which met their needs. As described in more detail in the Operating Review, the Group implemented a range of measures, including the adoption of robust COVID-19 secure operating procedures at our dealerships, introducing 'click and collect' and 'reserve online' facilities and frequent customer communications via telephone, email and video. • In addition, given the importance of our aftersales services to the emergency services, vehicle transport companies and key workers, the Group ensured that strategically located aftersales facilities remained open throughout periods of national lockdown to provide continuity of service to these critically important customers.

Stakeholder Group	Interests	How does the Group Engage and Respond
Employees	• Seeing an alignment between personal and corporate values • Knowing that the organisation has a strong commitment to ethical practices and compliance • Being part of a successful and secure organisation • A safe working environment • Knowing that their views are heard and acted upon	• Regular CEO communications, weekly bulletins, the Colleague magazine, intranet, regular team meetings and engaging social media channels. • Annual employee survey, through Great Place to Work, followed by line manager briefings and the development of action plans to drive improvement. • Group "whistle blowing" hotline provided by a third party to allow employees to raise concerns in confidence. • Recognising colleagues who demonstrate outstanding achievements through the MAVTA programme (Marshall Achievement, Values and Teamwork Awards). • Promoting diversity in the workplace; for example through membership of the Automotive 30% Club. • Group values and policies on work place conduct develop a supportive, respectful and friendly working environment. • Investment in learning and development to ensure that staff are equipped with the skills they need to do their roles. • Group Health, Safety and Environment Team who work with all sites to promote safe working practices as well as monitoring trends and making changes to procedures in response to those trends. • As set out in more detail in the Operating Review and the Corporate and Social Responsibility section of this Annual Report, the Group took numerous decisions and actions during the Year to support its employees, including enhancing financial support for furloughed colleagues, a variety of wellbeing initiatives and regular employee communication throughout the Year. • In addition, whilst a number of roles in the Group were affected by business closures and there were a limited number of other redundancies as a result of the impact of COVID-19, through a range of measures, the vast majority of jobs within the Group have been protected.

Stakeholder Group	Interests	How does the Group Engage and Respond
Suppliers	• A collaborative, open and supportive relationship • Prompt, clear and responsive communications	• Strong relationships with vehicle manufacturers, developed through regular meetings with the Group's senior management. • Long term partnership agreements with key strategic suppliers which deliver value for money for the Group and certainty of business for the supplier. • During the Year, the Group extended its commercial relationships with a number of its key suppliers, including both vehicle manufacturer and other commercial partners.
Communities	• Responsible investment, development, and operations • Delivery of employment opportunities • Support for local communities and national causes	• Investing in the dealership portfolio to ensure that all the sites are well maintained, optimise energy use and environmental impact, as well as being an asset to the local area. • Providing direct employment to over 4,000 people. • Supporting and raising awareness for the Motor and Allied Trades Benevolent Fund. • Supporting local and national charities, as well as encouraging employees to become involved in the communities in which they work. • As referred to above, during the Year the Group made the decision to keep strategically located aftersales facilities open throughout national lockdown periods to support local and regional emergency services, transport companies and key workers.
Shareholders	• A business with a clear strategy which is well executed • Financial discipline backed by strong internal controls • Strong return on investment throughout the economic cycle	• Clear and transparent annual and interim reporting. • Access to senior management through results presentations and the Annual General Meeting. • The Chairman meets regularly with key shareholders and the Senior Independent Director is available to meet with shareholders if requested. • Track record of successful growth through acquisitions which have been appropriately integrated into the Group. • During the Year, the Group communicated with shareholders frequently providing clear details of the Group's trading, operational and financial position, both through formal announcements and meetings with key shareholders and institutional investors.

Stakeholder Group	Interests	How does the Group Engage and Respond
Funders	• Open and honest relationship with clarity as to business performance • Financial discipline backed by strong internal controls which enables delivery of commitments	• Clear and transparent annual and interim reporting. • Relationships with all funders at a senior level within the Group. • Strong day to day working relationships between Group and funder operational staff. • During the Year, the Group maintained its strong relationships with key funders, communicating the Group's financial performance and position on a regular basis and working with them to amend financial covenants where necessary. During the Year, the Group also extended its revolving credit facility with Barclays and HSBC and agreed extended facilities with its key vehicle funding providers.

Directors' Approval of the Strategic Report

The Group's Strategic Report, from pages 8 through to 49, has been reviewed and approved by the Board of Directors.

By order of the Board

Daksh Gupta
Chief Executive Officer
8 March 2021

Board of Directors

1. Professor Richard Parry-Jones CBE

Non-Executive Chairman and Chair of the Nominations Committee

Richard has had a long and distinguished career in the automotive industry. He spent over 30 years in senior executive positions at Ford Motor Company, including Group Vice President of Global Product Development and served as its Chief Technical Officer for 10 years.

Richard's non-executive career has included positions working with the Government as Co-Chair of the UK Automotive Council and in infrastructure sectors as Chairman of Network Rail and Chairman of Kelda Group Holdings and Yorkshire Water. He also served for 10 years as a Non-Executive Director of GKN plc, a global leader in automotive and aerospace systems, including the role of Senior Independent Director. Richard's other current roles include Visiting Professor at Loughborough University and Chairman of the Faraday Challenge Advisory Board. Richard was appointed as a Non-Executive Director of Aston Martin Lagonda plc in February 2021.

Richard joined the Board as Non-Executive Chairman in January 2019.

2. Daksh Gupta

Chief Executive Officer

Daksh has over 28 years' experience in the automotive retail sector and joined the Company in 2008 as its Chief Executive Officer. Daksh was a Franchise Director for Inchcape plc for seven years where he was responsible for the Volkswagen, Audi and Mercedes-Benz brands. Daksh also served as Chief Operating Officer of Accident Exchange Group plc and prior to joining the Company, was Group Managing Director for Ridgeway Group. Daksh was a Director of Marshall of Cambridge (Holdings) Limited until 2 April 2015.

Daksh is currently Vice Chairman of the UK automotive industry charity, BEN and a Patron of The UK Automotive 30% Club, whose purpose is to achieve a better gender balance within the automotive industry.

3. Richard Blumberger FCMA

Chief Financial Officer

Richard has a wealth of experience gained from senior finance roles with major UK public companies. Before joining the Company, Richard was Director of Group Finance at Mitie Group plc and previously held senior finance roles at Engie (formerly GDF Suez) and Balfour Beatty plc. He has a strong understanding of multi-site businesses and a track record of strategic planning, profit enhancement and extensive M&A experience.

Richard was appointed to the Board as Chief Financial Officer in January 2019.

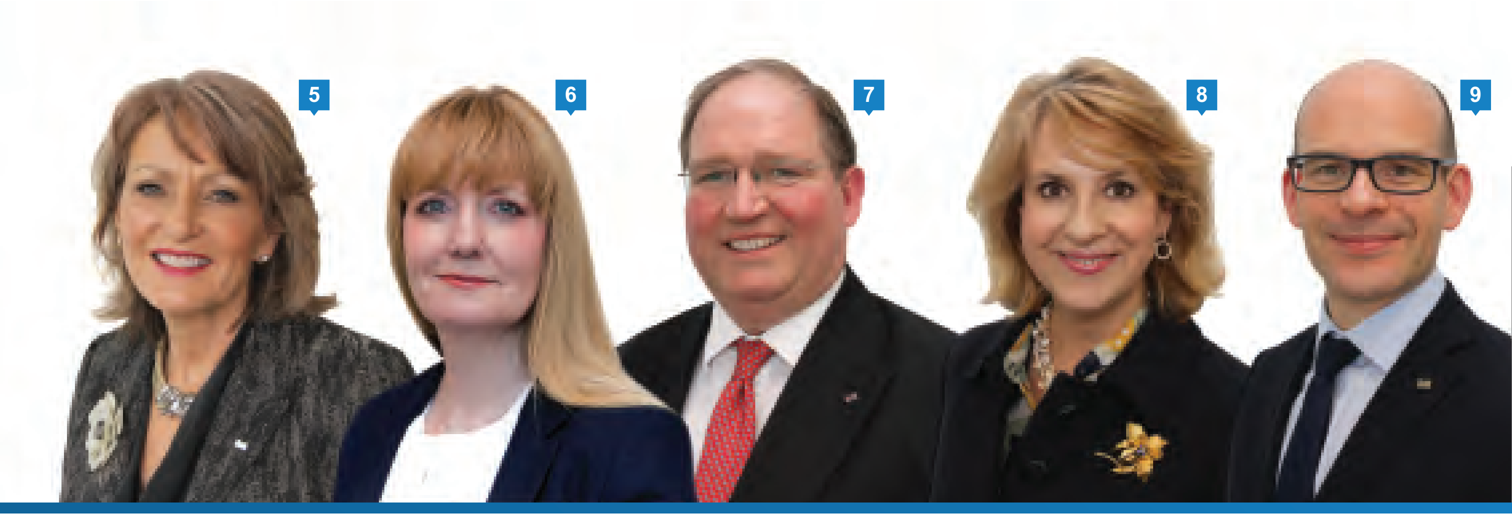
4. Alan Ferguson

Senior Independent Director and Chair of the Audit Committee

Alan is a Non-Executive Director of AngloGold Ashanti Limited where he chairs the Audit Committee. Until July 2020 and April 2020 respectively, he was Senior Independent Director of Johnson Matthey plc and Croda International plc and chaired the Audit Committees of each of these companies. Alan was Chief Financial Officer and a director of Lonmin plc until December 2010.

Prior to this, Alan was Group Finance Director of BOC Group plc until it was acquired by the Linde Group in 2006. Before then, Alan spent 22 years in a variety of roles at Inchcape plc, including six years as its Group Finance Director from 1999. Alan is a Chartered Accountant, sits on the Business Policy Panel of the Institute of Chartered Accountants of Scotland and works with the Audit Committee Chairs' Independent Forum.

Alan was appointed to the Board in March 2015.



5. Nicky Dulieu

Non-Executive Director
and Chair of the Remuneration Committee

Nicky is an experienced Non-Executive Director with a wealth of retail industry experience. She trained as an accountant with Marks & Spencer plc and undertook numerous strategic and financial roles in the company over a 23 year period, including as Finance Director of the Food Division. Nicky joined Hobbs Limited as its Finance Director in 2006 before becoming its Chief Operating Officer and subsequently Chief Executive between 2008 and 2014.

Nicky is currently a Non-Executive Director and Chair of the Remuneration Committees at Adnams plc and Redrow plc and is a Non-Executive Director and Chair of the Audit Committee at WH Smith plc.

Nicky was appointed to the Board on 1 January 2020.

6. Kathy Jenkins

Non-Executive Director

Kathy joined Marshall of Cambridge (Holdings) Limited in April 2017 as Group HR Director. Kathy was appointed as Chief Operating Officer in October 2019. Before joining Marshall, Kathy spent 14 years at Thales plc where she held a number of senior executive positions. She has also worked with Marconi plc.

Kathy was appointed to the Board in May 2018 as a nominated director of Marshall of Cambridge (Holdings) Limited.

7. Christopher Walkinshaw

Non-Executive Director

Christopher has worked for Marshall of Cambridge (Holdings) Limited since 1983 and is currently Group Director of External Relations & Communications. He is a Board Member of Cambridge Ahead and of the Reserve Forces and Cadets Association in East Anglia. He is a Trustee of Addenbrooke's Charitable Trust and a Member of Anglian Learning (multi-academy trust). He is also a Member of the Joint Assembly of the Greater Cambridge Partnership and a Vice-President of the Air League Trust and a Vice-President of Automotive Fellowship International. He is Chairman of No. 104 (City of Cambridge) Squadron of the RAF Air Cadets. Christopher is a Fellow of the Royal Aeronautical Society, a Fellow of the Institute of the Motor Industry and a Freeman of the City of London.

Christopher was appointed to the Board in July 2016 as a nominated director of Marshall of Cambridge (Holdings) Limited.

8. Francesca Ecsery

Non-Executive Director

Francesca has over 20 years' directorship experience in both blue chip companies and start-ups in the digital, retail, fast-moving consumer goods (FMCG) and leisure industries. She is a Harvard MBA, fluent in five languages and has special expertise in multi-platform consumer marketing, branding and commercial strategies.

Francesca is also a Non-Executive Director of FTSE listed companies F&C Investment Trust plc, Air France and the AIC (Association of Investment Companies). Her previous executive experience includes McKinsey, PepsiCo, Thorn EMI, Thomas Cook, STA Travel and many other consumer brands.

Francesca was appointed to the Board in March 2015.

9. Stephen Jones

Company Secretary

Stephen is a practising Solicitor and spent eight years as a corporate lawyer at Eversheds LLP. He also spent eight years as Group Counsel and Company Secretary at Automotive and Insurance Solutions Group plc.

Stephen joined the Company in March 2015.

Directors' Report

The Directors present their Annual Report on the affairs of the Group, together with the financial statements and Independent Auditor's Report, for the year ended 31 December 2020 (the "Year").

Principal Activities

The principal activity of the Company is that of a holding company. The principal activity of its subsidiary undertakings is the sale and servicing of passenger cars and commercial vehicle and associated activities.

Results and Dividend

The results for the Year are set out in the Consolidated Statement of Comprehensive Income. The Directors are not recommending the payment of a final dividend for the Year for the reasons set out in the Strategic Report.

Business Review and Future Developments

The review of the business and likely future developments is included within the Strategic Report. This also includes details of acquisitions, disposals and growth plans for the future.

Going Concern

After making appropriate enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and for at least one year from the date of these financial statements. For these reasons, they continue to adopt the going concern basis in the preparation of these financial statements. Further details are set out in Note 1 to the consolidated financial statements.

Directors

Details of the current directors are set out on pages 50 to 51. The directors who served during the Year and subsequently are detailed below.

Non-Executive Directors
Richard Parry-Jones
Alan Ferguson
Francesca Ecsery
Nicky Dulieu (*Appointed 1 January 2020*)
Kathy Jenkins
Christopher Walkinshaw

Executive Directors
Daksh Gupta
Richard Blumberger

No other Directors held office during the Year or have been appointed subsequently.

In accordance with the Articles of Association of the Company adopted on 12 March 2015 (the "Articles"), having been last elected at the 2018 annual general meeting, Daksh Gupta will retire by rotation and will offer himself for reappointment at the annual general meeting to be held on 20 May 2021 (the "AGM").

The interests of the Directors and their immediate families in the share capital of the Company, along with details of Directors share options and awards, are contained in the Directors' Remuneration Report on pages 86 to 89.

Directors' insurance and indemnities

The Directors have the benefit of the indemnity provisions contained in the Company's Articles and the Company has maintained, throughout the Year, Directors' and Officers' liability insurance for the benefit of the Company, the Directors and its officers. The Company has entered into qualifying third party indemnity arrangements for the benefit of all its Directors in a form and scope which comply with the requirements of the Companies Act 2006 and which were in force throughout the Year and remain in force.

Share Capital

The authorised and issued share capital of the Company, together with the details of shares issued during the Year, are shown in Note 28 to the consolidated financial statements. The issued share capital of the Company as at 31 December 2020 was 78,232,237 ordinary shares of 64p each.

Substantial Shareholdings

As at 8 March 2021, the Company had been notified of interests in excess of 3 per cent in the Company's share capital by the following shareholders:

Name	Number of Ordinary Shares	Percentage of Existing Ordinary Shares Held
Marshall of Cambridge (Holdings) Limited	50,390,625	64.41%
Union Investments and Development Limited	7,105,839	9.08%
Janus Henderson Investors	4,185,400	5.35%
Schroder Investment Management	3,037,402	3.88%
Tellworth Investments	2,732,913	3.49%

Share Option Schemes

Details of employee share option schemes are set out in the Remuneration Committee Report and in Note 29 to the consolidated financial statements.

Charitable and Political Donations

During the Year, the Group made the following charitable donations during the Year: £30,000 (2019: £44,803).

No political contributions were made during the Year (2019: £nil).

Disabled Employees

The Group gives full consideration to applications for employment from disabled persons where the candidate's particular aptitude and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion. Where existing employees become disabled, it is the Group's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

Employee Involvement

During the Year of the Group has continued to provide employees with information about the Group through the newsletters 'Marshall Matters' and 'Compliance Matters', team briefings and through the Group wide email distribution. Regular meetings are held between local management and employees to allow a free flow of information and ideas. We also participate in the Great Place to Work Institute's employee engagement programme. For the 2020 survey, the participation rate remained high at 84% and the Group was once again included in the "Best UK Super Large Workplace" rankings for the sixth year in succession. Further details are set out in the Corporate Social Responsibility Section of this Annual Report.

Financial Risk Management

Details of the Company's principal financial instruments, its exposure to price, credit, liquidity and cash flow risks, together with details of the its financial risk management policies, processes and systems, are set out in Note 26 to the consolidated financial statements.

Anti-Bribery and Corruption

The Group has in place an anti-bribery and corruption policy, the aim of which is to ensure that colleagues understand their obligations under anti-bribery legislation and includes authorisation and disclosure procedures around the provision and receipt of corporate hospitality and gifts.

Disclosure of Information to Auditor

In so far as each of the persons who were Directors at the date of approving these financial statements is aware:

- There is no relevant audit information of which the Company's Auditor is unaware; and
- Each Director has taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that.

Annual General Meeting

Notice of the AGM to be held on 20 May 2021 will be sent to shareholders in due course and will be made available on the Company's website at www.mmhplc.com.

Streamlined Energy and Carbon Reporting (SECR)

Under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 ("the Regulations"), the Group is mandated to disclose its UK energy use and the associated greenhouse gas emissions relating to natural gas, electricity and transport fuel. In addition, publication of an intensity ratio as well the calculation methodology applied is required.

Calculation Methodology

Scope 1 and Scope 2 energy consumption and greenhouse gas emissions data has been calculated in line with the 2019 UK Government environmental reporting guidance. There were a number of instances, equating to 15.6% of the total reported consumption figures, where it was necessary to calculate some estimated consumption to achieve 100% data coverage. Emission Factor Databases consistent with the 2019 UK Government environmental reporting guidance have been used, utilising the current published kWh gross calorific value (CV) and tCO_2e emissions factors relevant for reporting year.

Results

The table below shows the energy consumption and associated greenhouse gas emissions of the Group's operations during the reporting year from 1 January 2020 to 31 December 2020. The calculations are for the following scope:

- Scope 1 consumption and emissions relate to the direct combustion of natural gas and fuels utilised for transportation operations, such as company vehicle fleets and grey fleet (i.e. vehicles owned and driven by employees for business purposes); and
- Scope 2 consumption and emissions relate to indirect emissions resulting from the consumption of purchased electricity in day-to-day business operations.

Being the first year that the Group has been required to assess and report this information, the following figures constitute the baseline reporting for future assessments, though it is recognised that given the impact of the COVID-19 pandemic, 2020 was not wholly representative of a typical year.

	2020	
	Consumption (kWh)	**Greenhouse Gas Emissions (tCO_2e)**
Grid supplied electricity *(Scope 2)*	16,389,269	3,821
Gas and other fuels *(Scope 1)*	18,303,801	3,366
Transport fuel *(Scope 1)*	19,644,059	4,726
Total	**54,337,129**	**11,913**

Intensity Metric:	
tCO_2e per £'m Revenue	**5.53**

Energy Efficiency Improvements

The Group is committed to year-on-year improvements in operational energy efficiency.

All property construction and refurbishment programmes are developed to ensure improvements in energy efficiency and a reduction in consumption by using sustainable energy solutions where appropriate.

Along with our brand partners the Group is investing in the installation of electrical vehicle (EV) charging points across the property estate. While this will not reduce the overall emissions of the Group, it demonstrates the Group's support of the required decarbonisation of the transport sector. Through the planned installation of EV charging points, the Group will contribute to the growing infrastructure for electric vehicles through the UK.

Measures Prioritised for Implementation in 2021

1. Ongoing Compliance with Energy Reporting Legislation

The Group is mandated to comply with the Energy Savings Opportunity Scheme (ESOS) and, as such, produces a summary of all available energy efficiency improvements on a four-year cycle. This will be completed again in line with the 2023 Phase 3 compliance deadline. Recommendations found within the Phase 2 reporting are being reviewed and will be acted on where practical.

Upon normalisation of operations following the COVID-19 pandemic, the implementation of ongoing training in energy conservation and sustainability awareness is being considered for all employees across the Group.

2. Energy and Environment Strategy

The Group are working towards implementing an Energy and Environment strategy that ensures ongoing energy and carbon reductions over the coming years in line with the UK's 2050 net zero targets.

By order of the Board

Stephen Jones
Company Secretary
8 March 2021

Striving to have a positive impact on the communities in which we serve.

Our people are our heroes

Corporate and Social Responsibility

Community

Marshall Making a Difference

Our values underpin what we stand for as a business and give clear definition on how we behave. We encourage colleagues to make a difference to each other and our customers which we believe is what makes Marshall special. Whilst our focus is creating an environment where colleagues enjoy coming to work and achieving our business objectives, we also believe it is important to give back to our communities and the environment in which we live.

Group Giving

There are certain good causes which we consistently support across our business each year. Despite the pandemic we continued our fundraising activities, mindful that more than ever these causes needed our support.

We have been actively involved in supporting and raising awareness for the Motor and Allied Trades Benevolent Fund ('Ben') since 1984. Ben is the UK's dedicated charity for those who work, or have worked, in the automotive and related industries, as well as their dependents. During this time, we have raised over £1 million, which includes the generous donations our colleagues make via payroll giving and various fundraising activities. CEO, Daksh Gupta, became a Trustee and Vice Chairman in October 2012 and remains committed to these roles and the purpose of the charity.

One of the key Ben campaigns during 2020 was Hats on 4 Ben which, in addition to fundraising, raises awareness for mental health – an important subject which became even more so in 2020. The other was the Xmas Do-nation where automotive companies had the opportunity to donate some or all of the funds they would have ordinarily spent on Christmas parties. We got behind both of these campaigns and contributed to their success.

We have supported the Macmillan Coffee Mornings for 24 years enabling our businesses to get involved at a local level, bringing colleagues and customers together. We have raised over £100,000 for Macmillan during this period, which is a wonderful effort. Despite the pandemic we hosted a virtual 2020 coffee morning raising over £4,000.

During 2020 we also supported Sport Relief, Wear it Pink for Breast Cancer, Christmas Jumper Day for Save the Children as well as supporting World Mental Health Day. These events are always a lot of fun and, as well as the fundraising, gives rich and inspirational content for our social media channels to showcase our people and the personality of the business.

Local Giving

Colleagues are encouraged to get involved with good causes which support the communities in which they work. In 2020 our colleagues, many whilst furloughed, did amazing things to help people affected by the pandemic as well as other good causes. We call them our Marshall Heroes and have so many examples of their incredible efforts, here are just a small sample:

- Volunteering for the NHS, Age Concern and local hospices.
- Doing shopping and exercise classes for neighbours.
- Collecting Easter Eggs from local supermarkets and donating to children's hospital.
- Teams donating food for local food banks.
- Designing and selling T-shirts for the NHS.
- Keeping key workers mobile and on the road.
- Sending food parcels into dealerships for colleagues still working.
- Call of Duty gaming marathon for Macmillan Cancer Support.
- Numerous virtual charity sporting challenges from running to swimming to triathlons.

Note: 'Services in the Community' is one of the categories recognised as part of our Marshall Achievement, Values and Teamwork Awards (MAVTAs) and also supports our Great Place to Work ® ethos.

Committed to attracting, developing and retaining the best talent to help drive our business forward in line with our values.

Living our values since 1909

- Recognising that people are at the heart of our success
- Maintaining competitive edge through innovation and creativity
- Putting our customers above all else
- Upholding the highest standards of integrity and fairness

Marshall People

Our Values

We seek to ensure our values are at the forefront of everything we do. We encourage colleagues to uphold these values and behave in a way that keeps them present and supports our culture of being a great place to work whilst delivering first class customer service. Our people are what make our business special.

Recruiting, Retaining and Developing our People

We have a clear Colleague Value Proposition to attract the best talent and support our strategy to be an employment destination. We use a range of tools and assessment methods to ensure we recruit people who can not only deliver their objectives in line with our values and business strategy but contribute to our values-based culture and great place to work ethos.

Our dedicated team of HR professionals support the business, aided by policies and practices to ensure we provide the best support, benefits and career opportunities to our colleagues.

Our bespoke Marshall Learning & Development Academy provides opportunities for our colleagues to realise their potential and support their development to ensure they have a fulfilling career with us. During the COVID-19 pandemic, we have continued to invest in the development of our colleagues by adapting our content to enable us to deliver training virtually. This has also meant we have been able to train our colleagues even when furloughed so that their skills are maintained and their engagement levels have remained high.

Recognising our People

Our recognition programmes are designed to support our colleague engagement agenda. These programmes include long service recognition, awards for demonstrating our values and creative local recognition to thank and celebrate achievement.

Our MAVTA programme (Marshall Achievement, Values and Teamwork Awards) recognises colleagues who demonstrate outstanding achievements in Customer Service, Teamwork, Innovation, Leadership, Services in the Community, Business Excellence and Environmental.

Communicating with our People

Communication is our key to maintaining colleague engagement and our employment brand. We have an ethos of transparency and sharing news on a regular basis including CEO communications, weekly bulletins, our Colleague magazine, intranet, regular team meetings and engaging social media channels. With the challenges 2020 brought, our CEO and senior team did twice weekly colleague update videos, during lockdown 1, to ensure everyone received regular communications to keep them informed, entertained and connected. As well as sharing how we were navigating the business through the unprecedented circumstances we ran competitions, did shout outs and even colleagues made music videos

In addition to the videos, we created an online Colleague Hub, again to keep colleagues informed, entertained and connected. As well as lots of information about COVID-19, furlough and the job retention scheme, there was a section dedicated to Health & Wellbeing along with lots of fun sections from quizzes and competitions to stuff to keep the children busy and showcasing our Marshall Heroes.

Wellbeing and our People

The pandemic magnified the importance of wellbeing both mental, physical and financial. Our first priority was the safety of our colleagues and customers. We developed a COVID-19 training programme which every colleague completed, requiring a 100% pass mark, ahead of returning to work after the first lockdown and remains in place to all new colleagues who join us. We have invested large sums of money ensuring our sites are COVID-19 secure, making a safe environment for our colleagues. Examples of which are every business has the appropriate signage and PPE and we have reconfigured our dealerships and workshops to ensure colleague and customer safety. Our Health, Safety & Environment ("HSE") Team conduct regular virtual audits to ensure our COVID-19 Secure Protocols are maintained at all times.

Mental health has been a particular focus area. We have run various awareness campaigns, along with our senior team doing several videos reinforcing our 'it's okay not to be okay' message and reminding everyone that we have two colleague assistance programmes in place to support them should they need it.

To support physical health we shared tips and information on keeping active on our Colleague Hub along with launching a Cycle to Work scheme to encourage getting active whilst helping the environment.

Finally, to help with financial wellbeing, we launched our Pay it Forward Scheme giving colleagues the opportunity to take an interest free loan. Plus our CFO shared money saving tips.

Diversity and our People

We are committed to encouraging diversity and ensuring that discrimination has no place in our business. We want every colleague to feel respected and able to perform to the best of their ability. We do not make assumptions about a person's ability to carry out their duties based on ethnic origin, gender, sexual orientation, marital status, religion or other philosophical beliefs, age or disability.

We expect all our colleagues to act with integrity and behave ethically in everything they do. To reinforce this, we have the Marshall Code of Conduct which is supported by an online programme which forms part of every new colleague's induction.

Our CEO is a patron of the Automotive 30% Club and we continue to support their campaigns and initiatives to drive a gender-balanced business. Marshall volunteers got involved with the Inspiring Automotive Women Day which raises awareness of our industry and the career paths available and is aimed at female students. We also did a webinar for female students with tips on getting ready for new life experiences and thinking ahead for their future.

Engaging our People

Our employment policies and practices are consistent with our values and culture, helping us to achieve our business objectives through engaged people.

Since 2008 we have worked with the Great Place to Work® UK's Best Workplaces programme. This has given us the opportunity to seek feedback from our colleagues each year to measure levels of engagement and drive continuous improvement.

In 2020, despite the pandemic, we completed the survey achieving an amazing 84% response rate and a score above the UK benchmark for the eleventh year running. We received particularly strong feedback on our leadership through the coronavirus crisis. We were also ranked as the twelfth Best UK Super Large Workplace and have now been ranked for six consecutive years. We believe the success of this programme is down to high engagement levels driven by our ability to listen, take action and care.

In recognition of our colleague engagement programmes and the way in which we led the business through the pandemic we were the proud recipients of the Motor Trader Employer of the Year Award. The crisis has brought about a strong sense of us 'all being in it together' and our colleagues have never been so involved and willing to help. Our CEO has received hundreds of emails from colleagues offering support, sharing ideas and commending the business on how it has dealt with such unprecedented circumstances.


Marshall
MENTAL HEALTH FOR ALL
Marshall
LET'S TALK ABOUT IT
Marshall
IT'S OKAY TO NOT BE OKAY
Marshall
END THE STIGMA REACH OUT
Marshall
IT'S OKAY TO ASK FOR HELP
Marshall
BE GENTLE WITH YOUR MIND
Marshall
BE KIND TO YOUR MIND

Marshall Embracing Safety

Health and safety has always been led from the top and 2020 has been no exception. Following the outbreak of the COVID-19 virus in early February 2020, the HSE Team has worked alongside the Senior Leadership Team in order to ensure an industry leading, consistent and conscientious approach was taken in response to the rapidly changing global pandemic.

In response to the pandemic, the health and safety of our colleagues has been our number one priority. Our approach has been rigorous, consistent and without compromise as we rapidly established HSE alerts across the business with direction and information on all aspects of safety including hygiene standards, social distancing and symptom checking. A confidential email address was set up to enable colleagues to contact the senior team directly with any concerns or suggestions. COVID-19 Standards and Protocols, which documents the control measures to be followed by all colleagues, formed the basis of our virtual training that went to every colleague with a 100-question assessment requiring a 100% pass mark to illustrate their understanding of the standards required to keep our colleagues safe.

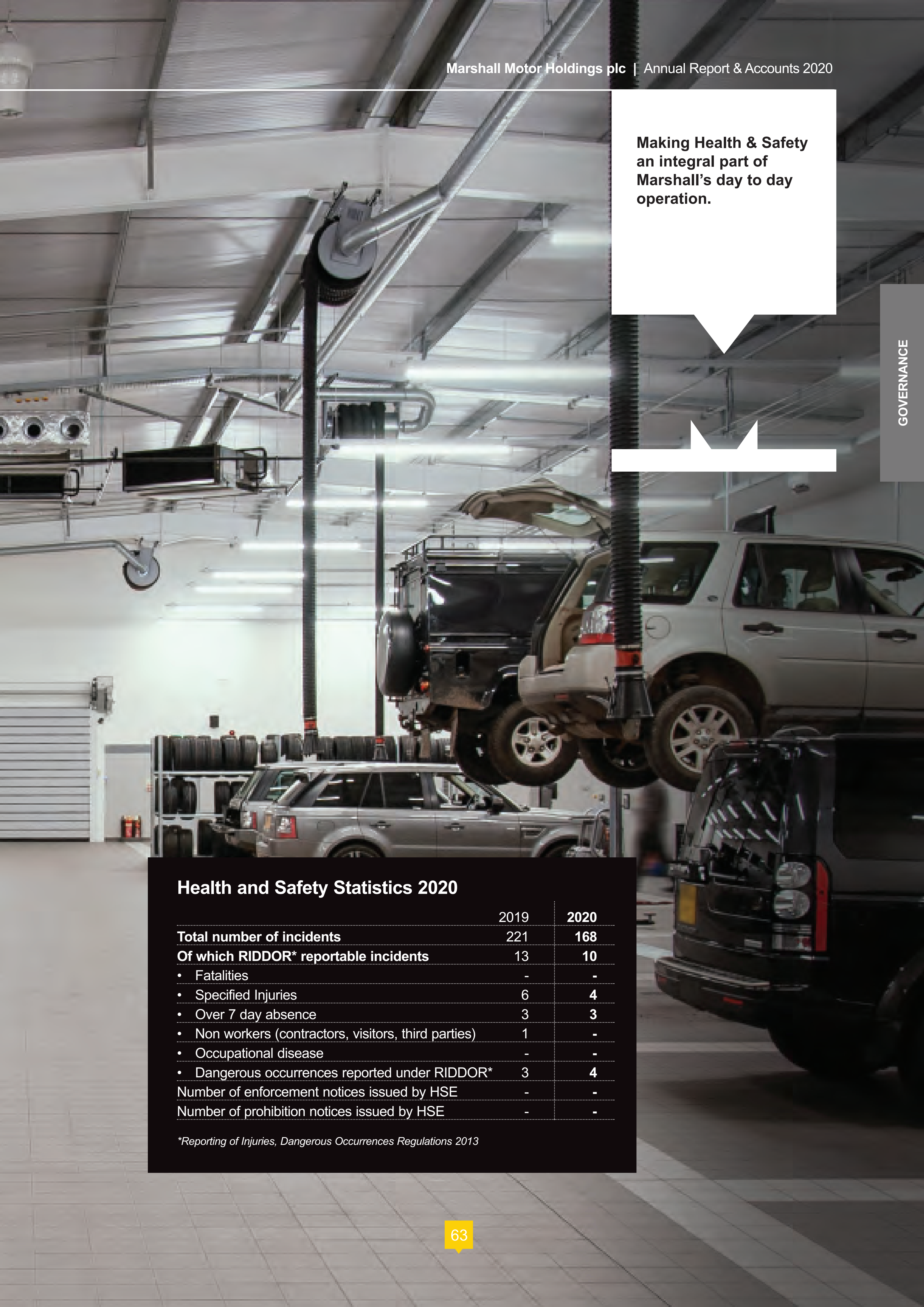
Since reopening the businesses in June 2020 after the initial national lockdown, the HSE Team have conducted regular virtual audits, accompanied by the Senior Leadership Team, to ensure the on-going implementation and maintenance of our COVID-19 standards and protocols. As always our business have risen to the challenge.

In 2020, we continued to grow and develop our HSE Team with additional resource in line with the growth of the business. We have embraced technology to enable the team to continue remote audits to compliment physical site audits. Our support team in Cambridge are also on hand to provide support and direction to all sites by continually reviewing and improving our policies and procedures in line with our activities, as well as supporting and advising managers to assist them in fulfilling their HSE responsibilities. As a result of this continued support, engagement across the business remains high.

Throughout the Year, we have continued to support those colleagues in our business who have volunteered to fulfill the role of First Aiders and Fire Wardens. As our fire warden training is conducted on-line, we have been able to continue to support those colleagues whose training has expired. For those first aider colleagues we have worked closely with the third-party supplier to ensure that training courses are safe and COVID-19-secure for our colleagues to attend. Our HR Team have also completed mental health first aid training and is supporting colleagues throughout the business signposting professional support where required.

As a team we have continued to monitor, investigate and report all incidents and, where trends are identified, an HSE Alert is created and shared with all colleagues. We track our Accident Frequency Rate ("AFR") on a monthly and annual basis. The AFR is the measure of the number of accidents per million hours worked. The Motor Industry AFR average is currently set at 14.2 (taken from HSE document 'Injury frequency rates'). Our AFR for 2020 was 6.8.

We continue to look for ways to improve our incident reporting and have projects set for 2021 to focus on further improving hazard spot and near miss reporting, which we know to be key to in the overall reduction of incidents.



Making Health & Safety an integral part of Marshall's day to day operation.

Health and Safety Statistics 2020

	2019	**2020**
Total number of incidents	221	**168**
Of which RIDDOR* reportable incidents	13	**10**
• Fatalities	-	**-**
• Specified Injuries	6	**4**
• Over 7 day absence	3	**3**
• Non workers (contractors, visitors, third parties)	1	**-**
• Occupational disease	-	**-**
• Dangerous occurrences reported under RIDDOR*	3	**4**
Number of enforcement notices issued by HSE	-	**-**
Number of prohibition notices issued by HSE	-	**-**

**Reporting of Injuries, Dangerous Occurrences Regulations 2013*

Embracing our environmental responsibilities.

1,300 tonnes

Of waste diverted from landfill

SUBSTANCES
Control of Substances Hazardous to Health (COSHH)

ENERGY
Reducing energy consumption

RECYCLING
Waste and recycling

Continually minimising the impact of our operational activities on the environment

Marshall Going Green

We have continued throughout 2020 to build on our improvements from 2019, to develop and increase environmental awareness across the business.

All of our new-build dealerships have been built to BREEAM "Very Good" rating. BREEAM is the world's leading environmental assessment method for buildings and sets the standard for best practice in sustainable building design, construction and operation and has become one of the most comprehensive and widely recognised measures of a building's environmental performance.

At Marshall we take our duty of care responsibilities very seriously and as such work closely with our approved waste contractor to provide a comprehensive collection and processing service of our hazardous and non-hazardous recyclable materials.

In 2020, 98.08% of our hazardous waste materials, such as engine oil, lead acid batteries, rags and absorbents, were recycled and recovered which is a 0.08% increase in hazardous waste materials recycled. This equates to over 1,300 tons of waste that did not go to landfill.

During 2020, 64.3% of our dry mixed recycling waste materials, such as paper, plastics, metals and cardboard, were recycled and recovered. This equates to over 1,500 tons of waste that did not go to landfill.

We work with our Brand Partners on an annual basis to ensure compliance with The Producer Responsibility Obligations (Packaging Waste) Regulations the aim of which is to reduce the amount of packaging waste that ends up in landfill, and we work closely with water retailers and local water authorities to ensure that where our operations involve the discharge of waste water (for example, valeting), we have obtained the correct level of consent and that our actions do not cause pollution via surface water drainage and other water courses.

Finally, in conjunction with the Environmental Protection Teams at various Local Councils across England, we ensure that we have the relevant permits in place under the Environmental Permitting (England and Wales) Regulations 2007 at those of our dealerships which have a Bodyshop, or where we have independent Bodyshop operations. This includes undertaking regular monitoring to ensure we remain compliant with the limits set within the permits.

Corporate Governance

PRINCIPLES OF CORPORATE GOVERNANCE

The Board recognises that applying sound governance principles in the running of the Group is essential in meeting the needs and protecting the interests of all stakeholder groups. The Group has, since its admission to AIM in April 2015, adopted the QCA Corporate Governance Code for Small and Mid-Size Quoted Companies.

An explanation of how these principles are applied by the Group are set out in the table below and the remainder of this Corporate Governance Report.

APPLICATION OF THE QCA CORPORATE GOVERNANCE CODE

QCA Principle	Application by the Group
1. Establish a strategy and business model which promote long-term value for shareholders	The Group's vision is to be the UK's premier automotive retail group. This vision is underpinned by five strategic pillars set by the Board: class leading returns; customer first; retailing excellence; people-centric; and strategic growth. The Group's business model and strategy are set out both in its AIM Admission document (which can be found on the Group's website at www.mmhplc.com) and the Strategic Report section of this Annual Report. In addition, the principal risks and uncertainties identified by the Board to the successful delivery of the Group's strategy, together with the principal controls in place to mitigate those risks, are set out on pages 40 to 45 of this Annual Report. The Board reviews the Group's risk register at least twice a year as part of the annual and interim accounts processes.
2. Seek to understand and meet shareholder needs and expectations	The Group is committed to maintaining good relations with all its shareholders through the provision of interim and annual reports, other trading statements and its Annual General Meeting ("AGM"). The Chief Executive Officer and Chief Financial Officer also meet with the Group's institutional shareholders regularly to discuss the Group's performance and business model and strategy and feedback from these meetings is reported to the Board. The Chairman also meets with key shareholders and the Senior Independent Director is also available to meet with shareholders if requested. Each Board member attends the AGM where investors are invited to formally and informally field questions and discuss their views with the Board. In light of Marshall of Cambridge (Holdings) Limited's ("MCHL") aggregate shareholding in the Group, on Admission the Group entered into a Relationship Agreement ("Relationship Agreement") with MCHL in order to regulate the relationship between MCHL and the Group and enable the Group to act independently of MCHL and its affiliates. Under the terms of this agreement, MCHL has the right, for so long as it owns 30% or more of the Ordinary Shares in the capital of the Company, to appoint two directors to the Board and one director to each of the committees of the Board, including the Audit, Remuneration and Nomination Committee. The Relationship Agreement will terminate in the event that MCHL ceases to own 30% or more of the ordinary shares in the capital of the Company. Further details of the Relationship Agreement can be found on page 13 of the Group's AIM Admission Document.

QCA Principle	Application by the Group
3. Take into account wider stakeholder and social responsibilities and their implications for long-term success	The Group recognises that its long-term success relies on maintaining and building strong relationships with its various stakeholders, including in particular, its customers, shareholders, brand partners, suppliers and employees. In making decisions which are for the benefit of the members as a whole over the long term the Board also considers the interests of other key stakeholder groups as set out in the Section 172 Statement on pages 46 to 49. As a franchise partner to global automotive manufacturers, the Group is focused on building and maintaining excellent brand partner relationships. The Group's recent success and growth has been based on strong and growing relationships with its brand partners. The Group has also invested in long-term strategic partnerships with other key suppliers, many of whom have worked with the Group over many years. The Group is committed to maintaining good employee relationships and employs a range of recruitment, communication and employee engagement initiatives designed to attract, recruit and retain employees. Further details of the Group's employee engagement programme are set out in the Corporate and Social Responsibility section and in the 'People Centric' section of the Operating Review of this Annual Report. The Group's participation in the Great Place to Work Institute's Best Workplaces programme provides an effective means to seek feedback from colleagues each year and to measure levels of engagement and drive continuous improvement. The Group also recognises the potential impact of its operations on the environment. Examples of how the Group seeks to minimise that impact are set out in the Corporate and Social Responsibility section of this Annual Report on pages 56 to 65.
4. Embed effective risk management considering both opportunities and threats, throughout the organisation	The principal elements of the Group's system of internal control are set out on page 71. In addition, the principal risks and uncertainties the Board believes could have the most significant adverse impact on the Group's business, together with the principal controls in place to mitigate those risks, are set out on pages 40 to 45.
5. Maintain a well-functioning, balanced team led by the Chair	The Chair is responsible for leading the Board and its governance arrangements. The Group currently has eight directors, of which four are independent non-executives (being Richard Parry-Jones, Alan Ferguson, Nicky Dulieu and Francesca Ecsery). Details of the directors, including their roles, committee memberships, skills and experience are set out on pages 50 to 51 and their attendance record in the last financial year is set out on page 69. Details of the Group's Board Committees, being the Audit Committee, Remuneration Committee and Nomination Committee, are set out below. As stated above, under the terms of the Relationship Agreement, MCHL is entitled to appoint two nominated directors to the Board, so long as it holds 30% or more of the Company's ordinary shares. Christopher Walkinshaw and Kathy Jenkins are the two nominated directors of MCHL. The Board is satisfied that it has a suitable balance between independence and knowledge of the Group to enable it to discharge its duties and responsibilities effectively. The Nomination Committee is responsible for reviewing the Board's balance and membership.

QCA Principle	Application by the Group
6. Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities	Details of each Board member's experience, skills and qualifications are set out on pages 50 and 51 of this Annual Report. All Directors are able to take independent professional advice, if necessary, at the Company's expense. In addition, the Directors have direct access to the advice and services of the Company Secretary, a qualified solicitor.
7. Evaluation of Board performance	The Non-Executive Directors meet more than once each financial year without the presence of the Executive Directors, during which the performance of Executive Directors is assessed, and once without the presence of the Chairman (to assess the performance of the Chairman). The Board concluded a formal Board evaluation process in 2020 during which the effectiveness of the Board was reviewed and discussed and the development and mentoring needs of the Group's management team was considered. The Board identified areas to improve the effectiveness of the Board including the identification of Non-Executive Directors to act as 'stakeholder champions' to ensure the Board was considering all stakeholder groups (including customers, colleagues, business suppliers and partners, investors and society).
8. Promote a culture based on ethical values and behaviours	The Group has clear and defined values based on people, innovation, integrity and customers. These values are embedded in the Group's internal systems and controls (including its whistleblowing, anti-corruption and modern slavery policies) and in its HR policies. Further details of our approach to embedding these values are set out in the Corporate and Social Responsibility section of this Annual Report.
9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board	Details of the Group's principal governance structures, including the Board and its committees are set out below. In addition, pages 72 to 81 contain reports from the Audit and Remuneration Committees which set out their key areas of responsibility and activities. The Board considers that the Group's governance structures and processes are fit for purpose and support good decision making by the Board.
10. Communicate how the Group is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders	The Group communicates with shareholders through its Annual Report and Accounts, annual and interim announcements, the AGM and individual meetings with shareholders. Key corporate information (including all Group announcements and presentations) is available on the Group's website at www.mmhplc.com. The Board receives regular updates on shareholders' views through briefings from the Chief Executive Officer, Chief Financial Officer and the Group's brokers. In addition, both the Chairman and the Senior Independent Director are available to meet on an ad hoc basis with the Group's principal shareholders. The Group communicates with its institutional investors through briefings with management at least twice a year, coinciding with the Group's annual and interim results and at other times during the Year. In addition, analysts' notes and brokers' briefings are reviewed to provide insight into investors' views of the Group, its strategy and performance. Whilst social distancing measures impacted the Group's ability to attend physical meetings with shareholders, institutional investors and other relevant stakeholders during the Year, the successful and efficient use of technology, such as video conferencing, has enabled the Group to maintain, and even increase, the frequency of its engagement with such stakeholders. The Group is hoping to be in a position to hold its 2021 Annual General Meeting with shareholders attending in person.

THE BOARD

The table below sets out details of all Directors who have served during the Year and their membership of Board Committees. This includes details of each member's attendance at the ten board meetings held during the Year. There are separate attendance statements in respect of the Audit and Remuneration Committees on pages 73 and 86.

Director	Date appointed	Role	Committees (C = current chair)	2020 Board attendance
Richard Parry-Jones	1 January 2019	Non-Executive Chairman	Nomination Committee (C)	10/10
Alan Ferguson	11 March 2015	Senior Independent Director	Audit Committee (C) Remuneration Committee Nomination Committee	10/10
Francesca Ecsery	25 March 2015	Independent Non-Executive	Audit Committee Remuneration Committee Nomination Committee	10/10
Nicky Dulieu	1 January 2020	Independent Non-Executive	Remuneration Committee (C) Audit Committee Nomination Committee	10/10
Christopher Walkinshaw*	12 July 2016	Non-Executive	Audit Committee Nomination Committee	10/10
Kathy Jenkins *	23 May 2018	Non-Executive	Remuneration Committee Nomination Committee	10/10
Daksh Gupta	1 October 2008	Chief Executive Officer	n/a	10/10
Richard Blumberger	2 January 2019	Chief Financial Officer	n/a	10/10

** Christopher Walkinshaw and Kathy Jenkins are nominated directors of Marshall of Cambridge (Holdings) Limited.*

In light of national social distancing requirements during the Year, Board and Committee meetings from April 2020 were held via video conference. This did not impact the effectiveness of Board or Committee meetings or the ability of Directors to contribute to such meetings and, given the time efficiency of such meetings, it is envisaged that the use of video conference for some meetings will be continued.

Board decisions are generally on matters of strategy (including acquisitions and disposals), policy, people, performance, budgets and significant capital expenditure. Each Director receives information on matters to be discussed (including Board reports from the Chief Executive Officer, Chief Financial Officer and Company Secretary) in advance of each Board meeting to ensure that there is a full debate at Board level and, in particular, so that the Non-Executive Directors can contribute fully.

The Board has approved terms of reference for all Board Committees.

All Directors have access to independent professional advice, if they have the need to seek it. There is an induction process for new Directors and training is available when required.

Chairman, Chief Executive Officer and Senior Independent Director

Richard Parry-Jones is Non-Executive Chairman and the Chief Executive Officer is Daksh Gupta. There is a formal division of responsibilities between the Chairman and the Chief Executive Officer. The Senior Independent Director is Alan Ferguson.

Re-appointment of Directors

Daksh Gupta, having last been elected at the 2018 Annual General Meeting, will retire by rotation in accordance with the Articles of Association of the Company and will offer himself for reappointment at the 2021 Annual General Meeting.

BOARD COMMITTEES

Nomination Committee

The Company has established a Nomination Committee which comprises Richard Parry-Jones (Chair of the Committee), Alan Ferguson, Nicky Dulieu, Francesca Ecsery, Christopher Walkinshaw and Kathy Jenkins.

The Nomination Committee is responsible for reviewing the structure, size and composition of the Board, preparing a description of the role and capabilities required for a particular appointment and identifying and nominating candidates to fill Board positions as and when they arise.

Audit Committee

The Company has established an Audit Committee, which comprises Alan Ferguson (Chair of the Committee), Nicky Dulieu, Francesca Ecsery and Christopher Walkinshaw. Further information on the Audit Committee is set out on pages 72 to 77.

Remuneration Committee

The Company has established a Remuneration Committee which comprises Nicky Dulieu (Chair of the Committee from 1 January 2020), Alan Ferguson, Francesca Ecsery and Kathy Jenkins. Further information on the Remuneration Committee is set out on pages 78 to 81.

RELATIONS WITH SHAREHOLDERS

The Group is committed to maintaining good relations with all its shareholders through the provision of Interim and Annual Reports, other trading statements and the Annual General Meeting. The Group also meets with its institutional shareholders regularly.

ANNUAL GENERAL MEETING

The Annual General Meeting provides an opportunity for all shareholders to be updated on the Group's progress and ask questions of the Board.

FINANCIAL REPORTING

The Board has ultimate responsibility for both the preparation of accounts and the monitoring of systems of internal financial control. The Board seeks to present a fair, balanced and understandable assessment of the Group's position and its prospects and present price-sensitive information in an appropriate way.

INTERNAL CONTROL

The Board has ultimate responsibility for the Group's system of internal control and for reviewing its effectiveness. However, any such system of internal control can provide only reasonable, but not absolute, assurance against material misstatement or loss. The Board considers that the internal controls in place are appropriate for the size, complexity and risk profile of the Group.

The principal elements of the Group's internal control system include:

- management of the day-to-day activities of the Group by the Executive Directors; aided by the Group's bespoke management information system, Phoenix 2;
- an organisational structure with defined levels of responsibility;
- a forecasting process at each quarter end;
- an annual budgeting process which is approved by the Board;
- detailed weekly and monthly reporting of performance against budget and the prior year;
- central control over key areas such as capital expenditure authorisation, contracts and financing facilities;
- formal accounting policies and procedures which are regularly reviewed and publicised in the business;
- an Internal Audit Department which monitors compliance of Group processes and procedures and whose programme of work is overseen by the Audit Committee; and
- a Compliance Department to assess and monitor the Group's compliance with its regulatory responsibilities with a particular focus on compliance with FCA and data protection requirements.

The Group continues to review its system of internal control to ensure compliance with best practice, whilst also having regard to its size and the resources available.

The principal risks and uncertainties identified by the Board are set out on pages 40 to 45.

By order of the Board

Stephen Jones
Company Secretary
8 March 2021

Audit Committee Report

Alan Ferguson
Senior Independent Director and
Chair of the Audit Committee

I am pleased to present my annual report to shareholders as Chair of the Audit Committee.

When I was preparing my report at this time last year few would have predicted the circumstances that we all faced during 2020. This financial year has provided unique operational issues for the Group against a backdrop of an unstable and deteriorating economic environment. This situation, coupled with the uncertainty arising from the elongated trade negotiations with the European Union, has presented management with challenges in respect of risk management, the internal control environment and the accounting judgements upon which the Annual Report and Accounts are based.

The Committee has provided support in managing those risks, and an oversight of the accounting judgements, through its review of the work of the Internal Audit and Risk Function and the External Auditor, and the consideration of the papers presented by management covering key accounting matters. Further details of this work and the conclusions reached are set out in the remainder of this report.

Key Purpose of the Audit Committee

The Audit Committee provides effective governance over the appropriateness of the Group's financial reporting and the performance of both the Internal Audit Function and the External Auditor. The Audit Committee also supports the Board in meeting its responsibilities in respect of overseeing the Group's internal control systems, business risk management and related compliance activities.

Audit Committee Responsibilities

The main responsibilities of the Audit Committee are:

- Monitoring the integrity of the financial statements of the Group, including the Interim Report and Accounts and the Annual Report and Accounts, and other formal announcements relating to the Group's financial performance;

- Considering whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's financial position and performance, business model and strategy;

- Reviewing and reporting to the Board on significant financial reporting issues, estimates and judgements having regard to matters communicated to it by management and the External Auditor. Details of the significant accounting judgements, estimates and assumptions are set out below and in Note 4 to the consolidated financial statements;

- Reviewing the adequacy and effectiveness of the Group's internal financial controls and risk management systems;

- Monitoring and reviewing the effectiveness of the Internal Audit Function and approving the annual plan of work to be conducted by the Internal Audit Function;

- Reviewing the External Auditor's audit plan, nature and scope of work, and the overall summary of key issues and judgements;

- Assessing the effectiveness of the External Auditor, including the appropriateness and skills of the audit team and the quality of the services provided;

- Making recommendations to the Board in relation to the appointment of the External Auditor, including verifying the independence of the External Auditor, putting the audit out to tender and approving any non-audit services to be provided by the External Auditor; and

- Reviewing arrangements for employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters.

Audit Committee Members and Meetings

The Audit Committee comprises myself, Francesca Ecsery, Christopher Walkinshaw and Nicky Dulieu. With the exception of Christopher Walkinshaw, due to his position as a nominated director of Marshall of Cambridge (Holdings) Limited, all members of the Audit Committee are considered to be independent.

The members of the Audit Committee, through their other business activities have a wide range of commercial, financial and internal control expertise. The biographies of each member of the Audit Committee are set out on pages 50 to 51. In particular I am a Chartered Accountant with many years' experience working in finance, I was the Group Finance Director at Inchcape plc for 6 years and have served on the boards of a number of other large companies throughout my career both as a Finance Director and as an Audit Committee Chair. I am currently the Chair of the Audit Committee of AngloGoldAshanti, listed in Johannesburg and New York.

It is, therefore, considered that the Audit Committee has the necessary skills and experience to effectively fulfil its responsibilities.

The Audit Committee has an annual agenda of matters to be considered and is scheduled to meet three times each year and at any other time when the circumstances require. The scheduled meetings coincide with the key events in the Group's financial reporting calendar.

During the year ended 31 December 2020 the Audit Committee met three times. Each member's attendance at those meetings is set out below:

Committee Member	Role	Attendance Record
Alan Ferguson	Chair of the Audit Committee	3/3
Nicky Dulieu	Non-Executive Director	3/3
Francesca Ecsery	Non-Executive Director	3/3
Christopher Walkinshaw	Non-Executive Director	3/3

Following the year end and up to the date of this report there have been two meetings of the Audit Committee which were attended by all members of the Audit Committee.

Audit Committee meetings are also attended, at the discretion and invitation of the Chair of the Audit Committee, by the Chairman, a Non-Executive Director (not on the Committee), Executive Directors, the Head of Audit and Risk, the Head of Group Finance and representatives of the Group's External Auditor.

Activities during the Period

During the period since the last Annual Report and Accounts and the date of this report, the Audit Committee has:

- reviewed the key accounting judgements and estimates and the going concern assessment in connection with the Annual Report and Accounts and the Interim Report and Accounts;
- completed a tender process for the Group's external audit services, further details of which are set out below;
- reviewed and approved the External Auditor's audit plan including the proposed fee and statement of independence;
- reviewed the Audit Quality Review (AQR) report prepared by the Financial Reporting Council ("FRC") on the 2019 audit and discussed this both with EY, the Auditor at the time, and BDO, our current Auditor;
- reviewed non-audit fees paid to the External Auditor in the year ended 31 December 2020;
- reviewed and approved the proposal that certain of the Group's subsidiary companies be exempt from audit under the provisions of S479A of the Companies Act 2006;
- approved the programme of work for the Internal Audit Function and considered the findings and recommendations arising from the internal audits conducted during the year ended 31 December 2020 and up to the date of this report;
- reviewed the Group's arrangement to enable employees to confidentially raise concerns about possible improprieties. These include the use of an independent organisation to provide a confidential 'whistle-blowers' hotline;
- reviewed the published Payment Practices and Performance Report and discussed the action plans identified to improve some areas of performance; and
- reviewed and agreed the Group Tax Strategy which can be found at https://www.mmhplc.com/investors/corporate-governance.

In addition to receiving written reports from the External Auditor and from management, the Audit Committee has also had private meetings with the External Auditor and the Head of Audit and Risk. These meetings provide the opportunity for open discussion and feedback on the audit process, the responsiveness of management and the effectiveness of both internal and external audit teams.

In addition, as Chair of the Audit Committee, I also meet with the external and internal auditors separately to the formal meetings.

Significant issues Considered by the Audit Committee during the Year End

The Audit Committee considered the significant matters set out below during the course of the financial year and as part of the finalisation of the Annual Report and Accounts. In all cases, papers were presented to the Audit Committee by management, setting out the relevant facts, material accounting estimates and the judgements associated with each item. The External Auditor also provided a paper setting out analysis and conclusions on each area of judgement, amongst other matters.

The Audit Committee discussed the papers with management and the External Auditor. For each area of judgement, the Audit Committee concurred with the treatment adopted and any relevant disclosure presented in the Annual Report and Accounts.

Issue Considered	Audit Committee's Review and Conclusions
Assessment of the carrying value of goodwill and intangible assets and the carrying value of investments in subsidiaries As disclosed in Note 14 'Goodwill and Other Intangible Assets' to the consolidated financial statements, the Group has goodwill and indefinite-life intangible assets arising from acquisitions of businesses totalling £118.9m. Within the company accounts for Marshall Motor Holdings plc there are investments in subsidiaries totalling £154.7m. These assets and investments are assessed for impairment at least annually or more frequently where there are indicators of impairment. The valuation and impairment review of goodwill and acquisition intangible assets is assessed for each individual cash-generating unit (CGU) and involves comparing the carrying value of the asset with its recoverable amount (the higher of value-in-use and fair value less costs of disposal). The valuation and impairment review of investments in subsidiaries is assessed for each legal entity or group of legal entities to which an investment relates and involves comparing the carrying value of the investment with its recoverable amount (the higher of value-in-use and fair value less costs to sell). Value-in-use is determined with reference to projected future cash flows discounted at an appropriate rate. Both the cash flows and the discount rate involve a significant degree of estimation uncertainty as well as judgemental assessments of the future brand performance of individual vehicle manufacturers.	The Audit Committee notes that as a consequence of the COVID-19 pandemic assessing the medium-term performance of the Group's CGUs presents a more substantial judgement than in prior reporting periods. The Audit Committee has considered papers prepared by management detailing the assumptions and methodology applied to assess the carrying value of goodwill. The assumptions underpinning the review of the carrying value of goodwill were considered by the Audit Committee. The cash flow forecasts used in the review were derived from the most recent budgets which have been reviewed and approved by the Board and the longer-term business plans of the Group. In developing the cash flow forecasts management prepared and presented a number of alternative scenarios related to the depth of the current economic downturn as a result of the pandemic and the speed and sustainability of any subsequent recovery. The Audit Committee concurs with the assessment made by management in respect of this matter, the £0.2m impairment charge recorded in respect of the goodwill for the Vauxhall CGU, and the disclosures provided in Note 14. In addition, the Audit Committee concurs with the assessment made by management and the £2.3m impairment charge in respect of the carrying value of investments in subsidiaries within the company accounts of Marshall Motor Holdings plc.
Valuation of inventory As disclosed in Note 18 'Inventories' the Group holds inventory totalling £362.9m. At each reporting period the Group assess the value of the inventory. This assessment requires the application of judgement and experience to assess and make reasonable assumptions to determine the net realisable value of the inventory held by the Group.	The Audit Committee notes that, due to the various lockdown measures taken to address the COVID-19 pandemic and the wider economic situation, assessing the realisable value of the inventory held by the Group is, due to the increased risk and uncertainty regarding the eventual sales prices of the inventory, a more substantial judgement than in prior reporting periods. This is particularly influenced by the fact that lockdown measures are continuing through a registration plate change month which can affect prices more than usual. The Audit Committee has considered papers prepared by management detailing the basis of valuation of the Group inventory in the context of external industry data, the age and composition of the inventory, the Group's experience of the realisable value of such inventory, and the consistency of the assumptions applied. The Audit Committee concurs with the assessment made by management in respect of this matter.

Issue Considered	Audit Committee's Review and Conclusions
Presentation of Alternative Performance Measures ("APMs") The Group's performance measures include some measures which are not defined or specified under IFRS but which management consider are necessary for a user of the financial statements to obtain a full understanding of the performance of the Group. A reconciliation of the APMs to the IFRS measures is provided in the Appendix – Alternative Performance Measures on page 170. As described in the Financial Review on page 37 a reduced set of APMs has been presented in 2020.	The Audit Committee has considered presentation of these additional measures in the context of the guidance issued by the FRC in relation to the use of APMs generally and, in particular, in respect of disclosing the impact of measures taken to address COVID-19, challenge from the External Auditor and the requirement that such measures provide meaningful insight for shareholders into the results and financial position of the Group. The Committee spent some considerable time discussing the decision to leave all costs associated with the COVID-19 pandemic in underlying profit before tax. This was different to the treatment at the half year where some directly attributable costs were taken into non-underlying. The factors influencing this decision included a better understanding of the likely length of the pandemic, updated guidance from the FRC and a review of market practice. The Audit Committee concurs with the judgements made by management in respect of the presentation of the APMs. Furthermore, the Audit Committee is comfortable that clear and meaningful descriptions have been provided for the APMs used, that the relationship between these measures and the IFRS measures is clearly explained, that the IFRS measures are afforded equal prominence to the APMs, and that the APMs support a user's understanding of the financial statements.
Revenue recognition and manufacturer bonus recognition The Group's core revenue streams are new and used vehicle sales, parts sales and servicing. The Group also derives income from volume incentive arrangements with suppliers. An analysis of the Group's revenue is presented in Note 5 'Segmental Information'. Given the business focus on sales targets and incentives and the complexity and varied nature of the supplier incentive schemes, together with the materiality of these revenues for the Group, revenue recognition represents an area of focus for the Audit Committee.	The Audit Committee has considered the work of the external and internal auditors in this area, with particular regard to sales cut-off and the value of volume rebates. The Audit Committee concurs with the assessment made by management that the Group's revenue as presented is materially correct.
Recognition of amounts received under the Coronavirus Job Retention Scheme ("CJRS") As set out in in the Financial Review on pages 34 to 39, the Group has received payments from the UK Government to cover part of the salary costs of colleagues who have been furloughed as a result of the various national and local restrictions put in place to reduce the spread of COVID-19.	The Audit Committee has considered papers prepared by management setting out the process used to prepare and validate the amounts claimed and recognised in the Annual Report and Accounts in respect of the CJRS. The Audit Committee concurs with the assessment made by management that the amounts are appropriately recognised and disclosed in the financial statements.

External Audit – Audit Quality Review

The audit work conducted by EY for the year ended 31 December 2019 has been the subject of a review by the Audit Quality Review team of the FRC with a final report being issued in January 2021. I had a call with the FRC before the work commenced when we discussed, in particular, the scope of their work. In due course I plan to discuss with the FRC their findings and conclusions.

The key finding from the review was that there was insufficient challenge of management and scepticism, or evidence thereof, around the performance improvement assumptions in the BMW/MINI CGU impairment models. The report was discussed with our EY Audit Partner for the 2019 audit, covering the points raised and the actions EY would have taken in response if they had remained our Auditor. The main action identified was around better evidencing and explaining in the audit file the basis of some conclusions and the justification for elements of the work done. It was pleasing that none of the points raised implied that there were issues with the opening balances for the 2020 year. These matters were then discussed with our current Audit Partner from BDO.

These reviews do give helpful insight to the Committee about the inner workings of the audit. Whilst any key finding is disappointing it is important to note that the Committee did spend quite some time discussing with management, and the Auditor, the possible impairment of the BMW/MINI CGU. In this discussion there was good challenge and debate, with the result that enhanced disclosures were made in the Annual Report and Accounts for the year ended 31 December 2019.

External Audit Tender

It was reported in the Annual Report and Accounts for the year ended 31 December 2019 that the Committee had decided to commence a formal tender for a new External Auditor to be in place for the year ended 31 December 2020.

EY had been the Group's Auditor for over 30 years and, whilst Marshall Motor Holdings plc is not subject to the mandatory rotation rules, the Committee felt that there were benefits to putting the audit out to tender.

The tender process was led by myself supported by the Committee and management. Three firms were invited to put forward their proposals and initially we went through a process to select the signing partners. Then each firm was provided with access to information on the Group and given the opportunity to meet with the Chairman, myself and management to gain a detailed understanding of the commercial, operating and financial reporting environment. While most meetings were carried out in person, towards the end of the process these had to be done virtually. Each firm provided a detailed tender response and presented their proposal to all members of the Audit Committee, supported by senior management. The Board unanimously recommended the appointment of BDO following the recommendation of the Audit Committee.

BDO LLP were appointed as the Group's Auditor following ratification by shareholders at the July Annual General Meeting.

External Audit

Following the conclusion of the audit tender, the Committee has supported the onboarding of the new audit firm.

The fees paid to the External Auditor for non-audit services during the year ended 31 December 2020 totalled £39,000 and related solely to the review of the Group's Interim Report and Accounts.

Each year the Audit Committee reviews the performance of the External Auditor in respect of audit related services and non-audit services and is committed to ensuring the independence, effectiveness and objectivity of the External Auditor.

In order to judge audit quality, the Audit Committee has monitored the conduct and effectiveness of the External Auditor through its assessment of:

- The experience, expertise and perceptiveness of the Auditor and their ability to be sceptical and to challenge appropriately;
- The planning and execution of the agreed audit plan and the quality of reports presented to the Committee; and
- The conduct of the Auditor, including the Audit Committee's experience of interaction with the Auditor.

Stephen Le Bas is the Lead Partner on the audit for the year ended 31 December 2020.

Following this review the Committee concluded that the audit was effective.

Assessing audit quality, a critically important function of the Committee, has been for Marshall Motor Holdings plc and many other businesses predominantly a qualitative process. In order to enhance our processes around this area, with the introduction of some quantitative measures, we will join a pilot study being run by the FRC on Audit Quality Indicators for the 2021 year end. We will report back on the learnings from this work next year.

Internal Audit

At each meeting the Committee receives a report from the Head of Audit and Risk for the period detailing the internal audit findings and the actions required to rectify any weaknesses identified. The reports also include a summary of any investigations, projects or investment post implementation reviews carried out, as well as any specific process or subject area reviews.

During 2019 it was recognised that, given the increased size and complexity of the business, the structure of the function should be changed. As a result, a Head of Internal Audit and Risk started in March 2020.

As a result of the COVID-19 pandemic there has been substantial disruption to the business and, therefore, to the internal audit programme during 2020 with the various closures and restrictions making the conduct of on-site audit work more difficult and time consuming. The need for increased remote working, as well as changes to business processes, has changed the risk profile requiring a different focus for the function. Notwithstanding these challenges progress has been made. The Group's internal audit approach has been reviewed and redeveloped to more closely address current and emerging business risks and the Committee looks forward to this approach being fully implemented during 2021.

I will be available at the Annual General Meeting to respond to any questions shareholders may raise on the Committee's activities in the year.

Alan Ferguson
Chair of the Audit Committee
8 March 2021

Statement from the Chair of the Remuneration Committee

Nicky Dulieu
Non-Executive Director and
Chair of the Remuneration Committee

On behalf of the Board, I am pleased to present our Directors' Remuneration Report for 2020. Although not subject to the reporting regulations of fully listed companies in the UK, the Remuneration Committee has taken account of these regulations in the preparation of our Remuneration Report as a matter of best practice.

The Remuneration Report is divided into three sections: this Chair's introduction; a revised Directors' Remuneration Policy; and the Annual Remuneration Report, which outlines how we implemented our current policy in 2020 and how we intend to apply the new Directors' Remuneration Policy in 2021.

Remuneration Policy review

Our current Directors' Remuneration Policy and the Group's Performance Share Plan ("PSP") have been in place since the Group's Admission in 2015. Over this period, the Group has delivered results that have been well in excess of the equivalent performance of other companies in our sector. We have significantly expanded our operations by increasing our operating units, nearly doubling our employee base and more than doubling both revenue and PBT. We have also disposed of a number of sub-scale, non-core and loss-making businesses, further enhancing shareholder value and ensuring our growth is sustainable. We have increased our market share through both organic growth and strategic acquisitions. Throughout this period of exceptional growth, our management team has also been able to deliver year-on-year increases in our trust scores with customers and employee engagement. In 2020, we achieved a ranking of 12th in the 'Great Place to Work' index for best UK workplaces. This was the eleventh consecutive year of Great Place to Work status and the sixth consecutive year of being ranked as one of the UK's best work places. Under the leadership of our Chief Executive Officer, Daksh Gupta, the team has delivered this exceptional performance in what has been a particularly challenging time for the sector.

During the course of 2020, the Remuneration Committee has undertaken a comprehensive review of the Group's Remuneration Policy to ensure our remuneration arrangements:

- are competitive and as such helps us to recruit, motivate and retain senior leaders of the high calibre required to run the business successfully;
- align the interests of the Executive Directors, senior management and employees with those of shareholders and wider stakeholders and to ensure appropriate alignment with the Group's values and strategic goals; and
- adhere to the principles of good corporate governance, support good risk management practice and promote long term sustainable Group performance. Whilst the UK Corporate Governance Code (the "UK Code") does not apply to the Company, the Remuneration Committee has decided to apply a number of the principles set out in the UK Code which are over and above the requirements of the QCA Corporate Governance Code.

Current remuneration positioning at the lower end of the market compared to our listed peers

Our Chief Executive Officer, Daksh Gupta, has over 28 years' experience in the automotive retail sector and joined the Group in 2008. On Admission in 2015, his base salary was set at £400,000. Notwithstanding the significant growth in the Group since that date as noted above and Daksh's contribution to our consistent outperformance of the market, increases to his base salary over this period have not reflected this and have been inflationary only. The current annual bonus and long-term incentive opportunities have also not been reviewed since IPO.

As a result, Daksh's current base salary of £433,800 and his total compensation package are at the lower end of the market compared to the Group's listed peers. In a competitive market for talent, we believe this presents a real risk to the business and does not appropriately reflect the growth and performance of the business and increase in the scope of his role and responsibilities.

Summary of proposed Remuneration Policy changes and rationale

Overall, we consider proposed changes to our Remuneration Policy will support the strategic ambition of the Group and are aligned to shareholders' interests. I have set out below information on the key proposed changes to the Policy.

For the avoidance of doubt, increases in base salary for the Executive Directors which are above the general rises for employees and increases in the maximum variable pay opportunity under the revised Remuneration Policy, will not be implemented until such time as the Remuneration Committee considers appropriate, which will not be whilst the Company is claiming any Government support linked to COVID-19, nor before it has announced a resumption of dividend payments.

Furthermore, increases in the maximum variable pay opportunity will require additional stretch in the performance delivered so that more pay is delivered only for the achievement of more stretching performance targets.

- **Base salary increases:** We intend to increase the Chief Executive Officer's base salary to £525,000. This increase will bring his base salary more in line with our listed peers and reflects Daksh's outstanding contribution to the growth and success of the Group and his critical role in the continued success of the business. Recognising the Chief Financial Officer's performance since appointment in January 2019 (including the successful execution and subsequent integration of a number of acquisitions, the successful extension of the Group's banking facilities and the effective management of the Group's financial position through the COVID-crisis), together with the fact that his base salary on appointment was set at the lower end of the market competitive range, we are also proposing an increase for our Chief Financial Officer from £265,800 to £290,000.

- **Pension:** In line with best practice under the UK Code, the pension contribution (or cash in lieu) for any new Executive Directors will be aligned to the wider workforce. For the incumbent Executive Directors, pension contributions will be frozen at existing contribution levels (pre the proposed base salary increases) until they align to the wider workforce rate.

- **Maximum annual bonus:** Reflecting the growth and performance of the Group since IPO, we are proposing to increase the overall maximum annual bonus opportunity to 150% of salary for the Chief Executive Officer and to 125% of salary for the Chief Financial Officer. This increase will bring the maximum bonus opportunity in line with our listed peers. The increase in the annual bonus would be combined with a reduction in the maximum on-target bonus to 50% of the maximum bonus potential (currently 70% of maximum). As noted above, the increase in the maximum annual bonus potential will be considered alongside the level of stretch inherent in the targets set to ensure we only pay for more incremental performance.

- **Proportion of annual bonus to be deferred into shares:** To provide further alignment with shareholders, 50% of any bonus earned above target will be deferred into shares and will be subject to a two-year deferral period. This will apply once the annual bonus opportunity is increased until such time as the shareholding guidelines have been met.

- **Annual bonus measures:** We will include flexibility under the revised Remuneration Policy to set measures and targets reflecting the Group's strategy and aligned with key financial, operational, strategic and/or individual objectives.

- **Performance share plan (PSP) quantum:** Reflecting the growth and performance of the Group since IPO and the ambitious strategic goals of the Group, we are proposing to increase the overall maximum PSP opportunity to 200% of salary for the Chief Executive Officer and 150% of salary for the Chief Financial Officer. This will require a change to the current PSP rules which will be subject to shareholder approval at the 2021 AGM. The increased opportunity would only be available for transformational performance and the satisfaction of extremely stretching performance targets.

- **PSP performance and holding period:** PSP awards will usually be subject to a three-year performance period and in line with best practice under the UK Code the holding period will be extended from one year following the end of the vesting period to two years following the end of the vesting period.

- **PSP measures:** We will include flexibility under the revised Remuneration Policy to set measures and targets reflecting the Group's strategy. We will retain discretion to award restricted stock awards at 50% of normal award levels instead of PSP awards. However, restricted stock would only be awarded as a fallback position in the event that the Remuneration Committee considers that it would not be feasible to set robust and meaningful PSP targets.

- **In-employment shareholding guidelines:** In line with best practice, the shareholding requirement will be increased from 100% of salary to 200% of salary. Until the shareholding requirement is met, Executive Directors will be required to retain any vested deferred bonus shares and 50% of any vested PSP shares (net of tax).

- **Post-employment shareholding guidelines:** We will introduce a post-employment requirement requiring the lower of actual shares held or 100% of the shareholding guideline to be held for the first year post cessation, reducing to 50% of the shareholding requirement to be held for the second year post cessation.

- **Best practice governance changes over and above the requirements of the QCA Corporate Governance Code:** The increase to the in-employment shareholding guidelines, the introduction of a post-employment shareholding guideline, together with the two year holding period for PSP awards and the introduction of bonus deferral, is a balanced way of ensuring alignment with longer term shareholder interests.

Key Remuneration Committee decisions and remuneration outcomes for the period to 31 December 2020

As outlined in the Operating Review and the Financial Review, in response to COVID-19, the Group took a range of actions to manage and mitigate costs and protect its cash position. Whilst the Board recognises the absolute importance of dividend income for shareholders, given the focus on preserving cash, and recognising the financial support received from Government in relation to COVID-19, we suspended the final 2019 dividend and interim and final 2020 dividends. However, we intend to re-instate our dividend policy as soon as it is appropriate.

The Group has also worked hard to support its colleagues during this period of uncertainty. During the first lockdown period from March to June 2020, the Group supplemented the Government furlough support received, enhancing colleague pay to 100% for March, 90% for April and 85% for May. In addition, whilst they continued to work throughout, the Board and other senior members of the management team voluntarily reduced their pay in line with the reductions for furloughed colleagues in April and May, and also forfeited holiday accrued.

Despite the material impact that COVID-19 has had on our operations during 2020, including an extended period of closure of all our dealerships both from March to June and again in November, our operational performance during the second half of the year was exceptionally strong across all key like-for-like metrics and we traded significantly ahead of the market. Our strong trading performance in the second half of the year resulted in underlying profit before tax for the year of £20.9m, ahead of the Group's upgraded expectations.

The Group's cash position remained strong. As such, we were able to voluntarily repay early all amounts we benefited from under the Government's VAT deferral scheme. As at 31 December 2020, after repayment of the VAT benefit, our adjusted net cash position was £28.8m (31 December 2019: adjusted net debt £30.6m). In recognition of the ongoing impact of COVID-19 on our operations, the Group identified several operational changes and efficiencies which resulted in a very limited number of redundancies; however, we have preserved the vast majority of colleagues' jobs across our business.

Annual bonus opportunity for the Executive Directors during 2020 was based on the achievement of underlying PBT targets. Whilst the Group significantly outperformed the wider market and met those targets, it also benefited from a number of sector tailwinds and significant financial support from the Government in relation to COVID-19. As a result, and in recognition of the experience of our shareholders and other stakeholders the Remuneration Committee has agreed, in consultation with the Executive Directors, that no bonuses will be paid in respect of FY2020.

As outlined in our 2019 Remuneration Report, taking into account best remuneration practice with regard to the award of restricted stock and recognising the challenge of setting robust long term targets against the backdrop of a cyclical new car market, the Remuneration Committee reviewed and simplified the operation of the PSP for awards granted in 2019 and 2020.

In August 2020, the Executive Directors received awards ("2020 Awards") under the PSP. In line with the approach adopted in 2019, the 2020 PSP awards will vest dependent upon continued employment and subject to the Remuneration Committee being satisfied that there has been no material deterioration in the Company's performance which significantly departs from any market deterioration. For 2020, the maximum PSP awards were 75% of salary for the Chief Executive Officer and 56.25% of salary for the Chief Financial Officer. This equates to 50% of 150% of salary for the Chief Executive Officer and 50% of 112.5% of salary for the Chief Financial Officer and reflects the fact that these awards are not subject to specific financial performance conditions. The vesting date of the 2020 Awards will be 11 March 2023, being the announcement of results following the end of the third year of the performance period to 31 December 2022. Shares acquired will then be subject to a holding period until 11 March 2024.

As previously reported, a consistent approach was adopted for the 2017 and 2018 PSP awards, taking into account the impact of corporate activity, the Company's financial performance compared to that of its competitors over the relevant performance periods, and the effectiveness of the Company's overall remuneration policy to attract, retain and motivate high calibre senior management focused on the delivery of the Company's strategic and business objectives. As a result, subject to there being no material deterioration in the Company's performance which significantly departs from any market deterioration, the Remuneration Committee's intention was and remains, to recommend discretionary awards for the 2017 and 2018 PSP awards, such that the overall vesting levels are at 50% of the maximum award. In light of the impact of the COVID-19 pandemic during the Year, the Remuneration Committee determined that it was appropriate to defer final determination on such discretionary awards which would otherwise have been determined on the normal vesting dates for such awards, being 29 September 2020 and 17 April 2021 respectively.

Key remuneration decisions for the year to 31 December 2021

The outlook for 2021 remains uncertain given the ongoing impact of COVID-19 and the current national lockdown. Nevertheless, we believe that our strong culture, brand partnerships with scale, in-house technology platform and online presence, coupled with our exceptional colleagues, provides a robust platform for the Group to continue to outperform the wider automotive retail market in 2021 and capitalise on strategic growth opportunities when they arise.

As outlined above, increases in base salary for the Executive Directors, which are above the general rises for employees and increases in the maximum variable pay opportunity under the revised Remuneration Policy, will not be implemented until such time as the Remuneration Committee considers appropriate, which will not be whilst the Company is claiming any Government support linked to COVID-19, nor before it has announced a resumption of dividend payments.

Until such time as the revised annual bonus arrangements under the revised Remuneration Policy are implemented, the maximum potential annual bonus for the year ending 31 December 2021 will be 125% of salary for the Chief Executive Officer and 100% of salary for the Chief Financial Officer. For FY2021, it is intended that the bonus will be based on PBT achievement and will be subject to performance underpins on Health & Safety and FCA compliance. Given the on-going level of uncertainty for FY2021, we retain discretion to set a PBT target for the first half of the year and a PBT target for the second half of the year. No bonus would be paid until after the end of the full financial year and the bonus for each half year would be subject to the Remuneration Committee's assessment of the Group's holistic financial performance across the full year.

The Remuneration Committee intends to grant options under the PSP in 2021 at an appropriate time and no earlier than August 2021. At the point that the Remuneration Committee consider it appropriate to implement the revised Remuneration Policy, it is intended that 50% of the PSP will be based on a matrix of revenue and net margin performance, 30% on the achievement of stretching Return on Capital targets, 10% on the achievement of strategic goals (most likely ESG measures) and 10% on employee engagement. In the event it is deemed unfeasible to set meaningful PSP financial targets, the fallback position will be to award Restricted Shares in line with those granted in 2019 and 2020.

Shareholder engagement

We undertook a consultation exercise on the updates to the revised Remuneration Policy with shareholders representing more than 90% of the shares in the Company. I am grateful for the support that we received for our proposals. Full details of the revised Remuneration Policy can be found on pages 82 to 85.

I would also like to thank shareholders and investor bodies for their constructive input and engagement in relation to the revised Remuneration Policy. We remain committed to a responsible approach to executive pay, as I trust this Directors' Remuneration Report demonstrates. As always, I am happy to meet or speak with shareholders if there are any questions or feedback on our approach to executive remuneration.

Nicky Dulieu
Chair of Remuneration Committee
8 March 2021

Directors' Remuneration Policy

REMUNERATION POLICY

As set out in the annual statement from the Remuneration Committee Chair, following consultation with shareholders representing more than 90% of the shares in the Company, the Company has adopted a revised remuneration policy for 2021 ('Revised Remuneration Policy'). The Revised Remuneration Policy replaces the previous policy which had been in place since the Company's admission to trading on AIM in 2015.

As also stated in the annual statement from the Remuneration Committee Chair, certain elements of the Revised Remuneration Policy will not be implemented until such time as the Remuneration Committee considers appropriate, which will not be whilst the Company is claiming any Government support linked to COVID-19, nor before it has announced a resumption of dividend payments.

The table below sets out the elements of Executive Directors' compensation and how each element operates, as well as the maximum opportunity for each element and any applicable performance measures

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
BASIC SALARY			
To provide a competitive base salary for the market in which the Group operates to attract and retain Executive Directors of a suitable calibre.	Normally reviewed annually to reflect role, responsibility and performance of the individual and the Group, and to take into account rates of pay for comparable roles in similar companies. When selecting comparators, the Remuneration Committee has regard to, *inter alia*, the Group's revenue, profitability, market worth and business sector.	There is no prescribed maximum increase. Annual rates are set out in the annual report on remuneration for the current year and the following year. For FY2021: Implementation of salary increases deferred until such time as the Remuneration Committee considers appropriate.	None.
BENEFITS			
To provide market competitive benefits as part of the total remuneration package.	Executive Directors currently receive holiday entitlement, health insurance, life assurance premiums and income protection insurance. The Remuneration Committee reviews the level of benefit provision from time to time and has the flexibility to add or remove benefits to reflect changes in market practices or the operational needs of the Group.	Whilst the Remuneration Committee has not set a maximum level of benefits that Executive Directors may receive, the value of benefits is set at a level which the Remuneration Committee considers appropriate, considering market practice and individual circumstances.	None.

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
PENSION			
To provide an appropriate level of retirement benefit (or cash allowance equivalent).	All Executive Directors are entitled to participate in the Company's defined contribution pension scheme or to receive a cash allowance in lieu of pension contributions. Only base salary is pensionable.	For any new Executive Director, pension provision will be aligned at the level available for the majority of the group's workforce. The pension provision for the incumbent Chief Executive Officer and Chief Financial Officer will be based on the higher of: • the existing GBP amount based on the current salaries (Chief Executive Officer £69,408 and Chief Financial Officer £21,264); and • the wider workforce rate.	None.
ANNUAL BONUS			
Rewards performance against targets which support the strategic direction of the Group. Deferral provides a retention element through share ownership and direct alignment to shareholders' interests.	Awards are based on performance against targets determined by the Remuneration Committee. Pay-out levels are determined by the Remuneration Committee after the year end. The Remuneration Committee has discretion to amend pay-outs should any formulaic output not reflect their assessment of performance. When the maximum bonus is increased above 125% of base salary in respect of the Chief Executive Officer and 100% in respect of the Chief Financial Officer, 50% of any bonus earned above target performance to be paid in shares, subject to a two year deferral period until such time as the shareholding guidelines have been met. Deferred share awards may include dividend equivalents earned between the grant and vesting date. Recovery and withholding provisions apply.	Maximum opportunity of 150% of salary for the Chief Executive Officer and 125% of salary for the Chief Financial Officer (subject to more stretching performance for maximum pay-out) When the maximum bonus is increased above 125% of base salary in respect of the Chief Executive Officer and 100% in respect of the Chief Financial Officer, maximum paid for on-target performance reduced from 70% of maximum to 50% of the maximum.	Targets are set annually and aligned with key financial, strategic and/or individual targets with the weightings between these measures determined by the Remuneration Committee each year considering the Group's priorities at the time. Given the on-going level of uncertainty for FY2021, we retain discretion to set a PBT target for the first half of the year and a PBT target for the second half of the year. No bonus would be paid until after the end of the full financial year and the bonus for each half year would be subject to the Remuneration Committee's assessment of the Group's holistic financial performance across the full year.

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
LONG-TERM INCENTIVES – MMH PERFORMANCE SHARE PLAN			
To create alignment between the interests of Executive Directors and shareholders through the delivery of performance-based awards in Group shares.	Grant of nil cost options under the PSP. Vesting is subject to the achievement of specified performance conditions and/or continued employment normally over three years. Awards may include dividend equivalents. A 24 month post-vesting holding period applies for awards made from 2021. Recovery and withholding provisions apply at the discretion of the Remuneration Committee within three years of vesting	Maximum award increased to up to 200% of salary. The increased opportunity would only be available for transformational performance and the satisfaction of extremely stretching performance targets. This will require a change to the PSP rules which will be subject to shareholder approval at the 2021 AGM	Set to reflect longer term strategy and business performance. Performance measures and their weighting are reviewed annually to maintain appropriateness and relevance. For threshold levels of performance, 25% of the award will vest rising to 100% for maximum performance. Below the threshold, the award will not vest
IN-EMPLOYMENT: SHARE OWNERSHIP GUIDELINES			
Increase alignment between the Executive Directors and shareholders.	Until the shareholding requirement is met, Executive Directors will be required to retain any vested deferred bonus shares and 50% of any vested PSP shares (net of tax).	In line with best practice, shareholding requirement increased from 100% of salary to 200% of salary.	None.
POST EMPLOYMENT: SHARE OWNERSHIP GUIDELINES			
Increase alignment between the Executive Directors and shareholders.	The post-employment shareholding requirement will only apply to shares acquired under the deferred bonus or PSP post implementation of the revised Remuneration Policy	Lower of actual shares held or 100% of the shareholding guideline to be held for the first year post cessation reducing to 50% of the shareholding requirement to be held for the second year post cessation.	None.
NON-EXECUTIVE DIRECTOR FEES (“NED”)			
To attract NEDs who have a broad range of experience and skills to oversee the implementation of our strategy and provide strong performance stewardship	NED fees are determined by the Board (excluding NEDs) within the limits set out in the Articles of Association and are paid in 12 equal monthly instalments during the year.	Annual rate set out in the annual report on remuneration for the current year and the following year. No prescribed maximum annual increase.	None.

REMUNERATION POLICY (continued)

Directors' Service Contracts, Notice Periods and Termination Payments

Provision	Details
Notice periods in Executive Directors' service contracts	Maximum of 12 months by Company or Executive Director. Executive Directors may be required to work during the notice period.
Compensation for loss of office	In the event of termination, service contracts provide for payments of base salary, pension and benefits only over the notice period.
Treatment of annual bonus on termination	There is no contractual right to any bonus payment in the event of termination although in certain "good leaver" circumstances the Remuneration Committee may exercise its discretion to pay a bonus for the period of employment and based on performance assessed after the end of the financial year.
Treatment of unvested PSP awards	The default treatment for any entitlements under the PSP is that any outstanding awards lapse on cessation of employment. However, in certain prescribed circumstances, or at the discretion of the Remuneration Committee "good leaver" status can be applied. In these circumstances a participant's awards vest subject to the satisfaction of the relevant performance criteria and, ordinarily, on a time pro-rata basis, with the balance of the awards lapsing.
Outside appointments	Other directorships have been permitted with prior agreement: – Daksh Gupta is a director of BEN – Motor and Allied Trades Benevolent Fund
Non-executive directors	All Non-Executives are subject to re-election every three years. No compensation is payable if required to stand down.

In the event of the negotiation of a compromise or settlement agreement between the Company and a departing Director, the Remuneration Committee may make payments it considers reasonable in settlement of potential legal claims. Such payments may also include reasonable reimbursement of professional fees in connection with such agreements.

The Remuneration Committee may also include the reimbursement of fees for professional or outplacement advice in the termination package, if it considers it reasonable to do so. It may also allow the continuation of benefits for a limited period.

Dates of appointment

Director	Date of appointment	Date of resignation as a director
D Gupta	1 January 2009	–
A Ferguson	11 March 2015	–
F Ecsery	25 March 2015	–
C Walkinshaw	12 July 2016	–
K Jenkins	23 May 2018	–
R Parry-Jones	1 January 2019	–
R Blumberger	2 January 2019	–
N Dulieu	1 January 2020	–

Copies of Directors' service contracts and letters of appointment are available for inspection at the Company's registered office.

Directors' Remuneration Report

REMUNERATION GOVERNANCE

Throughout the Year, the Remuneration Committee comprised three independent Non-Executive Directors, Nicky Dulieu (Chair of the Committee), Alan Ferguson and Francesca Ecsery, alongside Kathy Jenkins who is an appointed representative of MCHL. Nicky Dulieu was appointed Chair of the Committee on 1 January 2020.

The table below sets out each member's attendance record at Remuneration Committee meetings during the year:

Committee Member	Role	Attendance record
Nicky Dulieu	Chair of the Committee	4/4
Alan Ferguson	Non-Executive Director	4/4
Francesca Ecsery	Non-Executive Director	4/4
Kathy Jenkins	Non-Executive Director	4/4

The Chair of the Board, members of the management team, as well as the Remuneration Committee's advisers, are invited to attend meetings as appropriate, unless there is any potential conflict of interest.

The Remuneration Committee: Responsibilities

The terms of reference of the Remuneration Committee cover such issues as: committee membership; frequency of meetings; quorum requirements; and the right to attend meetings. In addition, the Remuneration Committee has responsibility for, amongst other things:

- making recommendations to the Board on the Company's policy on remuneration for the Group;
- determining and monitoring specific remuneration packages for the Chairman and each of the Executive Directors including pension rights and any compensation payments;
- oversight of the remuneration packages for certain senior management in the Group;
- reviewing wider workforce remuneration and related policies;
- recommending and overseeing the implementation of share related schemes, including scheme grants; and
- ensuring the Remuneration Committee has access to independent remuneration advice including responsibility for appointing a suitably qualified adviser.

The Board remains responsible for the approval and implementation of any recommendations made by the Remuneration Committee. The remuneration of Non-Executive Directors other than the Chairman is determined by the Chairman of the Board and the Executive Directors.

The Remuneration Committee's Advisers

The Remuneration Committee engages external advisers to assist it in meeting its responsibilities. Deloitte LLP ("Deloitte") provides independent remuneration advice to the Remuneration Committee. Deloitte is a founder member of the Remuneration Consultants' Code of Conduct, and, as such, voluntarily operates under its Code of Conduct in relation to executive remuneration matters in the UK. The Remuneration Committee is satisfied that the advice that it receives is objective and independent.

Annual Report on Remuneration

Single total figure of remuneration

The table below sets out the single total figure of remuneration and breakdown for each Director in respect of the 12 month period ending 31 December 2020.

	Basic salary £'000	Fees £'000	Benefits £'000	Pension £'000	Annual bonuses £'000	Long term incentives £'000	Total £'000
Executive Directors							
D Gupta	424.8	-	16.8	68.0	-	-	**509.6**
R Blumberger	260.3	-	4.4	22.0	-	-	**286.7**
Total	**685.1**	**-**	**21.2**	**90.0**	**-**	**-**	**796.3**
Non-Executive Directors							
R Parry-Jones	-	135.3	-	-	-	-	**135.3**
A Ferguson	-	62.3	-	-	-	-	**62.3**
F Ecsery	-	42.8	-	-	-	-	**42.8**
N Dulieu	-	52.5	-	-	-	-	**52.5**
C Walkinshaw[1]	-	39.2	-	-	-	-	**39.2**
K Jenkins[1]	-	39.2	-	-	-	-	**39.2**
Total		**371.3**	**-**	**-**	**-**	**-**	**371.3**
Aggregate directors' emoluments	**685.1**	**371.3**	**21.2**	**90.0**	**-**	**-**	**1167.6**

1. Christopher Walkinshaw and Kathy Jenkins are nominated directors of Marshall of Cambridge (Holdings) Ltd with the fee payable in respect of their undertakings as a Non-Executive Director payable to Marshall of Cambridge (Holdings) Ltd.

As set out in the statement from the Remuneration Committee Chair, the Board and other senior members of the management team voluntarily reduced their pay to 90% for April and 85% for May (in line with the reductions for furloughed colleagues during this period) and forfeited holiday accrued. The amounts detailed in the table above are shown after these reductions.

The benefits above include items such as medical cover, life assurance premiums and income protection insurance.

LTIP awards

Details of LTIP awards granted during the year are as follows:

	Scheme	Date of grant	Earliest exercise date	Exercise price	Market value on date of grant (pence)	Number of options grants
D Gupta	2020 LTIP Award	20-Aug-20	11-Mar-23	£Nil	125.0p	260,292
R Blumberger	2020 LTIP Award	20-Aug-20	11-Mar-23	£Nil	125.0p	119,340

Awards vest dependent upon continued employment and subject to the Remuneration Committee being satisfied that there has been no material deterioration in the Company's performance which significantly departs from any market deterioration.

The movement in directors' LTIP Awards during the year are as follows:

	Number at 1 January 2019	Number granted during the year	Number exercised during the year	Number lapsed during the year	Number at 31 December 2019
D Gupta	858,076	260,292	-	-	1,118,368
R Blumberger	102,632	119,340	-	-	221,972

Statement of Directors' Shareholding

Under the Company's revised remuneration policy, in line with best practice, the shareholding requirement for our Executive Directors will be increased from 100% of salary to 200% of salary. Until the shareholding requirement is met, Executive Directors will be required to retain any vested deferred bonus shares and 50% of any vested PSP shares (net of tax).

We have also introduced a post-employment requirement requiring 100% of the shareholding requirement (or actual shareholding at the date of cessation if lower) to be held for 12 months and 50% of the shareholding requirement (or actual shareholding at the date of cessation if lower) to be held for two years post cessation. The post-employment shareholding requirement will only apply to shares acquired under the deferred bonus or PSP post implementation of the revised Remuneration Policy

The Directors who held office at 31 December 2020 and their connected persons had interests in the issued share capital of the Company as at 31 December 2020 as follows

						LTIP Interests[1]				
	Number of ordinary shares held beneficially as at 31/12/19	Number of ordinary shares acquired on exercise of options	Market Purchases during the year	Disposals during the year	Number of ordinary shares beneficially held at 31/12/20	Unvested	Vested but unexercised	Total Interest in shares	Shareholding as a percentage of base salary[2]	Guideline met?
R Parry-Jones	-	-	-	-	-	-	-	-	n/a	n/a
D. Gupta	1,451,111	-	-	-	1,451,111	1,118,368	-	2,569,479	470%	Yes
R Blumberger	-	-	-	-	-	221,972		221,972	0%	in progress
A Ferguson	58,557	-	-	-	58,557	-	-	58,557	n/a	n/a
F Ecsery	2,013	-	-	-	2,013	-	-	2,013	n/a	n/a
N Dulieu	-	-	-	-	-	-	-	-	n/a	n/a
K Jenkins	-	-	-	-	-	-	-	-	n/a	n/a
C Walkinshaw	-	-	-	-	-	-	-	-	n/a	n/a

1 *These include the 2017, 2018, 2019 and 2020 LTIP Awards.*

The 2017 and 2018 LTIP Awards vest subject to growth in the Company's underlying basic Earnings Per Share (EPS). 25% of the award vests for achieving growth in underlying basic EPS of, in the case of the 2017 LTIP Awards, CPI plus 1.0% per annum and in the case of the 2018 LTIP Awards, 1.3% per annum, increasing to 100% vesting for achieving growth of CPI plus 5.0% and 6.0% per annum respectively over a three year performance period.

As set out in the annual statement from the Remuneration Committee Chair, subject to there being no material deterioration in the Company's performance which significantly departs from any market deterioration, the Remuneration Committee's intention is to recommend discretionary awards for the 2017 and 2018 PSP awards, such that the overall vesting levels are at 50% of maximum award. In light of the impact of the COVID-19 pandemic during the year, the Remuneration Committee determined that it was appropriate to defer final determination on such discretionary awards which would have otherwise have been determined on the normal vesting dates for such awards, being 29 September 2020 and 17 April 2021 respectively. The Remuneration Committee will reconsider the determination of these discretionary awards no earlier than August 2021.

The 2019 and 2020 LTIP Awards vest dependent upon continued employment and subject to the Remuneration Committee being satisfied that there has been no material deterioration in the Company's performance over the respective three year vesting periods which significantly departs from any market deterioration.

A holding period of 12 months applies to each of the 2017, 2018, 2019 and 2020 LTIP Awards.

2 *Shareholding as a percentage of salary is calculated using the number of shares beneficially held, base salary and the Company's share price, all as at 31 December 2020.*

The middle market price of the shares as at 31 December 2020 was 140.5p and the range in respect of the 12 month period ending 31 December 2020 was 85.0p to 158.0p.

Implementation of remuneration policy for the year ending 31 December 2021

As set out above, certain elements of the Revised Remuneration Policy (including changes to salary and variable pay opportunities) will not be implemented until such time as the Remuneration Committee considers it appropriate to do so. Until such time, the annual salaries and fees to be paid to directors in the year ending 31 December 2021 will be as set out below.

	31 December 2021	31 December 2020[2]	Increase
Executive Directors	**£'000**	**£'000**	**%**
D Gupta	433.8	433.8	-
R Blumberger	265.8	265.8	-
Non-executive Directors	**£'000**	**£'000**	**%**
R Parry-Jones	138.2	138.2	-
A Ferguson	63.7	63.7	-
N Dulieu	53.7	53.7	-
F Ecsery	43.7	43.7	-
C Walkinshaw[1]	40.0	40.0	-
K Jenkins[1]	40.0	40.0	-

1 *Christopher Walkinshaw and Kathy Jenkins are nominated directors of Marshall of Cambridge (Holdings) Ltd with the fee payable in respect of their undertakings as a Non-Executive Director payable to Marshall of Cambridge (Holdings) Ltd.*

2 *2020 salaries and fees are stated before the voluntary salary and fee reductions. The amounts actually paid in 2020 are set out in the single total figure of remuneration table above.*

Until such time as the revised annual bonus arrangements under the Revised Remuneration Policy are implemented, the maximum potential annual bonus for the year ending 31 December 2021 will be 125% of salary for the Chief Executive Officer and 100% of salary for the Chief Financial Officer. For FY2021, it is intended that the bonus will be based on PBT achievement and will be subject to performance underpins on Health & Safety and FCA compliance. Given the on-going level of uncertainty for FY2021, we retain discretion to set a PBT target for the first half of the year and a PBT target for the second half of the year. No bonus would be paid until after the end of the full financial year and the bonus for each half year would be subject to the Remuneration Committee's assessment of the Group's holistic financial performance across the full year.

The Remuneration Committee intends to grant options under the PSP in 2021 at an appropriate time which will be no earlier than August 2021. At the point that the Remuneration Committee consider it appropriate to implement the revised Policy, it is intended that 50% of the PSP will be based on a matrix of revenue and net margin performance, 30% on the achievement of stretching Return on Capital targets, 10% on the achievement of strategic goals – most likely ESG measures and 10% on employee engagement. In the event it is deemed unfeasible to set meaningful financial targets, the fallback position will be to award Restricted Shares in line with those granted in 2019 and 2020.

By order of the Board

Nicky Dulieu
Chair of Remuneration Committee
8 March 2021

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on AIM.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

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

Website publication

The Directors are responsible for ensuring the Annual Report and the financial statements are made available on a website. Financial statements are published on the Group's and Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's and Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Independent Auditor's Report to the Members of Marshall Motor Holdings plc

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Marshall Motor Holdings plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2020 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheet, the Consolidated and Company Statement of Changes in Equity, the Consolidated Cash Flow Statement, and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard in the United Kingdom and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

Independence

We remain independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting included building on our understanding of the business model, objectives, strategies and related business risk, the measurement and review of the entity's financial performance including forecasting and budgeting processes and the entity's risk assessment process.

In light of the COVID-19 pandemic and the resultant economic uncertainty, as described in the going concern accounting policy in note 1, we considered the ability of the Group to operate within its facilities and continue as a going concern in this environment to be a Key Audit Matter.

Management has forecast a number of scenarios. This is described further in the going concern accounting policy in Note 1 to these accounts.

Our procedures included the following:

- Reviewing management's assessment of going concern through analysis of the Group's cash flow forecast through to 31 December 2022, including assessing and challenging the assumptions underlying the forecasts by reference to our own knowledge of the industry and also commentary made by industry experts (e.g. SMMT, CAP). We looked at the relevance and reliability of underlying data used to make the assessment via consideration of the underlying assumptions and agreement to underlying forecasts, appropriately sensitised where required by various scenarios.
- As part of this process we have considered the impact of the COVID-19 pandemic and the impact on the forecasts, within which management have built four potential scenarios dependent on the severity of the impact. We have considered these scenarios in the context of what would be considered a reasonable worst-case scenario and also considered the underlying assumptions of the forecasts to industry commentary.
- We also obtained an understanding of the financing facilities, including the nature of these facilities, repayment terms and covenants. We then assessed the facility headroom calculations on both a base case scenario, and management's downside scenarios as a result of the ongoing COVID-19 pandemic.
- We considered the likelihood of each scenario happening and considered what actions the group has available should there be a potential covenant breach.
- The adequacy and appropriateness of disclosures in the financial statements regarding the going concern assessment.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overview

Coverage	*100% of Group profit before tax*	
	100% of Group revenue	
	100% of Group total assets	
		2020
Key Audit Matters	Valuation of inventory provisions	✓
	Assessment of the carrying value of goodwill and other intangible assets	✓
	Going concern	✓
Materiality	*Group financial statements as a whole*	
	£967,000 based on 5% of profit before tax over the last 3 years.	

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

At 31 December 2020 the Group had 34 components whose transactions and balances are included in the consolidated accounting records. Three components, including the parent company, were considered to be significant components and were subject to a full scope audit.

Each component's financial information could be selected for the purpose of representative sampling and key item testing. Of these 34 components, 20 have been audited to group materiality. For these components, the group audit team, carried out targeted procedures in respect of revenue, profit, assets and liabilities, and in doing so the group audit team tested 100% of group revenue applicable to other components. Eleven components are dormant.

All work was carried out by the group audit team.

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter set out in the 'Conclusions Relating to Going Concern' section above, we determined the following to be Key Audit Matters:

Key Audit Matter		How the scope of our audit addressed the Key Audit Matter
Vehicle inventory provisions *Please refer to Note 18, accounting policies in Note 2, and key sources of estimation uncertainty in Note 4.*	The Group has a significant holding of new and used vehicle inventory. Vehicles held as inventory have the potential to depreciate and decline in value over the period of ownership by the Group and as a result management have included a provision against these inventories of £7.8m. Value volatility is in response to market conditions and is deemed a higher risk in relation to used, demonstrator and pre-registered vehicle inventory. The valuation of vehicle inventory provisions is subject to significant judgement. Therefore there is a risk that inventory could be misstated.	We gained an understanding of the method applied by management in performing its inventory provisioning calculation and tested the methodology was being applied in line with the Group's policy. We recalculated management's provision and agreed the valuation of inventory to post year-end sales (if the vehicle was sold) or to independent third party market values (CAP Clean) to check that inventory is valued at the lower of cost and net realisable value. We have further considered management judgements around the expected movement in used vehicle values in the context of the anticipated realisation of the inventories. This involved consideration of the sales rate for vehicles and the expected future changes in vehicle value by reference to industry expert forecasts. These considerations included an analysis of the impact of the latest Government lockdown on the Group's trading performance since the year end. In addition we have valued all unsold vehicles to independent valuation data (CAP) to corroborate management judgements over the fall in vehicle values. We evaluated the accuracy of the provision in the prior period to assess management's long term forecasting ability and compared the post year end utilisation of the provision in the current year to the comparable period in the prior year. **Key observations:** Based on the procedures performed, inventory provisions are supported by reasonable assumptions.

FINANCIAL STATEMENTS

Key audit matter		How the scope of our audit addressed the key audit matter
Assessment of the carrying value of goodwill and other intangible assets *Please refer to Note 14, accounting policies in Note 2, and key sources of estimation uncertainty in Note 4.*	The Group has a significant value of goodwill that has arisen from acquisitions as well as other intangible assets in the form of franchise agreements. Goodwill is allocated to cash generating units ("CGU'S) grouped by manufacturer brand. There is a risk that these CGU's may not achieve the anticipated financial performance to support their carrying value, leading to an impairment charge that should be recognised by management. Significant judgement is required in forecasting the future cash flows of each CGU due to the current conditions in the automotive market and the wider economy, together with the rate at which they are discounted.	We performed a review of the Group's goodwill and intangible assets and examined for indicators of impairment. We also reviewed impairment reviews prepared by management, specifically reviewing the integrity of management's value-in-use model and, with the assistance of our valuation experts, we challenged the key inputs, being forecast growth rates, operating cash flows and the discount rate. Our audit procedures for the review of operating cash flows and forecast growth rates included, amongst others, comparing the forecast to recent financial performance and budgets approved by the Board; using market data to independently calculate a discount rate for comparison. We also performed our own sensitivity analysis on the key valuation inputs. We have also considered the basis for the use of the franchise basis for determining CGUs when compared with our understanding of the Group's reporting and management structure. We have considered the adequacy of the disclosures made in the financial statements against the requirements of the accounting standards. **Key observations:** Based on the procedures performed, we concur with the judgements and the disclosures made by management in assessing the carrying value of goodwill and other intangible assets.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Group Financial Statements	**Parent Company Financial Statements**
	2020	2020
Materiality	£967,000	£600,000
Basis for determining materiality	5% of profit before tax over the last 3 years	62% of group materiality
Rationale for the benchmark applied	We considered 5% of profit before tax to be a key performance benchmark for the Group and the users of the financial statements in assessing financial performance.	We considered net assets to be the most appropriate measure as the Parent Company is primarily an investment holding company. However materiality was calculated as a percentage of group materiality due to aggregated consideration of significant component materiality levels.
Performance materiality	£580,000	£360,000
Basis for determining performance materiality	On the basis of our risk assessment, together with our assessment of the Group's control environment, our judgement is that performance materiality for the financial statements should be 60%.	On the basis of our risk assessment, together with our assessment of the Company's control environment, our judgement is that performance materiality for the financial statements should be 60%.

Component materiality

We set materiality for each significant component of the Group based on a percentage of between 34% and 92% of group materiality dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality in respect of these significant components ranged from £300,000 to £800,000. In the audit of each component, we further applied performance materiality levels of 60% of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £19,340. We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Report and Financial Statements other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic Report and Directors' Report	In our opinion, based on the work undertaken in the course of the audit: • the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and • the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements. In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.
Matters on which we are required to report by exception	We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion: • adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or • the Parent Company 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.

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

Procedures performed by the group audit team included:

- Discussions with management regarding known or suspected instances of non-compliance with laws and regulations, including discussions with the Group's Internal Audit and Compliance teams;
- Obtaining an understanding of controls designed to prevent and detect irregularities, including specific consideration of controls and group accounting policies relating to significant accounting estimates such as vehicle inventory provisions (as noted in key audit matters above);
- Obtaining an understanding of the significant laws and regulations impacting the group and the motor retail industry, including data protection laws and regulations around FCA compliance;
- Assessing journals entries as part of our planned audit approach, with a particular focus on journal entries to key financial statement areas such as revenue and inventories; and
- Consideration of significant management judgements, particularly in respect of the underlying assumptions in impairment assessments (as detailed within key audit matters above).

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's Report.

Use of our report

This Report is made solely to the Parent 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 Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Stephen Le Bas (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Southampton, UK
8 March 2021

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2020

	Note	Underlying items 2020 £'000	Non-underlying items 2020 £'000	Total 2020 £'000	Underlying items 2019 £'000	Non-underlying items 2019 £'000	Total 2019 £'000
Revenue	5	2,154,415	-	2,154,415	2,276,129	-	2,276,129
Cost of sales		(1,916,225)	-	(1,916,225)	(2,015,328)	-	(2,015,328)
Gross profit		**238,190**	**-**	**238,190**	**260,801**	**-**	**260,801**
Net operating expenses		(207,068)	(590)	(207,658)	(228,772)	(2,443)	(231,215)
Operating profit		**31,122**	**(590)**	**30,532**	**32,029**	**(2,443)**	**29,586**
Net finance costs	10	(10,176)	-	(10,176)	(9,943)	-	(9,943)
Profit before taxation	6	**20,946**	**(590)**	**20,356**	**22,086**	**(2,443)**	**19,643**
Taxation	11	(4,425)	(2,011)	(6,436)	(4,177)	112	(4,065)
Profit from continuing operations after tax		**16,521**	**(2,601)**	**13,920**	**17,909**	**(2,331)**	**15,578**
Total comprehensive income for the year net of tax		**16,521**	**(2,601)**	**13,920**	**17,909**	**(2,331)**	**15,578**
Earnings per share (EPS) attributable to equity shareholders of the parent (pence per share)							
Basic	12	21.1		17.8	22.9		19.9
Diluted	12	20.6		17.4	22.6		19.7

All activities of the Group in both the current and prior period are continuing.

FINANCIAL STATEMENTS

Consolidated Balance Sheet
At 31 December 2020

	Note	2020 £'000	2019 £'000
Non-current assets			
Goodwill and other intangible assets	14	119,533	119,260
Property, plant and equipment	15	158,303	159,293
Right-of-use assets	16	98,832	107,967
Investment property	17	1,498	3,638
Non-current financial assets	16	1,334	1,442
Total non-current assets		**379,500**	**391,600**
Current assets			
Inventories	18	362,879	470,700
Trade and other receivables	19	65,780	87,462
Cash and cash equivalents	20	33,844	110
Assets classified as held for sale	21	703	797
Current tax assets		295	-
Total current assets		**463,501**	**559,069**
Total assets		**843,001**	**950,669**
Non-current liabilities			
Loans and borrowings	23	4,383	5,024
Lease liabilities	16	88,383	97,396
Trade and other payables	22	6,008	6,371
Provisions	24	540	299
Deferred tax liabilities	25	22,715	20,134
Total non-current liabilities		**122,029**	**129,224**
Current liabilities			
Loans and borrowings	23	641	25,641
Lease liabilities	16	10,961	10,689
Trade and other payables	22	491,248	578,010
Provisions	24	2,190	3,085
Current tax liabilities		-	1,704
Total current liabilities		**505,040**	**619,129**
Total liabilities		**627,069**	**748,353**
Net assets		**215,932**	**202,316**
Shareholders' equity			
Share capital	28	50,068	50,068
Share premium	28	19,672	19,672
Share-based payments reserve	29	1,586	1,025
Own shares reserve	29	(12)	(12)
Retained earnings		144,618	131,563
Total equity		**215,932**	**202,316**

The consolidated financial statements of Marshall Motor Holdings plc were approved for issue by the Board of Directors on 8 March 2021.

Daksh Gupta
Chief Executive Officer

Richard Blumberger
Chief Financial Officer

Consolidated Statement of Changes in Equity
For the year ended 31 December 2020

	Note	Share capital £'000	Share premium £'000	Share-based payments reserve £'000	Own shares reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2019		**49,834**	**19,672**	**1,570**	**-**	**122,962**	**194,038**
Profit for the year		-	-	-	-	15,578	15,578
Total comprehensive income		**-**	**-**	**-**	**-**	**15,578**	**15,578**
Transactions with owners							
Dividends paid	13	-	-	-	-	(7,223)	(7,223)
Issue of share capital	28	234	-	-	(234)	-	-
Exercise of share options	29	-	-	(1,675)	385	246	(1,044)
Acquisition of own shares	29	-	-	-	(163)	-	(163)
Share-based payments charge	29	-	-	1,130	-	-	1,130
Balance at 31 December 2019		**50,068**	**19,672**	**1,025**	**(12)**	**131,563**	**202,316**
Change in accounting policy	3	-	-	-	-	(865)	(865)
Balance at 1 January 2020		**50,068**	**19,672**	**1,025**	**(12)**	**130,698**	**201,451**
Profit for the year		-	-	-	-	13,920	13,920
Total comprehensive income		**-**	**-**	**-**	**-**	**13,920**	**13,920**
Transactions with owners							
Share-based payments charge	29	-	-	561	-	-	561
Balance at 31 December 2020		**50,068**	**19,672**	**1,586**	**(12)**	**144,618**	**215,932**

Consolidated Cash Flow Statement
For the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Operating profit		30,532	29,586
Adjustments for:			
Depreciation and amortisation	6	22,515	19,995
Share-based payments charge		668	1,282
Profit on disposal of assets classified as held for sale	6	(1,563)	-
Loss on disposal of property plant and equipment	6	402	411
Profit on disposal and remeasurement of right-of-use assets and lease liabilities	6	(318)	(403)
Loss on impairment of goodwill and other intangible assets	6	193	-
Loss on impairment of right-of use assets	6	527	1,081
Loss on impairment of property, plant and equipment	6	25	708
(Profit) / loss on disposal of investment property	6	(148)	72
Gain on revaluation of investment properties	17	-	(610)
Cash flows from operating activities before working capital		**52,833**	**52,122**
Decrease / (increase) in inventories		109,154	(69,893)
Decrease / (increase) in trade and other receivables		20,640	(7,677)
(Decrease) / increase in trade and other payables		(85,978)	83,946
(Decrease) / increase in provisions		(654)	379
Settlement of defined benefit pension scheme		-	(5,567)
Total cash flows generated by operations		**95,995**	**53,310**
Tax paid		(5,700)	(4,698)
Interest paid on lease liabilities		(3,103)	(3,068)
Other net finance costs		(7,073)	(6,875)
Net cash inflow from operating activities		**80,119**	**38,669**
Investing activities			
Purchase of property, plant, equipment and software	14/15	(11,722)	(19,433)
Acquisition of businesses, net of cash acquired	14	(2,944)	(27,397)
Lease payments received under finance lease		185	201
Interest received under finance leases		83	63
Net proceeds from disposal / (purchase) of investment property		2,288	(72)
Proceeds from disposal of property, plant and equipment		329	420
Proceeds from disposal of assets classified as held for sale		2,360	-
Net cash outflow from investing activities		**(9,421)**	**(46,218)**
Financing activities			
Proceeds from borrowings		40,000	70,000
Repayment of borrowings		(65,641)	(45,641)
Repayment of lease liabilities		(11,323)	(9,780)
Dividends paid	13	-	(7,223)
Purchase of own shares	29	-	(163)
Settlement of exercised share awards	29	-	(708)
Net cash (outflow) / inflow from financing activities		**(36,964)**	**6,485**
Net increase / (decrease) in cash and cash equivalents		33,734	(1,064)
Cash and cash equivalents at 1 January	30	110	1,174
Cash and cash equivalents at year end	30	**33,844**	**110**

Net Debt Reconciliation
For the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Reconciliation of net cash flow to movement in net debt			
Net increase / (decrease) in net cash and cash equivalents		33,734	(1,064)
Proceeds from drawdown of RCF	23	(40,000)	(70,000)
Repayment of drawdown of RCF	23	65,000	45,000
Repayment of other borrowings	23	641	641
Change in lease liability commitments	30	(2,582)	(30,223)
Repayment of lease liabilities	30	11,323	9,780
Decrease / (increase) in net debt		**68,116**	**(45,866)**
Opening net debt	30	(138,640)	(92,774)
Net debt at year end	30	**(70,524)**	**(138,640)**
Lease liabilities	16	(99,344)	(108,085)
Adjusted net cash / (debt) at year end (non GAAP measure)		**28,820**	**(30,555)**
Net debt at year end consists of:			
Cash and cash equivalents	20	33,844	110
Loans and borrowings	23	(5,024)	(30,665)
Lease liabilities	16	(99,344)	(108,085)
Closing net debt	30	**(70,524)**	**(138,640)**

FINANCIAL STATEMENTS

Notes to the Consolidated Financial Statements

1. Presentation of the financial statements

General information

Marshall Motor Holdings plc (the Company) is incorporated and domiciled in the United Kingdom. The Company is a public limited company, limited by shares, whose shares are listed on the Alternative Investment Market (AIM) of the London Stock Exchange. The Company is registered in England under the Companies Act 2006 (registration number 02051461) with the address of the registered office being; Airport House, The Airport, Cambridge, CB5 8RY, United Kingdom.

The financial statements of Marshall Motor Holdings plc were authorised for issue by the Board of Directors on 8 March 2021.

Basis of preparation

The consolidated financial statements of the Company are prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

The consolidated financial statements include the results of the Company and its subsidiaries (together "the Group"); a schedule of all subsidiaries is contained in Note 6 'Investments in Subsidiaries' of the Company financial statements (page 166). The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties and assets held for sale.

During the year the Group has adopted the amendments to IAS 1 *Presentation of Financial statements*, IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, IFRS 3 *Business Combinations* which has had no impact on the financial statements. The Group has also adopted the amendment to IFRS 16 Leases which has not had a material impact on the financial statements. Full details of the impact of adoption are set out in Note 3 'Changes in Accounting Policies and Disclosures'.

The consolidated financial statements are prepared in Sterling, which is both the functional currency of the Group's subsidiaries and presentational currency of the Group. All values are rounded to the nearest thousand pounds (£'000) except where otherwise indicated.

Going concern

The consolidated financial statements are prepared on a going concern basis. After making appropriate enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and for at least one year from the date that these consolidated financial statements are signed. For these reasons they continue to adopt the going concern basis in preparing the consolidated financial statements. Accordingly, these financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Group were unable to continue as a going concern.

The Directors have considered the future prospects and performance of the Group including the potential for further disruption arising from the restrictions put in place by the UK Government to control the spread of COVID-19 and the potential for longer lasting economic impacts both from COVID-19 and from any consequences of the EU trade deal. In preparing this assessment the Directors have considered the overall economic context, the principle risks as described on page 40, the Group's business plans, the impact of any acquisitions, future cash flows and availability of core and auxiliary financing facilities. Details of the assessment conducted by the Directors is set out below.

At the date of approval of the consolidated financial statements, the UK is coming to the end of a national lock down under which the Group's on-site trading activities are restricted, but have to a large extent been able to continue through the use of "click & collect" for sales of new and used vehicles. During the period of restrictions the Group has been able to successfully match the sales activity levels with staffing levels by continuing to utilise the Coronavirus Job Retention Scheme.

Notes to the Consolidated Financial Statements

1. Presentation of the financial statements *(continued)*

Going concern *(continued)*

As set out in the Operating Review on page 10 and the Financial Review on page 34, the response to the COVID-19 pandemic has had an impact on the Group's trading and cash flows, both positive and negative, for the year ended 31 December 2020. The Group has taken (and is continuing to take) actions to conserve cash and mitigate losses where these arise as well as drawing on the applicable support measures introduced by the UK Government, including the Coronavirus Job Retention Scheme, the Expanded Retail Discount 2020/21 for business rates, and the deferral of VAT payments. While this support has been beneficial, the better-than-expected performance in the second half of 2020 permitted the Group to repay all deferred VAT amounts in full during September 2020, ahead of the due date.

Banking facilities and funding position

At 31 December 2020 the Group had £120m of committed but undrawn banking facilities made available under a facility agreement due to expire in January 2023. The Group's banking facilities were renegotiated during the Year, with a new agreement being successfully concluded on 29 July 2020. In recognition of the potential for trading volatility at the time the new agreement was entered into, an amended covenant package was agreed for the period up to and including 30 June 2021. This amended covenant package included a suspension of testing of the core leverage and interest cover ratios.

The profitability and cash generation of the Group since the new funding agreement was signed has permitted a mutually agreed return to normal covenant testing from 31 March 2021, three months earlier than originally envisaged.

The Group has not made use of any borrowing under the COVID-19 Corporate Financing Facility or the Coronavirus Large Business Interruption Loan Scheme.

In addition to its core banking facilities, the Group has access to vehicle inventory funding arrangements of which £364.9m was utilised at 31 December 2020.

Assessment of the Group's financial position

During the 12 months covered by these consolidated financial statements, the Group has, in common with most businesses, experienced substantial disruption arising as a result of the measures taken in respect of the COVID-19 pandemic. Further details of the impacts are set out in the Operating Review on page 10 and the Financial Review on page 34.

The Directors have assessed the potential on-going impact of the measures intended to counter the COVID-19 pandemic. In addition, consideration has been given to longer-term risks arising from the economic impact of the pandemic restrictions, as well as the now concluded trade deal with the EU.

The Directors acknowledge that there remains uncertainty regarding the timing of a full resumption of normal economic activity globally, the lifting of restrictions in the UK and the potential for some further disruption to the UK economy as individuals and businesses adapt to the trade deal with the EU.

The Group has demonstrated significant resilience to issues faced during 2020. The ability to adapt and accelerate the business model to carry out more distance selling, the strength of the balance sheet, and the renegotiation of the core funding facilities have all contributed to enhancing the business during 2020 and into 2021. In addition, the support received from OEM partners, the UK Government and other key partners has all helped to strengthen the financial position, leaving the Group in a strong position to cope with any further disruption.

The Group does not expect ongoing material disruption to its supply chains, either as a result of further factory shutdowns or issues with the importation of vehicles and parts. The Group's access to labour and skills is not expected to be materially adversely impacted by the end of the free movement of labour between the UK and the EU.

Notes to the Consolidated Financial Statements

1. Presentation of the financial statements *(continued)*

Going concern *(continued)*

Assessment of the Group's financial position *(continued)*

To support the assessment of the Group's ability to continue as a going concern, the following scenarios have been modelled:

- An upside scenario where there is a rapid economic recovery. Under this scenario, performance in 2021 returns to the level anticipated in the original Board approved budget which was prepared prior to the announcement of additional lockdown measures during the final quarter of 2020.
- A short-term downside scenario, where the lockdown continues for the whole of the first quarter of 2021. This results in 25% loss of sales in January and February and 45% loss of sales in March, this is partially offset by a 10% saving in overhead costs during the lockdown period, supported by the Coronavirus Job Retention Scheme. There is then a return to normal trading performance for the remainder of 2021 and into 2022.
- A medium-term downside scenario, in which there is a lockdown for the first quarter of 2021 with the impact described above, followed by further lockdown for the whole of the last quarter of 2021. The lockdown in the last quarter results in a 25% loss of sales. These losses are offset by a 10% saving in overhead costs during both lockdown periods. There is then a return to normal trading performance in 2022.
- A longer-term downside scenario, in which there are further lockdowns. The associated trading impacts are as set out under the "medium-term downside" scenario described above and in addition, earnings for the whole of 2022 are 50% lower due to the macro-economic conditions arising from the disruption experienced during 2020 and forecast for 2021. Normal trading performance then returns in 2023.

Under the upside scenario and short-term downside scenario, the Group is forecast to be able to continue to operate within the bank facility limits and to comply with the banking covenants set out in the funding agreements.

Under the medium-term downside scenario and longer-term downside scenario, which the Directors consider to be remote possibilities, the Group would have sufficient finance facilities available to continue to trade but would breach the banking covenants set out in the funding agreements. Based upon the significant resilience the business has demonstrated both operationally and financially, as well as the level of support shown by funders to date, including a previous amendment to covenant requirements and reduction in the covenant package under the new funding agreement for the period up to 30 June 2021, the Directors believe that in either of these scenarios, appropriate amendments to covenant requirements would be provided by the Group's funders.

The Directors have therefore concluded that Company is able to continue as a going concern through to March 2022.

2. Accounting policies

Basis of consolidation

Subsidiaries are entities controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has: a) power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee); b) exposure, or rights, to variable returns from its involvement with the investee; and c) the ability to use its power over the investee to affect its returns.

In assessing control potential voting rights that presently are exercisable or convertible are taken into account. Generally, there is a presumption that a majority of voting rights results in control. The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control detailed above.

The financial information of subsidiaries is included in the consolidated financial information from the date that control commences until the date that control ceases. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Notes to the Consolidated Financial Statements

2. Accounting policies *(continued)*

Basis of consolidation *(continued)*

When the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

Transactions eliminated on consolidation

Intragroup balances and any gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial information. Losses are eliminated in the same way as gains but only to the extent that there is no evidence of impairment.

Subsidiary audit exemption

The consolidated financial statements include the results of all subsidiary undertakings owned by the Company as listed in Note 6 'Investments in Subsidiaries' on page 166 of the Annual Report.

Certain of the Group's subsidiaries, listed below, have taken the exemption from an audit for the year ended 31 December 2020 by virtue of s479A of the Companies Act 2006. In order to allow these subsidiaries to take the audit exemption, the parent company, Marshall Motor Holdings plc, has given a statutory guarantee of all the outstanding liabilities as at 31 December 2020 of the subsidiaries listed below.

The subsidiaries which have taken an exemption from audit for the year ended 31 December 2020 by virtue of s479A of the Companies Act 2006 are:

Astle Limited (reg no. 01114983)
Crystal Motor Group Limited (reg no. 04813767)
Exeter Trade Parts Specialists LLP (reg no. OC329331)
Marshall North West Limited (reg no. 00322817)
Marshall of Cambridge (Garage Properties) Limited (reg no. 02051459)
Marshall of Ipswich Limited (reg no. 04447940)
Marshall of Peterborough Limited (reg no. 04861074)
Marshall of Scunthorpe Limited (reg no. 01174004)
Marshall of Stevenage Limited (reg no. 06450140)
Pentagon Limited (reg no. 01862751)
Prep-Point Limited (reg no. 00660067)
Ridgeway Bavarian Limited (reg no. 07930214)
Ridgeway TPS Limited (reg no. 06112651)
S.G. Smith Automotive Limited (reg no. 00622112)
S.G. Smith (Motors) Beckenham Limited (reg no. 00648395)
S.G. Smith (Motors) Crown Point Limited (reg no. 00581711)
S.G. Smith (Motors) Forest Hill Limited (reg no. 00581710)
S.G. Smith Trade Parts Limited (reg no. 01794317)
Silver Street Automotive Limited (reg no. 00716748)
Tim Brinton Cars Limited (reg no. 01041301)

Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IFRS 9 *Financial Instruments* in the Consolidated Statement of Comprehensive Income. Contingent consideration that is classified as equity is not re-measured and its subsequent settlement is accounted for within equity.

Acquisition related costs are expensed as incurred and are excluded from underlying profit before tax.

On the acquisition of a business, fair values are attributed to the identifiable assets and liabilities and contingent liabilities unless the fair value cannot be reliably measured, in which case the value is subsumed into goodwill. With the exception of lease liabilities and right-of-use assets, in a business combination all identifiable assets acquired and liabilities assumed, including any contingent liabilities, that meet the recognition criteria under IFRS 3 *Business Combinations* are measured initially at their fair values at the acquisition date.

Notes to the Consolidated Financial Statements

2. Accounting policies *(continued)*

Business combinations *(continued)*

Lease liabilities are measured at the present value of lease payments under the lease term remaining as at the date of acquisition. When calculating the present value, the lease liability is discounted using the Group's incremental borrowing rate as at the date of acquisition. The Group's incremental borrowing rate is used as a proxy for the lessee's rate on the basis that the interest rate implicit in the lease cannot be readily determined. The associated right-of-use assets acquired are recognised at the same value as the lease liability plus any dilapidation provisions. Where there are either favourable or unfavourable lease terms acquired, adjustment is made to increase or decrease the right-of-use asset balances respectively.

Non-controlling interests

The Group recognises any non-controlling interest in the acquiree on an acquisition by acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

Measurement period adjustments

The Group assesses the fair value of assets acquired and finalises purchase price allocation within the measurement period following acquisition and in accordance with IFRS 3 *Business Combinations*. This includes an exercise to evaluate other material separately identifiable intangible assets such as franchise agreements, favourable leases and order backlog.

The finalisation of purchase price allocations may result in a change in the fair value of assets acquired. In accordance with IFRS 3 *Business Combinations* measurement period adjustments are reflected in the financial statements as if the final purchase price allocation had been completed at the acquisition date.

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of; the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired.

Where the fair value of the consideration received is less than the fair value of the acquired net assets, the deficit is recognised immediately in the Consolidated Statement of Comprehensive Income as a bargain purchase. Goodwill is capitalised and subject to an impairment review at least annually and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed in subsequent periods.

Intangible assets

Intangible assets, when acquired separately from a business combination, include computer software and licences. Cost comprises purchase price from third parties and amortisation is calculated on a straight line basis over the assets' expected economic lives, which varies depending on the nature of the asset. Licenses are amortised over the length of the licence and software is amortised between 3-5 years.

Intangible assets acquired as part of a business combination include franchise agreements. These items are capitalised separately from goodwill if the asset is separable or if the benefit of the intangible asset is obtained through contractual or other legal rights and if its fair value can be measured reliably on initial recognition. Such assets are stated at fair value. Franchise agreements have an indefinite useful life, therefore are not amortised.

Intangible assets with an indefinite useful economic life are tested annually for impairment. Amortisation is included within net operating expenses in the Consolidated Statement of Comprehensive Income.

Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and less any recognised impairment loss. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. When parts of an item of property, plant and equipment have different useful lives those components are accounted for as separate items of property, plant and equipment. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Notes to the Consolidated Financial Statements

2. Accounting policies *(continued)*

Property, plant and equipment *(continued)*

Depreciation is charged to write assets down to their residual values over their estimated useful economic lives. Depreciation is charged on a straight-line basis over the following periods:

- Leasehold improvements – shorter of the lease term or 10 years
- Fixtures and fittings – 5 years
- Computer equipment – 2-5 years
- Freehold buildings – 50 years
- Land – indefinite life, not depreciated
- Assets under construction – not depreciated.

The residual values and useful economic lives of assets are reviewed, and adjusted if appropriate, at each balance sheet date. The gains and losses on disposal of assets are determined by comparing sales proceeds with the carrying amount of the asset and are recognised in the Consolidated Statement of Comprehensive Income.

Investment property

Initial recognition

Investment properties are measured initially at cost, including transaction costs. Investment properties include properties that are held as right-of-use assets, as well as properties that are owned by the Group.

Subsequent measurement

Land and buildings are shown at fair value based on formal valuations by external, independent valuers performed at least every three years and updated each year for the Directors' estimate of value. Valuations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Investment property is not depreciated. Any surplus or deficit on revaluation is taken to the Consolidated Statement of Comprehensive Income and is not included within underlying profit before tax.

Derecognition

Investment properties are derecognised either when they have been disposed of (i.e. at the date the recipient obtains control) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the Consolidated Statement of Comprehensive Income in the period of derecognition. The amount of consideration to be included in the gain or loss arising from the derecognition of investment property is determined in accordance with the requirements for determining the transaction price under IFRS 15 *Revenue from Contracts with Customers*.

Impairment of non-financial assets

Assets not subject to amortisation are tested annually for impairment, or more frequently if events or changes in circumstances indicate a potential impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Goodwill and franchise agreements acquired in a business combination are allocated to each of the cash generating units. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units ("CGUs"), or groups of CGUs, that are expected to benefit from the synergies of the combination. The group of CGUs to which the goodwill and franchise agreements are allocated (being groups of dealerships connected by manufacturer brand) represents the lowest level within the entity at which the goodwill and franchise agreements are monitored for internal management purposes.

Notes to the Consolidated Financial Statements

2. Accounting policies *(continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are included and cost is based on price including delivery costs less specific trade discounts. Net realisable value is based on estimated selling price less further costs to be incurred to disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

Inventories held on consignment are recognised in the Consolidated Balance Sheet (net of value added taxes), with a corresponding liability (including value added taxes) when the terms of a consignment agreement and industry practice indicate that the principal benefit of owning the inventory (the ability to sell it) and principal risks of ownership (stock financing charges, responsibility for safekeeping and some risk of obsolescence) rest with the Group. Stock financing charges from manufacturers and other vehicle funding facilities are presented within finance costs. These charges are expensed over the period that vehicles are funded.

The Group finances the purchase of new and used vehicle inventories using vehicle funding facilities provided by various lenders including the captive finance companies associated with brand partners. These finance arrangements generally have a maturity of 90 days or less, however during the year ended 31 December 2020 in response to the COVID-19 restrictions most funders have offered extensions to the funding period of up to 90 days in addition to the original funding period, and the Group is normally required to repay amounts outstanding on the earlier of the sale of the vehicles that have been funded under the facilities or the stated maturity date. Amounts due to finance companies in respect of vehicle funding are included within trade payables and disclosed under vehicle financing arrangements. Related cash flows are reported within cash flows from operating activities within the Consolidated Statement of Cash Flows. Vehicle financing facilities are subject to finance house base rate (or similar) interest rates. The interest incurred under these arrangements is included within finance costs and classified as stock holding interest.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and cash in hand.

Assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This classification is used where a sale is considered highly probable. Assets held for sale are measured at the lower of their carrying amount and their fair value less costs to sell.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. Any subsequent increase in the fair value less costs to sell of an asset is recognised where it is not in excess of any cumulative impairment loss which has been previously recognised. Non-current assets are not depreciated while they are classified as held for sale. Assets classified as held for sale are presented separately from other asset classes in the current assets section of the Consolidated Balance Sheet.

On completion of the sale transaction, the difference between the net disposal proceeds and the carrying amount of the asset is recognised within Net Operating Expenses in the Consolidated Statement of Comprehensive Income in the period of de-recognition.

Financial instruments

Financial assets

Recognition and initial measurement

Trade receivables are initially recognised when they originated. Trade receivables are amounts due from customers for goods sold or for services performed by the Group in the ordinary course of business. Credit terms are less than one year, as such they are recognised as current assets.

All other financial assets are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

On initial recognition, a financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for a financial asset not at fair value reported in profit or loss, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Notes to the Consolidated Financial Statements

2. Accounting policies *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Classification and subsequent measurement

A financial asset is classified either as being; measured subsequently at fair value (either through other comprehensive income or through profit or loss), or measured at amortised cost. The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

All financial assets of the Group are classified as measured at amortised cost.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value reported in profit or loss:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairments are recognised in profit or loss. Any gain or loss on de-recognition is recognised in profit or loss.

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Impairment of financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

The Group recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured at the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset. Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Loss allowances for finance lease receivables are measured by reference to default events that are possible within 12 months of the reporting date on the basis that the credit risk since initial recognition has not been subject to significant increase.

Loss allowances for trade receivables are measured using a simplified approach based on the lifetime ECLs at each reporting date. An assessment of the lifetime ECLs is calculated using a provision matrix model to estimate the loss rates to be applied to each trade receivable category.

Notes to the Consolidated Financial Statements

2. Accounting policies *(continued)*

Financial instruments *(continued)*

Financial liabilities

The Group classifies its financial liabilities as measured at amortised cost. The classification of financial instruments is determined at initial recognition in accordance with the substance of the contractual arrangement into which the Group has entered.

Financial liabilities measured at amortised cost include non-derivative financial liabilities which are held at original cost, less amortisation. Financial liabilities measured at amortised cost comprise mainly trade and other payables and borrowings (see below for the separate accounting policies for each specific financial liability).

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount presented in the Consolidated Balance Sheet when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Fair value measurement

The Group measures non-financial assets such as investment properties, at fair value at each balance sheet date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External valuers are involved for valuation of investment properties and assets held for sale. At each reporting date, the Directors consider movements in the values of assets and liabilities which are required to be remeasured or re-assessed as per the Group’s accounting policies. For this analysis, the Directors consider the major inputs applied in the latest valuation by reviewing the information in the valuation computation to valuation reports and other relevant documents.

The Directors, in conjunction with the Group’s external valuers, also compare the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

Fair-value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarised in Note 27 ‘Fair Value Measurement’.

Notes to the Consolidated Financial Statements

2. Accounting policies *(continued)*

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in share premium as a deduction from the proceeds.

Dividend distribution

Final dividends to the Group's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Group's shareholders. Interim dividends are recognised when they are paid.

Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business. These are classified as current liabilities if payment is due in one year or less. If payment is due at a later date they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

Trade payables include the liability for vehicles (inclusive of value added taxes) held on consignment with the corresponding asset included within inventories (exclusive of value added taxes).

Borrowings

Borrowings comprise asset backed finance, mortgages and bank borrowings; they are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Consolidated Statement of Comprehensive Income over the period of the borrowings using the effective interest method.

Bank overdrafts, which form an integral part of the Group's cash management, are included as a component of cash and cash equivalents for the purpose of presentation in the Consolidated Statement of Cash Flows. Bank overdrafts are presented within cash and cash equivalents in current assets in the Consolidated Balance Sheet.

Provisions

A provision is recognised in the Consolidated Balance Sheet when the Group has; a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation. If the effect is material provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability. The increase in the provision due to the passage of time is recognised in finance costs.

Dilapidation provision

The Group operates from a number of leasehold premises and is typically required by the terms of the lease to restore leased premises to their original condition on vacation of the premises at the end of the lease term. Estimates of dilapidation costs are calculated in accordance with the specific remediation requirements stipulated in each lease contract. At the point at which these remediation costs can be reliably estimated, a provision is recognised.

Restructuring (closed sites) provision

Provisions for restructuring costs are recognised at the point when a detailed restructuring plan is in place and the Group has either started to implement the plan or has announced the main features of the plan to those affected. Restructuring provisions include only direct expenditures necessarily entailed by the restructuring.

Notes to the Consolidated Financial Statements

2. Accounting policies *(continued)*

Revenue recognition

Revenue is measured based on the consideration received or receivable as specified in a contract with a customer and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. Revenue excludes amounts collected on behalf of third parties. Revenue comprises sales and charges for vehicles sold and services rendered during the period, excluding intercompany sales within the Group.

The Group recognises revenue when it transfers control over a product or service to a customer, as described below.

Sale of motor vehicles, parts and aftersales services

The Group generates revenue through the sale of new and used motor vehicles and through the provision of aftersales services in the form of vehicle servicing, maintenance, parts and repairs. The Group recognises revenue from the sale of new and used motor vehicles when a customer takes possession of the vehicle, at which point they have an obligation to pay in full and as such control is considered to transfer at this point. The Group typically receives cash equal to the invoice amount for most direct retail sales to consumers at the time the consumer takes possession of the vehicle. When the consumer has taken out a finance agreement to purchase the vehicle, in most instances the Group receives payment from the finance company at the time the consumer takes possession of the vehicle. Payment terms on sales to corporate customers typically range from 7 to 60 days. The Group recognises revenue from the provision of aftersales services when the service has been completed, at which point customers have an obligation to pay in full. The Group typically receives cash equal to the invoice amount for most direct retail sales to consumers at the time the service has been completed. Payment terms on sales to corporate customers typically range from 30 to 60 days.

Sale of warranty products

Income received in respect of warranty policies sold and administered by the Group is recognised over the period during which a customer can exercise their rights under the warranty; as such, revenue is recognised over the period of the policy on a straight line basis. This is not a material revenue stream for the Group.

Commission income

The Group receives commissions when it arranges vehicle financing and related insurance products for its customers to purchase its products and services, acting as agent on behalf of various finance and insurance companies. Commissions are based on agreed rates.

Where the Group acts as an agent on behalf of a principal, the associated income is recognised within revenue on completion of the arranging of the various products (i.e. at the point at which control passes to the customer).

Certain commissions are received in advance of the customer buying the associated finance or insurance products from the Group as agent. The advance commissions are paid upfront and typically relate to periods of two to three years, depending on the arrangement. The advance commissions are recognised in revenue when sales of finance or insurance products are made. This can be over a year after the receipt of the advance.

There is not deemed to be a financing component because, being an agency arrangement, the timing of the recognition of the commission income varies on the basis of the occurrence of future events that are not substantially within the control of the customer or the Group. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

Rental income

Rental income arising from operating leases on investment properties is recognised in revenue on a straight line basis over the period of the lease. Rental income is not disclosed separately from revenue from contracts with customers in the Consolidated Statement of Comprehensive Income due to the immateriality of this income stream.

Notes to the Consolidated Financial Statements

2. Accounting policies *(continued)*

Revenue recognition *(continued)*

Contract liabilities

Where the Group receives an amount of consideration in advance of completion of performance obligations under a contract with a customer, the value of the advance consideration is initially recognised as a contact liability in liabilities. Revenue is subsequently recognised as the performance obligations are completed over the period of the contract (i.e. as control is passed to the customer). Contract liabilities are presented within trade and other payables in the Consolidated Balance Sheet and disclosed in Note 22 'Trade and Other Payables'.

Contract costs

The Group applies the practical expedient in paragraph 94 of IFRS 15 and recognises the incremental costs of obtaining contracts as an expense when incurred if the amortisation period of the assets that the Group otherwise would have recognised is one year or less.

Transaction price allocation to remaining performance obligations

The Group applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

Disaggregation of revenue

Revenue recognised from contracts with customers has been disaggregated into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. This disclosure, as well as the reconciliation between the disaggregated revenue disclosures and the revenue figures disclosed for each of the Group's reportable segments, is made in Note 5 'Segmental Information'.

Supplier income

The Group receives income from brand partners and other suppliers. The Group receives income from its suppliers based on specific agreements in place. These are generally based on achieving certain objectives such as specific sales volumes and maintaining agreed operational standards. This supplier income received is recognised as a deduction from cost of sales at the point when it is reasonably certain that the targets have been achieved for the relevant period and when income can be measured reliably based on the terms of each relevant supplier agreement.

Supplier income that has been earned but not invoiced at the balance sheet date is recognised in other receivables and primarily relates to volume-based incentives that run up to the period end.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. All such grants relate to expense items. The grant is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed.

The grant income is disclosed in Net Operating Expenses in the Consolidated Statement of Comprehensive Income.

Leases

Group as lessee

The Group recognises a right-of-use asset and a lease liability at the lease commencement date.

Right-of-use asset

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

Notes to the Consolidated Financial Statements

2. Accounting policies *(continued)*

Leases *(continued)*

Right-of-use asset *(continued)*

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Lease liability

The lease liability is initially measured at the present value of the lease payments to be made over the lease term that have not been paid at the lease commencement date. When calculating the present value, the lease liability is discounted using the Group's incremental borrowing rate because the interest rate implicit in the lease cannot be readily determined. The incremental borrowing rate for the Group is used as a proxy for the lessee's incremental borrowing rate on the basis that treasury functions are managed centrally and subsidiary entities' access to facilities is via pooled, group-wide arrangements.

Lease payments included in the measurement of the lease liability comprise:

– fixed payments, including in-substance fixed payments, less any lease incentives receivable;
– variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the lease commencement date; and
– lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases and leases of low-value assets. Short-term leases are those that do not contain a purchase option and have a lease term of 12 months or less. Low value assets are those with a value below £5,000. The Group recognises on a straight-line basis over the lease term the lease payments associated with these leases in net operating expenses in the Consolidated Statement of Comprehensive Income.

Group as lessor

The Group only acts as a lessor in the context of sub-lease arrangements. When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease as being either a finance lease or an operating lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. To classify each sub-lease, an overall assessment is made as to whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the right-of-use asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset. If a head lease is a short-term lease to which the Group applies the short-term lease exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, the Group applies IFRS 15 *Revenue from Contracts with Customers* to allocate the consideration in the contract.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part revenue in the Consolidated Statement of Comprehensive Income.

Notes to the Consolidated Financial Statements

2. Accounting policies *(continued)*

Share-based payments

The Group operates a number of equity-settled, share-based compensation plans through which the Group allows employees to receive shares in the Company.

Equity-settled share-based payments are measured at fair value (calculated excluding the effect of service and non-market based performance vesting conditions) at the date of grant. The share-based payment charge to be expensed is determined by reference to the fair value of share options granted and is recognised as an employee expense within underlying earnings, with a corresponding increase in equity.

The share-based payment charge is recognised on a straight-line basis over the vesting period (being the period over which all vesting conditions are to be satisfied). An award subject to graded vesting is accounted for as though it were multiple, separate awards, the number of awards being determined in direct correlation to the number of instalments in which the options vest.

The share-based payment charge is based on the Group's estimate of the number of options that are expected to vest. At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest based on the non-market performance vesting conditions and service conditions. The Group's remuneration policy gives the Remuneration Committee discretion to revise performance conditions to adjust for the impact of Group restructurings and reorganisations on incentive outcomes. The impact of any revisions to original vesting estimates or performance conditions is recognised in the Consolidated Statement of Comprehensive Income with a corresponding adjustment to equity.

Social security contributions payable in connection with share options granted are considered to be an integral part of the grant and are, therefore, treated as cash-settled transactions. For cash settled share-based payments, the Group recognises a liability for the services acquired, measured initially at the fair value of the liability. This liability is re-measured at each balance sheet date and at the date of settlement, with any changes in fair value recognised in the Consolidated Statement of Comprehensive Income.

When options are exercised, the Company issues new shares. These shares are gifted to the Employee Benefit Trust by the Company at nominal value. The cost of these shares is recognised as a reduction to equity in the own shares reserve. When the options are exercised and the shares transferred to the employees, the cost on the own shares reserve is transferred to equity.

When options issued by the Employee Benefit Trust are exercised the own shares reserve is reduced and a gain or loss is recognised in reserves based on proceeds less weighted-average cost of shares initially purchased now exercised.

Where shares options are forfeited, effective from the date of the forfeiture, any share-based payment charge previously recognised in both the current and prior periods in relation to these options is reversed though the Consolidated Statement of Comprehensive Income with a corresponding adjustment through the Consolidated Statement of Changes in Equity.

Net finance costs

The Group has no borrowing costs with respect to the acquisition or construction of qualifying assets, therefore, no borrowing costs are capitalised. Qualifying items of property, plant and equipment are considered to be those which take a substantial period of time to get ready for their intended use. These would include assets which are under construction for periods in excess of a year; the Group's dealership development programmes are not considered to qualify.

Finance costs

Finance costs comprise interest payable on borrowings, lease liabilities, stock financing charges and other interest.

Finance income

Finance income comprises interest receivable on funds invested and finance lease receivables. Interest income is recognised in the Consolidated Statement of Comprehensive Income as it accrues using the effective interest method.

Notes to the Consolidated Financial Statements

2. Accounting policies *(continued)*

Taxation

The taxation charge comprises corporation tax payable, deferred tax and any adjustments to tax payable in respect of previous years.

Current taxation

The current tax payable is based on the Group's taxable profit for the year. Taxable profit differs from net profit as reported in the Consolidated Statement of Comprehensive Income because it excludes items of income or expenditure that are taxable or deductible in other years and items of income or expenditure that are never taxable income or tax deductible expenditure. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation

Deferred taxation is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the consolidated financial statements and their tax bases used in the computation of taxable profit. Deferred taxation is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, except for deferred tax liabilities where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised. The carrying amount of deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The Group's deferred tax balances are calculated using tax rates that have been enacted or substantively enacted by the balance sheet date and that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except where it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is also dealt with in other comprehensive income or equity respectively.

Deferred 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 tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Pensions

Defined contribution pension plans

The Group participates in a number of defined contribution schemes for its employees. A defined contribution pension scheme is a pension plan under which the employer and employee pay contributions into a separate fund managed and administered by a third party. The employer has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay employees the benefits relating to their service and contributions in current and prior periods.

Where the Group makes employer pension contributions, such contributions are charged to the Consolidated Statement of Comprehensive Income as they become payable in accordance with the rules of each scheme.

Notes to the Consolidated Financial Statements

2. Accounting policies *(continued)*

Alternative performance measures

Non-underlying items

Certain items recognised in reported profit or loss before tax can vary significantly from year to year, therefore, these create volatility in reported earnings which does not reflect the Group's underlying performance. The Directors believe that the 'underlying profit before tax' and 'underlying basic earnings per share' measures presented provide a clear and consistent presentation of the underlying performance of the Group's on-going business for shareholders. Underlying profit is not defined under IFRS, therefore, it may not be directly comparable with the 'adjusted' profit measures of other companies.

Non-underlying items are defined as follows:

- Acquisition costs;
- Profits/losses arising on closure or disposal of businesses;
- Restructuring and reorganisation costs – these are one-off in nature and do not relate to the Group's underlying performance;
- Investment property fair value movements – these reflect the difference between the fair value of an investment property at the reporting date and its carrying amount at the previous reporting date;
- One-off tax items and pension charges; and
- Asset impairments.

Like-for-like

Similarly, the Directors believe that the impact of acquisitions and disposals distorts the value of comparative information provided. Therefore, the measure of 'like-for-like' financial performance is used to present consistent, comparative information. Results on 'like-for-like; basis include only the Group's businesses that have been active and trading for a period of 12 consecutive months.

Businesses that are excluded from the definition of 'like-for-like' are those sites that have recently commenced operation, therefore do not have a 12-month trading history, as well as any businesses that were closed and market segments or activities that were ceased during the current or previous year. See the Appendix on page 170 for full details.

Adjusted net debt

The Directors believe that the impact of the adoption of IFRS 16 Leases distorts the value of reported net debt. Therefore, the measure of 'adjusted net debt' is used to present consistent, comparative information.

3. Changes in accounting policies and disclosures

Except where disclosed otherwise in this note, the accounting policies adopted in the preparation of the consolidated financial statements are consistent with those applied when preparing the consolidated financial statements for the year ended 31 December 2019.

New standards, amendments and interpretations adopted by the Group

The following amendments to existing standards became effective on 1 January 2020 and have been adopted in the consolidated financial statements for the first time during the year ended 31 December 2020. These have been assessed as having no financial or disclosure impact on the numbers presented.

- IAS 1 *Presentation of Financial Statements*
- IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- IFRS 3 *Business Combinations*

Notes to the Consolidated Financial Statements

3. Changes in accounting policies and disclosures *(continued)*

New standards, amendments and interpretations adopted by the Group *(continued)*

The following amendment to an existing standard was issued on 28 May 2020. The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted; the Group has applied this amendment to its annual reporting period that commenced on 1 January 2020. The impact of the adoption of this amended standard is disclosed below.

- Amendments to IFRS 16 *Leases – COVID-19-Related Rent Concessions*

Three other amendments to existing standards apply for the first time with effect from 1 January 2020; however, they are not applicable to the consolidated financial statements of the Group.

Impact on current period of the adoption of new standards, amendments and interpretations

IFRS 16 *Leases transition adjustment*

The Group applied IFRS 16 for the first time during the year ended 31 December 2019 using the full retrospective approach. As a result, the comparative period was restated with a cumulative transition adjustment being recognised through the opening comparative retained earnings balance as at 1 January 2018. During the year ended 31 December 2020 it was identified that this transition adjustment to retained earnings was understated by £865,000 (being the impact of the derecognition of certain rent prepayments and accruals relating to leases previously classified as operating leases, net of the associated £203,000 deferred tax credit).

Due to the nature of this adjustment, prior year balances have not been restated. This adjustment has been recognised directly in retained earnings in the Consolidated Statement of Changes in Equity for the year ended 31 December 2020.

Amendments to IFRS 16 Leases - COVID-19-Related Rent Concessions

In response to the ongoing COVID-19 pandemic, on 28 May 2020 the IASB issued an amendment to IFRS 16 Leases – COVID-19-Related Rent Concessions. These were formally adopted by the European Union on 12 October 2020. These amendments add a practical expedient to provide lessees with relief from lease modification accounting requirements where the lessee has received rent concessions granted as a result of COVID-19. The practical expedient applies to all rent concessions that provide relief for payments that were originally due on or before 30 June 2021. These amendments are applicable for all accounting periods beginning on or after 1 June 2020. The Group has adopted these amendments for the first time in the consolidated financial statements for the year ended 31 December 2020 in accordance with the early application permitted for all financial statements not authorised for issue as at the date the amendments were issued.

The Group has applied this practical expedient to all leases in its property portfolio under which either deferred rent payments or forgiven rent payments have been successfully negotiated during the period from March 2020 to December 2020. Accounting for the rent concessions as lease modifications would have resulted in the Group remeasuring the lease liability to reflect the revised consideration using a revised discount rate, with the effect of the change in the lease liability being recorded against the right-of-use asset. As a result of applying this practical expedient, the Group is not required to determine a revised discount rate and the effect of the change in the lease liability is recognised as a profit of £109,000 in net operating expenses in the Consolidated Statement of Comprehensive Income.

New standards, amendments and interpretations not yet adopted by the Group

The following standards, amendments and interpretations were in issue, but were not yet effective at the balance sheet date. These standards have not been applied when preparing the consolidated financial statements for the year ended 31 December 2020. These have been assessed as having no financial or disclosure impact on the numbers presented.

	Date issued	Effective for accounting periods beginning on or after
IFRS 17 Insurance contracts	18 May 2017	1 January 2021
Amendments to IAS 1 Presentation of financial statements, on classification of liabilities	23 January 2020	1 January 2022

Notes to the Consolidated Financial Statements

4. Significant accounting judgements, estimates and assumptions

The Directors are required to make judgements, estimates and assumptions about the future when applying the Group's accounting policies (as detailed in Note 2 'Accounting Policies') to determine the amounts of assets, liabilities, revenue and expenses reported in the consolidated financial statements. Actual amounts may differ from these estimates.

The Directors regularly review these judgements, estimates and assumptions and any resulting revisions to accounting estimates are recognised in the period in which the estimate is revised. If the change in estimation impacts future accounting periods, the revision is recognised in the current and future periods.

Critical accounting judgements

The accounting judgements and assumptions (excluding those which also involve estimates which are covered in the key sources of estimation uncertainty section below) included in the consolidated financial statements which have a material impact on amounts reported are as detailed below.

Determination of indefinite useful economic life

Goodwill and franchise agreements are intangible assets acquired through business combinations. An asset is considered to have an indefinite useful economic life if there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group. The useful economic life of goodwill and franchise agreements is determined at the point of initial recognition. Each franchise agreement is different; each contract being for varying durations, with varying renewal or termination options. Previous franchise agreements acquired have historically either been renewed without substantial cost or not had termination options exercised by the Group. This past experience, coupled with the strength of the Group's relationships with brand partners, determines that these assets have indefinite useful economic lives.

Key sources of estimation uncertainty

The accounting estimates included in the consolidated financial statements which have a material impact on amounts reported are as detailed below.

Goodwill and other intangible asset impairment

Goodwill is deemed to have an indefinite useful economic life and is, therefore, not amortised. As a result, the Group reviews goodwill for impairment on at least an annual basis and more frequently where there are indicators of potential impairment. The impairment review requires the value-in-use of each CGU to be estimated; these calculations are based on a number of assumptions. Areas of significant judgement include:

- the estimation of future cash flows
- the selection of risk and the estimation of risk adjustment factors to be applied to cash flows
- the selection of an appropriate discount rate to calculate present value
- the selection of an appropriate terminal growth rate.

The assumptions used in the impairment test are detailed in Note 14(b) 'Goodwill and Other Intangible Assets'. The assumptions relating to future cash flows, estimated useful economic lives and discount rates are based on forecasts and are, therefore, inherently judgemental. Future events could result in the assumptions used needing to be revised, changing the outcome of the impairment test and resulting in impairment charges being recognised.

Inventory valuation

Inventories are stated at the lower of their cost and their net realisable value (being the fair value of the motor vehicles less costs to sell). Fair values are assessed using reputable industry valuation data which is based upon recent industry activity and forecasts. Whilst this data is deemed representative of the current value of vehicles held in inventory it is possible that the price at which the vehicles are actually sold will differ from the vehicles' industry valuations. Where this is the case, adjustments arise in the Consolidated Statement of Comprehensive Income on the sale of vehicles held in inventory.

Notes to the Consolidated Financial Statements

4. Significant accounting judgements, estimates and assumptions *(continued)*

Key sources of estimation uncertainty *(continued)*

Inventory valuation *(continued)*

Industry valuations are sensitive to rapid changes in regulatory and market conditions which are difficult to anticipate. In light of the materiality of the inventory balance in the Consolidated Balance Sheet, this uncertainty is considered to represent a key source of estimation uncertainty. The inventory provision as at 31 December 2020 represents 3.1% of the gross inventory balance (2019: 1.9%), this increase is largely due to the unusual market conditions during the year ended 31 December 2020 under which used vehicle prices appreciated as well as an expectation of lower pricing during the first quarter of 2021 as economic conditions decline and demand reduces. A 100bps (2019: 100bps) additional change in this ratio in 2020 would change the provision in the Consolidated Balance Sheet by approximately £3.8 million (2019: £4.5 million). A 100bps movement represents a reasonably positive change to the provision ratio based on average movements observed over the previous three years.

5. Segmental information

IFRS 8 *Operating Segments* requires operating segments to be consistent with the internal management reporting provided to the Chief Operating Decision Makers who are responsible for allocating resources and assessing the performance of the operating segments. The Group considers the Chief Executive Officer to be the Chief Operating Decision Maker.

The Group has identified its key product and service lines as being its operating segments because both performance and strategic decisions are analysed at this level. The IFRS 8 aggregation criteria have been met as a result of the Group's key product and service lines sharing common characteristics such as; similar types of customer for the products and services, similar nature of the product and service offerings, similar methods used to distribute the products and provide the services and similar regulatory and economic environment. As a result of these criteria being satisfied, the Group's operating segments constitute one reportable segment (retail) and all segmental information has been disclosed as such. The retail segment includes sales of new and used vehicles, together with the associated ancillary aftersales services of; servicing, body shop repairs and parts sales.

The Group has concluded that rental income arising from investment properties does not meet the quantitative thresholds required to constitute a reportable segment as defined in IFRS 8. Due to the non-material nature of these amounts, they are combined with the retail segment rather than being disclosed separately. As a result, all of the Group's activities are disclosed within the one reportable segment – the retail segment.

Geographical information

Revenue earned from sales is disclosed by origin and is not materially different from revenue by destination. All of the Group's revenue is generated in the United Kingdom.

Information about reportable segment

All segment revenue, profit before taxation, assets and liabilities are attributable to the principal activity of the Group being the provision of car and commercial vehicle sales, vehicle service and other related services.

The following tables show the disaggregation of revenue by major product/service lines for continuing operations:

	Revenue		Gross profit	
For the year ended 31 December 2020	**£'000**	**mix***	**£'000**	**mix***
New Vehicles	988,093	44.9%	65,086	27.4%
Used Vehicles	971,135	44.1%	63,712	26.8%
Aftersales	240,589	11.0%	108,573	45.8%
Internal / Other	(45,402)	-	819	-
Total	**2,154,415**	**100%**	**238,190**	**100%**

* mix calculation excludes Internal/Other sales.

Notes to the Consolidated Financial Statements

5. Segmental information *(continued)*

Information about reportable segment *(continued)*

For the year ended 31 December 2019	**Revenue £'000**	**mix***	**Gross profit £'000**	**mix***
New Vehicles	1,079,474	46.4%	80,148	30.8%
Used Vehicles	986,718	42.5%	65,456	25.2%
Aftersales	258,087	11.1%	114,572	44.0%
Internal / Other	(48,150)	-	625	-
Total	**2,276,129**	**100%**	**260,801**	**100%**

* mix calculation excludes Internal/Other sales.

6. Profit before taxation

Profit before taxation is arrived at after charging / (crediting):

	2020 £'000	**2019 £'000**
Depreciation of property, plant and equipment (note 15)	10,719	10,217
Amortisation of other intangibles (note 14)	448	421
Profit on disposal of assets classified as held for sale (note 7)	(1,563)	-
Loss on disposal of property plant and equipment	402	411
Impairment of property, plant and equipment (note 15)	25	708
(Profit) / loss on disposal of investment property (note 7)	(148)	72
Intangible assets impairment (note 14)	193	-
Depreciation of right-of-use assets (note 16)	11,348	9,357
Profit on disposal and remeasurement of right-of-use assets and lease liabilities (note 16)	(318)	(403)
Impairment loss on right-of-use assets (note 16)	527	1,081
Income received from subleasing right-of-use assets (note 16)	(185)	(201)

7. Non-underlying items

	2020 £'000	**2019 £'000**
Continuing operations		
Post-retirement benefits charge	-	(23)
Acquisition costs	(13)	(835)
Net recognition of restructuring costs	(2,070)	(2,123)
Profit on disposal of assets classified as held for sale	1,563	-
Profit / (loss) on disposal of investment property	148	(72)
Loss on impairment of goodwill and other tangible assets	(218)	-
Gain on revaluation of investment properties	-	610
	(590)	**(2,443)**

Details of current and deferred tax arising in relation to all income and expenditure classified as Non-Underlying Items are disclosed in Note 11(b) 'Taxation'.

Post-retirement benefits charge

See Note 32 'Pensions' for further details of the transaction giving rise to the post-retirement benefits charge.

Notes to the Consolidated Financial Statements

7. Non-underlying items *(continued)*

Acquisition costs

See Note 14(a) 'Goodwill and Other Intangible Assets' for further details of transactions giving rise to the acquisition costs.

Net recognition of restructuring costs

Restructuring costs are a continuation of items disclosed in previous periods and relate to the closure of four of the Group's franchised dealerships in 2020. Restructuring costs include closed site related costs of £1,127,000 (2019: £323,000), redundancy costs of £631,000 (2019: £303,000), tangible asset impairment reversals of £275,000 (2019: charge of £708,000), tangible asset loss on disposal of £134,000 (2019: £nil), right-of-use asset impairments and remeasurements of £406,000 (2019: £268,000) and other redundancy costs in the year totalled £47,000 (2019: £521,000).

Profit on disposal of assets classified as held for sale

In June 2020 the Group sold the freehold property classified as held for sale for a profit of £1,563,000 (2019: £nil).

Profit / (loss) on disposal of investment property

In November 2020 the Group sold a freehold investment property for a profit of £148,000 (2019: £nil). During 2019 additional legal fees of £72,000 were incurred in relation to the disposal of an investment property in 2018.

Loss on impairment of goodwill and other tangible assets

See Note 14(b) 'Goodwill and Other Intangible Assets' for further details of the transaction giving rise to the loss on impairment of goodwill and other intangible assets.

Gain on revaluation of investment properties

See Note 17 'Investment Property' for further details of the transaction giving rise to the gain on revaluation of investment properties.

8. Auditor's remuneration

During the year the Group obtained the following services from the Group's auditor:

	2020 £'000	**2019 £'000**
Audit services:		
– fees payable to the Company's auditor for the audit of the parent Company and consolidated financial statements	242	314
– audit of Group's subsidiaries	60	48
Fees payable to the Company's auditor for other services:		
– review of interim condensed consolidated financial statements	39	36
Total auditor's remuneration	**341**	**398**

Notes to the Consolidated Financial Statements

9. Employees and directors

a) Employee costs for the Group during the year

The aggregate remuneration of employees and directors was:

	2020 £'000	2019 £'000
Wages and salaries	134,917	128,370
Social security contributions and similar taxes	15,198	14,114
Other pension costs	2,993	2,732
Share based payments	561	1,124
	153,669	**146,340**

Employee costs stated above exclude £20,366,000 of grant income received under the Coronavirus Job Retention Scheme.

Employee costs are included in:

	2020 £'000	2019 £'000
Cost of sales	24,654	26,655
Net operating expenses	129,015	119,685
	153,669	**146,340**

The average number of employees (including Executive Directors) was:

	2020	2019
Retail	4,191	3,887
	4,191	**3,887**

The average number of Group employees excludes temporary and contract staff. As at 31 December 2020 the Group had 3,691 employees (2019: 4,228).

b) Directors' emoluments

Details of the remuneration of the Directors, their share incentives and pension entitlements are set out in the Directors' Remuneration Report on pages 86 to 89.

c) Key management compensation

The following table details the aggregate compensation paid in respect of key management personnel – which comprises both senior management who sit on the enlarged operational board and statutory directors.

	2020 £'000	2019 £'000
Wages and salaries	3,577	5,325
Social security contributions and similar taxes	1,055	786
Post-employment benefits	128	222
Compensation for loss of office	96	87
Share-based payments	561	1,124
	5,417	**7,544**

Details of the share option schemes are provided in Note 29 'Share-Based Payments'.

Notes to the Consolidated Financial Statements

10. Net finance costs

	2020 £'000	2019 £'000
Finance lease interest receivable	(83)	(63)
Stock financing charges and other interest	5,417	5,944
Interest payable on lease liabilities	3,103	3,068
Interest payable on bank borrowings	1,739	994
Net finance costs	**10,176**	**9,943**

11. Taxation

a) Taxation charge

	2020 £'000	2019 £'000
Current tax		
Current tax on profits for the year	3,855	4,201
Adjustments in respect of prior years	(154)	31
Total current tax charge	**3,701**	**4,232**
Deferred tax		
Origination and reversal of temporary differences	256	23
Impact of change in tax rates	2,380	-
Adjustments in respect of prior years	99	(190)
Total deferred tax charge / (credit) (note 25)	**2,735**	**(167)**
Total taxation charge	**6,436**	**4,065**

The income tax charge in both the current and prior year is attributable to profit from continuing operations.

Notes to the Consolidated Financial Statements

11. Taxation *(continued)*

b) Reconciliation of taxation charge

The tax charge for the year differs from the standard rate of corporation tax in the UK of 19%. The differences are explained below:

	2020 £'000	2020 %	2019 £'000	2019 %
Profit before taxation	20,356		19,643	
Notional taxation charge at corporation tax rate of 19.00% (2019: 19.00%)	**3,868**	**19.00%**	**3,732**	**19.00%**
Effects of:				
Tax effect of items not deductible for tax purposes	536	2.63%	519	2.64%
(Profit) / loss on disposal of non-qualifying assets	(284)	(1.40%)	39	0.20%
Recognition of deferred tax previously unrecognised	-	-	(3)	(0.02%)
Adjustments in respect of prior years	(55)	(0.27%)	(159)	(0.81%)
Utilisation of brought forward losses previously unrecognised	(9)	(0.04%)	(38)	(0.19%)
Deferred tax charge relating to increase in tax rates	2,380	11.69%	-	-
Effect of difference between closing deferred tax rate and current tax rate	-	-	(25)	(0.13%)
Taxation charge and effective tax rate	**6,436**	**31.62%**	**4,065**	**20.69%**

[1] Expenses not deductible predominantly consist of depreciation charges on non-qualifying assets and the creation of capital losses.

The analysis of the Group's effective tax rate between underlying and non-underlying activities is as follows:

	2020 Underlying £'000	2020 Non-underlying £'000	2020 Total £'000	2019 Underlying £'000	2019 Non-underlying £'000	2019 Total £'000
Profit before taxation	20,946	(590)	20,356	22,086	(2,443)	19,643
Taxation	4,425	2,011	6,436	4,177	(112)	4,065
Effective tax rate	**21.13%**	**(340.85%)**	**31.62%**	**18.91%**	**4.58%**	**20.69%**

Non-recurring items

The Group's total effective tax rate for 2020 of 31.62% was influenced by the deferred taxation charge arising due to the remeasurement of the Group's deferred taxation balances, required following the legislative change substantively enacted during the year. The total effective tax rate was also impacted by the non-deductible goodwill impairment charge and profits on disposal of freehold property. Excluding the impact of these items, the total effective tax rate for 2020 would have been 21.18%. This is consistent with the Group's underlying effective tax rate of 21.13%.

The Finance Act 2016 announced a reduction to the corporation tax rate to 17% with effect from 1 April 2020. In the Budget of 11 March 2020, the Chancellor of the Exchequer announced that this planned rate reduction to 17% would no longer be taking effect. The changes announced during the Budget of 11 March 2020 were substantively enacted as at the balance sheet date, therefore, all opening deferred taxation balances have been remeasured at 19%. The deferred taxation charge of £2,380,000 arising due to this remeasurement is presented in Non-Underlying Items on the basis that this charge is a consequence of a one-off, legislative change.

The prior year total effective tax rate of 20.69% was influenced by non-deductible acquisition costs and the impact of a return to provision true-up in relation to assets held for sale in 2018. Excluding the impact of these, the total effective tax rate for 2019 would have been 18.75%. This is consistent with the Group's underlying effective tax rate of 18.91%.

Notes to the Consolidated Financial Statements

11. Taxation *(continued)*

c) Factors affecting the taxation charge of future years

Future corporation tax charges, therefore, the Group's effective tax rate, may be affected by factors such as acquisitions, disposals, restructuring and tax regime reforms.

In the Budget of 3 March 2021, the Chancellor of the Exchequer announced a 6% increase in the standard rate of corporation tax, which will be applicable in the financial year beginning 1 April 2023. This change in the rate of corporation tax to 25% will affect the amount of future tax payments for which the Group will be responsible. Once substantively enacted, this rate change will also influence the measurement of the Group's deferred tax assets and liabilities.

12. Earnings per share

Basic and diluted earnings per share are calculated by dividing the earnings attributable to equity shareholders by the weighted average number of ordinary shares during the year and the diluted weighted average number of ordinary shares in issue in the year after taking account of the dilutive impact of shares under option of 2,926,659 at 31 December 2020 (2019: 2,002,304).

Underlying earnings per share are based on basic earnings per share adjusted for the impact of non-underlying items.

	2020 £'000	2019 £'000
Underlying net profit attributable to equity holders of the parent	16,521	17,909
Non-underlying items after tax	(2,601)	(2,331)
Net profit attributable to equity holders of the parent	**13,920**	**15,578**

	2020 Thousands	2019 Thousands
Number of shares		
Weighted average number of ordinary shares for the purpose of basic EPS	78,232	78,097
Effect of dilutive potential ordinary shares: share options	1,882	1,178
Weighted average number of ordinary shares for the purpose of diluted EPS	80,114	79,275

	2020 Pence	2019 Pence
Basic underlying earnings per share	21.1	22.9
Basic earnings per share	17.8	19.9
Diluted underlying earnings per share	20.6	22.6
Diluted earnings per share	17.4	19.7

13. Dividends

In light of the circumstances resulting from the ongoing COVID-19 pandemic, the previously proposed final dividend of 5.69p per share for the year ended 31 December 2019 was cancelled.

The Group similarly suspended the payment of an interim dividend in respect of the year ended 31 December 2020. (2019: An interim dividend of £2,228,000, representing a payment of 2.85p per ordinary share in issue at that time, was paid in September 2019.)

The Board is mindful of the importance of dividends to its shareholders and intends to resume the payment of dividends as soon as conditions allow.

Notes to the Consolidated Financial Statements

14. Goodwill and other intangible assets

	Goodwill £'000	Franchise agreements £'000	Software £'000	Total £'000
Cost				
Balance at 1 January 2019	48,629	72,137	1,631	122,397
Additions	-	-	982	982
Additions on acquisition	1,525	5,036	-	6,561
Disposals	-	-	(82)	(82)
At 31 December 2019	**50,154**	**77,173**	**2,531**	**129,858**
Additions	-	-	108	108
Additions on acquisition	724	350	-	1,074
Disposals	-	-	(632)	(632)
At 31 December 2020	**50,878**	**77,523**	**2,007**	**130,408**
Accumulated amortisation and impairment				
Balance at 1 January 2019	9,302	-	918	10,220
Charge for the year	-	-	421	421
Impairment	-	-	(43)	(43)
At 31 December 2019	**9,302**	**-**	**1,296**	**10,598**
Charge for the year	-	-	448	448
Disposals	-	-	(364)	(364)
Impairment	193	-	-	193
At 31 December 2020	**9,495**	**-**	**1,380**	**10,875**
Net book value				
At 1 January 2019	39,327	72,137	713	112,177
At 31 December 2019	40,852	77,173	1,235	119,260
At 31 December 2020	**41,383**	**77,523**	**627**	**119,533**

a) Acquisitions – current period

On 10 July 2020, the Group acquired the trade and assets of a Volkswagen dealership in Aylesbury. Acquisition of this dealership brought to a successful conclusion the strategic acquisition of eight Volkswagen Group UK franchises announced in December 2019. This acquisition is part of the Group's stated strategy to grow with existing brand partners in new geographic territories by adding further sites in excellent locations.

The estimated identifiable assets and liabilities at the date of acquisition are stated at their provisional fair value as set out below. The goodwill arising on acquisition is attributed to the expected synergies and benefits associated with the increased brand representation which has resulted in the Group becoming Volkswagen Group UK's largest partner by number of locations.

Notes to the Consolidated Financial Statements

14. Goodwill and other intangible assets *(continued)*

a) Acquisitions – current period *(continued)*

	Fair value of net assets acquired
	£'000
Intangible assets	350
Property, plant and equipment	569
Right-of-use assets	670
Inventories	1,333
Trade and other receivables	26
Cash and cash equivalents	1
Deferred tax liabilities	(49)
Trade and other payables	(9)
Lease liabilities	(670)
Net assets acquired	**2,221**
Goodwill	81
Total cash consideration	**2,302**

The completion payment for the Aylesbury VW business included the consideration of £2,302,000 as set out above, and a further payment of £643,000 held back from the acquisitions completed in December 2019 as an incentive to the vendor to complete the Aylesbury sale. Had the Aylesbury sale not been completed this further payment would not have been due.

The results of the acquired dealership were consolidated into the Group's results from 10 July 2020. For the period from acquisition to 31 December 2020, the revenues and the loss before tax generated by these dealership were immaterial in the context of the Group's revenues and profit before tax.

If the acquisition had taken effect at the beginning of the reporting period in which the acquisition occurred (1 January 2020), on a pro forma basis, the change in revenue and profit before tax of the combined Group for the year ended 31 December 2020 would have been immaterial in the context of the Group.

Transaction costs arising on acquisitions in 2020 totalled £13,000. These costs have been recognised in net operating expenses in the Consolidated Statement of Comprehensive Income and are part of operating cash flows in the Consolidated Cash Flow Statement.

a) Acquisitions – prior period

The following acquisitions are part of the Group's stated strategy to grow with existing brand partners in new geographic territories by adding further sites in excellent locations that are contiguous to the Group's existing sites.

The Group acquired the trade and assets of the following dealerships:

- ŠKODA Leicester and Nottingham on 31 January 2019;
- ŠKODA Northampton, Bedford, Letchworth and Harlow on 28 February 2019;
- Honda Reading and Newbury on 2 September 2019; and
- Volvo Derby on 20 December 2019.

Notes to the Consolidated Financial Statements

14. Goodwill and other intangible assets *(continued)*

a) Acquisitions – prior period *(continued)*

The fair value of the net assets at the date of the acquisition are as set out below.

	Fair value of net assets acquired
	£'000
Intangible assets	1,985
Property, plant and equipment	907
Right-of-use assets	6,020
Inventories	3,886
Trade and other receivables	12
Trade and other payables	(460)
Lease liabilities	(5,870)
Provisions	(552)
Deferred tax liabilities	(7)
Net assets acquired	**5,921**
Goodwill	1,244
Total cash consideration	**7,165**

The results of the acquired ŠKODA, Honda and Volvo dealerships were consolidated into the Group's results from the relevant date of acquisition. For the period from acquisition to 31 December 2019, the revenues and the loss before tax generated by these dealerships were immaterial in the context of the Group's revenues and profit before tax.

If the acquisitions had taken effect at the beginning of the reporting period in which the acquisition occurred (1 January 2019), on a pro forma basis, revenue of the combined Group for the year ended 31 December 2019 would have been increased by £40,857,000 and profit before tax would have been reduced by £266,000.

On 17 December 2019, the Group acquired the trade and assets of five Volkswagen dealerships, a Volkswagen commercial vehicle franchise and body shop and one ŠKODA dealership.

	Fair value of net assets acquired
	£'000
Intangible assets	3,051
Property, plant and equipment	3,681
Right-of-use assets	20,388
Inventories	12,916
Cash and cash equivalents	2
Trade and other payables	(655)
Lease liabilities	(18,487)
Provisions	(225)
Deferred tax liabilities	(720)
Net assets acquired	**19,951**
Goodwill	281
Total cash consideration	**20,232**

Notes to the Consolidated Financial Statements

14. Goodwill and other intangible assets *(continued)*

a) Acquisitions – prior period *(continued)*

The results of the acquired dealerships were consolidated into the Group's results from 18 December 2019. For the period from acquisition to 31 December 2019, the revenues and the loss before tax generated by these dealerships were immaterial in the context of the Group's revenues and profit before tax.

If the acquisition had taken effect at the beginning of the reporting period in which the acquisition occurred (1 January 2019), on a pro forma basis, revenue for the combined Group for the year ended 31 December 2019 would have been increased by £167,749,000 and profit before tax would have been reduced by £1,657,000.

Transaction costs arising on acquisitions in 2019 totalled £835,000. These costs have been recognised in net operating expenses in the Consolidated Statement of Comprehensive Income and are part of operating cash flows in the Consolidated Cash Flow Statement.

b) Impairment testing

For the purpose of impairment testing, goodwill and franchise agreements are allocated to a cash generating unit ("CGU"), or to the smallest group of CGUs where it is not possible to apportion the goodwill or intangible assets at the individual CGU level. Each CGU or group of CGUs to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for management purposes. Goodwill and intangible assets arising on business combinations are allocated to CGUs by determining which CGU is expected to benefit from the synergies of the business combination.

The Group's CGUs are groups of dealerships connected by manufacturer brand. The allocation of goodwill and indefinite lived intangible assets to the CGU groups is as follows:

	Goodwill £'000	Franchise Agreements £'000
Volkswagen Group*	17,766	35,597
BMW/MINI	1,461	8,345
Jaguar/Land Rover	8,003	14,358
Mercedes-Benz/Smart	11,182	19,201
Other	2,971	22
Total	**41,383**	**77,523**

*Volkswagen Group includes Volkswagen, Audi, ŠKODA and SEAT brands

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable and a potential impairment may be required. Impairment reviews have been performed for all groups of CGUs for the years ended 31 December 2020 and 2019 and for the six months ended 30 June 2020.

Valuation basis

The recoverable amount of the Group's CGUs is determined by reference to their value-in-use to perpetuity calculated using a discounted cash flow approach, with a pre-tax discount rate applied to the projected, risk-adjusted pre-tax cash flows and terminal value. Where higher, the fair value of groups of CGUs, less costs of disposal, is taken as the recoverable amount.

Notes to the Consolidated Financial Statements

14. Goodwill and other intangible assets *(continued)*

b) Impairment testing *(continued)*

Period of specific projected cash flows

The value-in-use of each CGU is calculated using cash flow projections for a five-year period; from 1 January 2021 to 31 December 2025.

These projections (the "Base Case") are developed from the Board approved budget for the year ending 31 December 2021 which, as described under "Going Concern" in Note 1, has been updated to reflect the expected impact of the additional trading restrictions in response to the COVID-19 pandemic which were announced during December 2020.

The key assumptions in the forecast on which the cash flow projections are based relate to expectations of sales volumes and margins and expectations around changes in the operating cost base. The assumptions made are based on the management's current understanding the extent and duration of the COVID-19 related trading restrictions imposed by the UK Government, the current macro-economic context and outlook, past experience adjusted for expected changes, and external sources of information. The cash flows include ongoing capital expenditure required to maintain the Group's dealership network but exclude any growth capital expenditure projects to which the Group was not committed at the reporting date.

Discount rate

The cash flow projections have been discounted using a rate derived from the Group's pre-tax weighted average cost of capital adjusted for industry and market risk. The discount rate used is 7.8% (2019: 8.0%).

Terminal growth rate

The cash flows after the forecast period are extrapolated into the future over the useful economic life of the group of CGUs using a steady or declining growth rate that is consistent with that of the product and industry. These cash flows form the basis of what is referred to as the terminal value. The growth rate to perpetuity beyond the initial budgeted cash flows applied in the value-in-use calculations to arrive at a terminal value is 2% (2019: 2%). Terminal growth rates are based on management's estimate of future long-term average growth rates.

Conclusion

Under the Base Case the Group's CGUs all have significant headroom in respect of the carrying value of goodwill and intangible assets with the exception of the Vauxhall CGU which is included with the "Other" CGU Group. Goodwill of £193,000 is assigned to the Vauxhall CGU.

Vauxhall

Following the closure of the Group's Knebworth Vauxhall site and a further deterioration in the performance of the two remaining sites the projected cash flows are no longer sufficient to support the carrying value of the assigned goodwill and intangible assets.

Therefore at 31 December 2020 the Group recorded a non-cash impairment charge of £218,000 (2019: £nil). This impairment charge is split as £193,000 of Goodwill and £25,000 of Plant & Equipment assigned to the Vauxhall CGU and is recorded within net operating expenses in non-underlying items in the Consolidated Statement of Comprehensive Income.

Update on BMW/MINI

The Group's BMW/MINI franchises have faced several challenges in recent years brought about largely due to an oversupply of vehicles and the disruption caused by vehicle recalls.

During 2020 the business has shown substantial improvement despite the trading uncertainty experienced during the year. A number of the performance improvement initiatives have been successfully delivered and the cash flow projections for the CGU indicate a continued improvement over the plan period as other management and manufacturer initiatives are delivered.

Following the improvement delivered in 2020 the Board has approved the forecast which supports the carrying value of the BMW/MINI goodwill as at 31 December 2020. Inherent in this assessment are a number of assumptions related to the timing of the lifting of the COVID-19 related trading restrictions, the severity and duration of the resulting economic down-turn, the speed and sustainability of the subsequent recovery, and the continued successful delivery of the local management and manufacturer initiatives.

Notes to the Consolidated Financial Statements

14. Goodwill and other intangible assets *(continued)*

b) Impairment testing *(continued)*

Sensitivity to changes in key assumptions

Impairment testing is dependent on estimates and judgements, particularly as they relate to the forecasting of future cash flows, the discount rates selected and expected long-term growth rates.

The Group has performed a sensitivity analysis on the impairment tests under the Base Case using four scenarios:

- where the discount rate decreases by 100 basis points.
- where the discount rate increases by 100 basis points.
- where the terminal value growth rate decreases by 50 basis points.
- where the terminal value growth rate increases by 50 basis points.

In order to assess the possibility of future impairments, the Group has performed additional scenarios analysis, using the forecasts prepared to support the Directors' consideration of the going concern basis of preparation. The scenario cases are as follows:

- An upside case where performance in 2021 returns to the level anticipated in the original Board approved budget.
- A short-term downside case, where the lockdown continues for the whole of the first quarter of 2020, resulting in 25% loss of sales in January and February and 45% loss of sales in March offset by a 10% saving in overhead costs during the lockdown period. There is a return to normal trading performance in 2022.
- A medium-term downside case, in which there is a lockdown for the first quarter with the impact described above, followed by further lockdown for the whole of the last quarter of 2021. The lockdown in the last quarter results in a 25% loss of sales. These losses are offset by a 10% saving in overhead costs during both lockdown periods. There is a return to normal trading performance in 2022.
- A long-term downside case, in which there are lockdowns, and the associated trading impacts as set out under the "medium-term downside" case described above, in earnings in 2022 are 50% lower due to the macro-economic conditions arising from the disruption seen during 2020 and forecast for 2021. There is then a return to normal trading performance in 2023.

Of all of the above sensitivity and scenario cases, the only one which would result in the recognition of an impairment charge is an increase in the discount rate by 100 basis points. Under this sensitivity, a minimal impairment of £143,000 would be indicated against the BMW/MINI CGU. The Directors consider the increase in risk expressed by such a significant increase in the discount rate to be a remote possibility.

Notes to the Consolidated Financial Statements

15. Property, plant and equipment

	Freehold land and buildings £'000	Leasehold improvements £'000	Plant and equipment £'000	Assets under construction £'000	Total £'000
Cost					
Balance at 1 January 2019	118,781	22,040	39,909	9,501	190,231
Additions at cost	4,937	418	4,519	8,827	18,701
Additions on acquisition	1,991	734	1,863	-	4,588
Disposals	-	(595)	(3,042)	-	(3,637)
Transfers to investment property	(441)	-	-	-	(441)
Transfers	10,353	4,372	1,918	(16,643)	-
At 31 December 2019	**135,621**	**26,969**	**45,167**	**1,685**	**209,442**
Additions at cost	3,247	312	2,613	4,179	10,351
Additions on acquisition	-	439	130	-	569
Disposals	-	(2,628)	(8,832)	-	(11,460)
Transfers to asset held for sale	(1,325)	-	-	-	(1,325)
Transfers	25	2,274	1,506	(3,805)	-
At 31 December 2020	**137,568**	**27,366**	**40,584**	**2,059**	**207,577**
Accumulated depreciation and impairment					
Balance at 1 January 2019	10,596	6,166	25,310	-	42,072
Charge for the year	1,850	2,137	6,230	-	10,217
Disposals	-	(184)	(2,661)	-	(2,845)
Impairment	-	502	206	-	708
Transfers to investment property	(3)	-	-	-	(3)
At 31 December 2019	**12,443**	**8,621**	**29,085**	**-**	**50,149**
Charge for the year	2,002	2,488	6,229	-	10,719
Disposals	-	(2,474)	(8,523)	-	(10,997)
Impairment	-	-	25	-	25
Transfers to asset held for resale	(622)	-	-	-	(622)
At 31 December 2020	**13,823**	**8,635**	**26,816**	**-**	**49,274**
Net book value					
At 1 January 2019	108,185	15,874	14,599	9,501	148,159
At 31 December 2019	123,178	18,348	16,082	1,685	159,293
At 31 December 2020	**123,745**	**18,731**	**13,768**	**2,059**	**158,303**

As at 31 December 2020, the Group had capital commitments totalling £4.5m (2019: £6.9m) relating to ongoing construction projects.

2020

Transfers to assets held for sale

In October 2020, the Group ceased commercial activities at two of its freehold properties. As the properties were no longer being used for the commercial activity of the business and are actively being marketed for sale, the assets have been transferred to assets classified as held for sale (see Note 21 'Assets Classified as Held for Sale').

Notes to the Consolidated Financial Statements

15. Property, plant and equipment *(continued)*

2019

Impairments

The impairment loss of £708,000 represents the impairment of leasehold improvements and plant and equipment in the franchised dealership which closed in October 2019 and the franchised dealership due to close in 2020. On closure of these dealerships these assets ceased to have any value. This loss was recognised in the Consolidated Statement of Comprehensive Income in net operating expenses.

16. Leases

a) Group as lessee

The Group has lease contracts for land and buildings and vehicles. Leases of land and buildings have an average term of between 20 and 25 years. Leases of vehicles have an average term of 3 years.

The following are amounts recognised in the Consolidated Statement of Comprehensive Income:

	2020 **£'000**	**2019** **£'000**
Depreciation of right-of-use assets	11,348	9,357
Profit on disposal and remeasurement of right-of-use assets and lease liabilities	(318)	(403)
Impairment loss on right-of-use assets	527	1,081
Expenses relating to short-term leases	295	209
Expenses relating to leases of low-value assets	744	847
Interest payable on lease liabilities	3,103	3,068
Total amount recognised in profit or loss	**15,699**	**14,159**

The Group had total cash outflows in respect of leases in the year of £11,323,000 (2019: £9,780,000). The Group also had non-cash additions to right-of-use assets and lease liabilities of £3,627,000 (2019: £28,778,000).

Notes to the Consolidated Financial Statements

16. Leases *(continued)*

a) Group as lessee *(continued)*

Set out below are the carrying amounts of the right-of-use assets recognised and the movements during the year:

	Land and buildings £'000	Vehicles £'000	Total £'000
Cost			
At 1 January 2019	126,072	856	126,928
Additions	2,248	122	2,370
Additions on acquisition	26,408	-	26,408
Disposals	(1,206)	(234)	(1,440)
Remeasurement	5,324	-	5,324
At 31 December 2019	**158,846**	**744**	**159,590**
Additions	2,662	295	2,957
Additions on acquisition	670	-	670
Disposals	(6,655)	(367)	(7,022)
Remeasurement	(867)	-	(867)
At 31 December 2020	**154,656**	**672**	**155,328**
Accumulated depreciation and impairment			
At 1 January 2019	41,101	400	41,501
Charge for the year	8,991	366	9,357
Disposals	(82)	(234)	(316)
Impairment	1,081	-	1,081
At 31 December 2019	**51,091**	**532**	**51,623**
Charge for the year	11,059	289	11,348
Disposals	(6,635)	(367)	(7,002)
Impairment	527	-	527
At 31 December 2020	**56,042**	**454**	**56,496**
Net book value			
At 31 December 2019	107,755	212	107,967
At 31 December 2020	**98,614**	**218**	**98,832**

2020

Impairments

The premises used by the franchised dealerships closed in October 2020 became vacant on cessation of trade. The right of-use assets have therefore been fully impaired. This impairment loss of £527,000 was recognised in the Consolidated Statement of Comprehensive Income in net operating expenses.

2019

Impairments

The premises used by the franchised dealership closed in October 2019 became vacant on cessation of trade. The right-of-use asset has therefore been fully impaired. This impairment loss of £1,081,000 was recognised in the Consolidated Statement of Comprehensive Income in net operating expenses.

Notes to the Consolidated Financial Statements

16. Leases *(continued)*

a) Group as lessee *(continued)*

The maturity analysis of the Group's lease liabilities is as follows:

	2020 £'000	2019 £'000
Within 1 year	10,961	10,689
Between 1 and 5 years	39,416	40,215
After 5 years	48,967	57,181
Total lease liabilities	**99,344**	**108,085**

The percentages in the table below reflect the current proportions of lease payments that are either fixed or variable.

	Lease contracts number	Fixed payments %	Variable payments %
31 December 2020			
Property leases with payments linked to inflation	9	-	13%
Property leases with fixed payments	112	85%	-
Vehicle leases	81	2%	-
	202	**87%**	**13%**

	Lease contracts number	Fixed payments %	Variable payments %
31 December 2019			
Property leases with payments linked to inflation	9	-	12%
Property leases with fixed payments	111	85%	-
Vehicle leases	104	3%	-
	224	**88%**	**12%**

b) Group as lessor – finance leases

The Group has non-cancellable leases, as intermediate lessor, of leases for properties. The terms of these leases vary. The following are amounts recognised in the Consolidated Statement of Comprehensive Income:

	2020 £'000	2019 £'000
Income received from subleasing right-of-use assets	(185)	(201)
Finance income on net investment in leases	(83)	(63)
Total amount recognised in profit or loss	**(268)**	**(264)**

Notes to the Consolidated Financial Statements

16. Leases *(continued)*

b) Group as lessor – finance leases *(continued)*

Future minimum lease payments receivable for property under non-cancellable finance leases are set out below:

	2020 £'000	2019 £'000
Within 1 year	185	185
Between 1 and 2 years	185	185
Between 2 and 3 years	185	185
Between 3 and 4 years	185	185
Between 4 and 5 years	185	185
After 5 years	969	1,154
Total undiscounted lease payments receivable	**1,894**	**2,079**
Unearned finance income	(452)	(535)
Net investment in the lease	**1,442**	**1,544**

	2020 £'000	2019 £'000
Current (note 19)	108	102
Non-current	1,334	1,442
Total finance lease receivable	**1,442**	**1,544**

c) Group as lessor – operating leases

The Group has entered into non-cancellable operating leases, as lessor on property included in investment property and as an intermediate lessor on head leases of property assets. The terms of these leases vary. Future minimum lease payments receivable for property under non-cancellable operating leases are as set out below.

	2020 £'000	2019 £'000
Within 1 year	93	326
Between 1 and 2 years	54	246
Between 2 and 3 years	-	208
Between 3 and 4 years	-	154
Between 4 and 5 years	-	154
After 5 years	-	602
	147	**1,690**

FINANCIAL STATEMENTS

Notes to the Consolidated Financial Statements

17. Investment property

	Freehold land and buildings £'000	Right-of-use asset £'000	Total £'000
Fair value at 1 January	2,000	590	2,590
Transfer from freehold land and buildings	438	-	438
Change in fair value	140	470	610
Fair value at 31 December 2019	**2,578**	**1,060**	**3,638**
Disposals	(2,140)	-	(2,140)
Fair value at 31 December 2020	**438**	**1,060**	**1,498**

Investment properties are stated at fair value; a formal valuation is required at least every three years by a Chartered Surveyor on an open market value basis. The most recent full valuation of investment properties was carried out as at 31 December 2019 by BNP Paribas Real Estate. A revaluation surplus of £610,000 was taken to the Consolidated Statement of Comprehensive Income in 2019.

The Directors assessed the valuation of property based on a desktop review carried out by BNP Paribas Real Estate as at 18 December 2020; no indicators were identified which signalled a material change in the fair value of investment properties As such, investment properties continue to be held at their 31 December 2019 valuations.

The properties are rented out to third parties. Rental income of £448,000 was recognised in 2020 (2019: £383,000). There are no restrictions on the Group's ability to dispose of the investment properties or use any funds arising on disposal. There are no contractual commitments for further development of the investment properties.

18. Inventories

	2020 £'000	2019 £'000
Inventories held for resale	374,347	480,087
Less: provisions	(11,468)	(9,387)
Inventories	**362,879**	**470,700**

Inventories held for resale include new and used vehicles held for resale, vehicle parts and other inventory. As at 31 December 2020 £364,883,000 (2019: £443,749,000) of finished goods are held under vehicle financing arrangements (see Note 22 'Trade and Other Payables').

Inventory recognised in cost of sales during the year as an expense was £1,870 million (2019: £1,979 million).

19. Trade and other receivables

	2020 £'000	2019 £'000
Amounts falling due within one year:		
Trade receivables	29,838	50,269
Other receivables	28,937	28,879
Amounts due from related undertakings (note 31)	816	3
Prepayments	6,081	8,209
Finance lease receivable (note 16)	108	102
Trade and other receivables	**65,780**	**87,462**

Other receivables include accrued supplier income of £11,687,000 (2019: £17,385,000). More information in respect of principal risk management is provided in Note 26 'Financial Instruments – Risk Management'.

Notes to the Consolidated Financial Statements

19. Trade and other receivables *(continued)*

All financial assets included within trade and other receivables are held at amortised cost. The carrying amount of trade and other receivables approximates fair value.

20. Cash and cash equivalents

	2020 £'000	2019 £'000
Cash at bank and in hand	33,844	110

Cash and cash equivalents are held at amortised cost. Fair value approximates carrying value.

Cash at bank earns interest at floating interest rates determined by reference to short-term benchmark rates.

21. Assets classified as held for sale

	2020 £'000	2019 £'000
Non-current assets held for sale		
Freehold land and buildings		
At 1 January	797	797
Transfer from property, plant and equipment	703	-
Disposals	(797)	-
At 31 December	**703**	**797**

Following the closure of two of the Group's dealerships in October 2020, the decision was taken to sell the freehold properties owned by the Group and used by the dealership. The freehold properties were reclassified as held for sale and transferred from property, plant and equipment into current assets. On reclassification, the freehold properties were measured at their carrying values, which was the lower of their carrying value and fair value less costs to sell at the date of reclassification (fair value was determined by a desktop valuation from Chartered Surveyors). No impairments was required as fair value less costs to sell exceed the asset's carrying value.

Following the closure of one of the Group's dealerships in October 2018, the decision was taken to sell the freehold property owned by the Group and used by the dealership. This property was subsequently sold in June 2020. Profits on disposal of assets classified as held for sale are included in Note 7 'Non-Underlying Items'.

22. Trade and other payables

	2020 £'000	2019 £'000
Current - trade and other payables		
Trade payables:		
- vehicle financing arrangements	364,883	443,749
- other trade payables	71,024	102,170
Contract liabilities	22,256	10,502
Amounts owed to related undertakings (note 31)	354	42
Other tax and social security payable	4,910	4,803
Other payables	9,657	1,893
Accruals	18,164	14,851
Total current trade and other payables	**491,248**	**578,010**

FINANCIAL STATEMENTS

Notes to the Consolidated Financial Statements

22. Trade and other payables *(continued)*

	2020 £'000	2019 £'000
Non-current – other payables		
Contract liabilities	6,008	6,371
Total non-current other payables	**6,008**	**6,371**

All financial liabilities included within current trade and other payables are held at amortised cost; carrying value is a reasonable approximation of fair value.

Vehicle financing arrangements

The Group finances the purchases of new and used vehicle inventories using vehicle funding facilities' provided by various lenders including the captive finance companies associated with brand partners. These finance arrangements generally have a maturity of 90 days or less and the Group is normally required to repay amounts outstanding on the earlier of the sale of the vehicles that have been funded under the facilities or the stated maturity date.

Amounts due to finance companies in respect of vehicle funding are included within trade payables and disclosed under vehicle financing arrangements. Related cash flows are reporting within cash flows from operating activities within the consolidated statement of cash flows.

Vehicle financing facilities are subject to LIBOR-based (or similar) interest rates. The interest incurred under these agreements is included within finance costs and classified as stock holding interest.

Contract liabilities

	2020 £'000	2019 £'000
OEM contributions	310	949
Commission income	22,069	10,238
Service packages	5,885	5,686
	28,264	**16,873**

Contract liabilities include OEM contributions received in advance from manufacturer's which the Group acts as principal.

	2020 £'000	2019 £'000
At 1 January	949	590
Deferred during the year	45	517
Recognised as revenue during the year	(684)	(158)
At 31 December	**310**	**949**

Contract liabilities include commission income received in advance from the various finance and insurance companies for which the Group acts as agent.

	2020 £'000	2019 £'000
At 1 January	10,238	18,165
Deferred during the year	24,179	4,408
Recognised as revenue during the year	(12,348)	(12,335)
At 31 December	**22,069**	**10,238**

Contract liabilities include service packages received in advance from customers for which the Group acts as principal.

Notes to the Consolidated Financial Statements

22. Trade and other payables *(continued)*

Contract liabilities *(continued)*

	2020 £'000	2019 £'000
At 1 January	5,686	5,596
Deferred during the year	17,311	21,001
Recognised as revenue during the year	(17,112)	(20,911)
At 31 December	**5,885**	**5,686**

23. Loans and borrowings

	2020 Nominal and book value £'000	2019 Nominal and book value £'000
Current loans and borrowings		
Mortgages	641	641
Bank loan	-	25,000
	641	**25,641**
Non-current loans and borrowings		
Mortgages	4,383	5,024
	4,383	5,024
Total loans and borrowings	**5,024**	**30,665**

Mortgages comprise amounts borrowed from commercial financial institutions and are secured by fixed charges over specified property assets of certain subsidiaries of the Group.

Committed facilities

The Group has a revolving credit facility of £120,000,000 of which £nil was drawn at 31 December 2020 (2019: £25,000,000). This facility includes access to an overdraft facility of £25,000,000. This facility is available for general corporate purposes including acquisitions or working capital requirements. The facility is held in a cash pooling arrangement and balances have been offset in the Consolidated Balance Sheet.

The facility is secured by cross guarantees granted by the certain members of the Group. The facility is available until January 2023.

More information in respect of principal risk management is provided in Note 26 'Financial Instruments – Risk Management'.

The carrying amount of current loans and borrowings approximate fair value.

The carrying amounts and fair value of the non-current loans and borrowings are as below. The fair values are based on cash flows discounted using the prevailing rates.

	2020 Carrying amount £'000	2020 Fair value £'000	2019 Carrying amount £'000	2019 Fair value £'000
Mortgages	4,383	3,607	5,024	3,951

Notes to the Consolidated Financial Statements

23. Loans and borrowings *(continued)*

Interest rate profile of borrowings

	2020 Debt £'000	2020 Average effective interest rate	2019 Debt £'000	2019 Average effective interest rate
Mortgages	641	2.16	5,665	2.40
Bank loan	-	-	25,000	1.92
Weighted average cost of drawn borrowings	**641**	**2.16**	**30,665**	**2.01**

All loans and borrowings are subject to floating rates of interest which are determined by reference to official market rates such as LIBOR or the Finance House Base Rate.

Maturity profile of borrowings

The Group's borrowings have the following maturity profile:

	2020 £'000	2019 £'000
Within 1 year	641	25,641
Between 1 and 5 years	2,565	2,565
After 5 years	1,818	2,459
Total loans and borrowings	**5,024**	**30,665**

All loans and borrowings are subject to floating rates of interest which are determined by reference to official market rates such as LIBOR.

24. Provisions

	Dilapidations £'000	Closed sites £'000	Other £'000	Total £'000
At 1 January 2020	1,198	415	1,771	3,384
Amount provided in the year	647	290	-	937
Amount released in the year	(715)	(126)	(103)	(944)
Amount utilised in the year	(136)	(354)	(157)	(647)
As at 31 December 2020	**994**	**225**	**1,511**	**2,730**

Provisions have been allocated between current and non-current as follows:

	2020 £'000	2019 £'000
Current	2,190	3,085
Non-current	540	299
Total provisions	**2,730**	**3,384**

Dilapidations and closed sites

The Group manages its portfolio carefully and either closes or sells sites which no longer fit with the Group's strategy. When sites are closed or sold, provisions are made for any residual costs or commitments.

The Group operates from a number of leasehold premises under full repairing leases. The provision recognises that repairs are required to put the buildings back into the state of repair required under the leases.

Notes to the Consolidated Financial Statements

24. Provisions *(continued)*

Other

Other provisions include a total amount of £1,167,000 (2019: £1,167,000) in respect of the Group's estimated financial exposure under open insurance claims and for potential output VAT payable arising from uncertain VAT treatment of specific vehicle purchases. Conclusion of these open positions was expected to occur in 2020, however due to delays and the impact of COVID-19, these are now expected to conclude in 2021.

25. Deferred tax assets and liabilities

The analysis of deferred tax assets and deferred tax liabilities is as below.

	2020 £'000	2019 £'000
Deferred tax liabilities:		
– Deferred tax liability to be recovered after more than 12 months (note 25a)	(42,056)	(39,227)
– Deferred tax assets to be offset against liabilities (note 25b)	19,341	19,093
Net deferred tax liabilities	**(22,715)**	**(20,134)**

The movement on deferred tax balances is as follows:

	2020 £'000	2019 £'000
At 1 January	(20,134)	(19,574)
Impact of change in accounting policy (note 3)	203	-
Deferred tax acquired	(49)	(727)
Income statement (charge) / credit (note 11)	(2,735)	167
At 31 December	**(22,715)**	**(20,134)**

a) Deferred tax liabilities

The movement in deferred tax liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Accelerated tax depreciation £'000	Fixed assets acquired on a business combination £'000	Roll over relief £'000	Assets previously qualifying for IBAs £'000	Investment properties £'000	Intangible assets and goodwill £'000	Right-of-use asset £'000	Total £'000
As at 1 January 2019	**1,242**	**5,131**	**1,254**	**196**	**28**	**13,828**	**13,825**	**35,504**
Acquisitions	-	328	-	-	-	-	4,489	4,817
Charged/(credited) to the income statement - current year	(148)	(177)	-	(25)	80	172	(682)	(780)
Charged/(credited) to the income statement - prior year	(317)	3	-	-	-	-	-	(314)
At 31 December 2019	**777**	**5,285**	**1,254**	**171**	**108**	**14,000**	**17,632**	**39,227**
Acquisitions	-	49	-	-	-	-	127	176
Charged/(credited) to the income statement - current year	(44)	(203)	(79)	(27)	(121)	270	(1,849)	(2,053)
Charged to the income statement - prior year	34	15	-	-	-	32	-	81
Impact of corporation tax rate reduction reversal	95	623	148	20	13	1,651	2,075	4,625
At 31 December 2020	**862**	**5,769**	**1,323**	**164**	**-**	**15,953**	**17,985**	**42,056**

Notes to the Consolidated Financial Statements

25. Deferred tax assets and liabilities *(continued)*

b) Deferred tax assets

The movement in deferred tax assets during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Capital losses £'000	Disposals on a sale basis £'000	Lease liabilities £'000	Other temporary differences £'000	Total £'000
As at 1 January 2019	**368**	**209**	**14,515**	**838**	**15,930**
Acquisitions	-	-	4,090	-	4,090
(Charged)/credited to the income statement					
- current year	12	-	(603)	(212)	(803)
(Charged)/credited to the income statement					
- prior year	30	(209)	-	55	(124)
At 31 December 2019	**410**	**-**	**18,002**	**681**	**19,093**
Impact of change in accounting policy (note 3)	-	-	203	-	203
At 1 January 2020	**410**	**-**	**18,205**	**681**	**19,296**
Acquisitions	-	-	127	-	127
(Charged)/credited to the income statement					
- current year	(228)	-	(1,775)	(306)	(2,309)
(Charged)/credited to the income statement					
- prior year	-	-	(30)	12	(18)
Impact of corporation tax rate reduction reversal	48	-	2,115	82	2,245
At 31 December 2020	**230**	**-**	**18,642**	**469**	**19,341**

Deferred tax assets are recognised for tax loss carry forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable.

	2020 Tax losses £'000	2020 Unrecognised deferred tax asset £'000	2019 Tax losses £'000	2019 Unrecognised deferred tax asset £'000
Trading losses				
Available indefinitely	211	40	211	36
At 31 December	**211**	**40**	**211**	**36**

26. Financial instruments - risk management

a) Financial instruments by category

The Group's principal financial instruments consist of cash and cash equivalents, bank overdrafts and loans and borrowings. The main purpose of these financial instruments is to manage the Group's funding and liquidity requirements. The Group has other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The table below analyses financial instruments by assets type. All financial liabilities are carried at amortised cost in both 2020 and 2019. For all financial assets and liabilities, fair value equals carrying value except for long-term borrowings as disclosed in Note 23.

Notes to the Consolidated Financial Statements

26. Financial instruments – risk management *(continued)*

a) Financial instruments by category *(continued)*

	2020 £'000	2019 £'000
Assets as per the Consolidated Balance Sheet		
Finance lease receivables	1,442	1,544
Trade and other receivables excluding prepayments (note 19)	59,699	79,253
Cash and cash equivalents (note 20)	33,844	110
Total financial assets	**94,985**	**80,907**
Liabilities as per the Consolidated Balance Sheet		
Loans and borrowings (note 23)	5,024	30,665
Lease liabilities (note 16)	99,344	108,085
Trade and other payables excluding non-financial liabilities (note 22)	492,346	579,578
Total financial liabilities	**596,714**	**718,328**

b) Risk management

The Group's activities expose it to the following financial risks:

- Market risk;
- Credit risk; and
- Liquidity risk.

Each of these risks are managed in accordance with Board-approved policies. Risk management policies and systems have been established and are reviewed regularly to reflect changes in market conditions and the Group's activities. These policies are set out below.

The Group's financial risk management processes seek to enable the early identification, evaluation and effective management of the significant risks facing the business.

The Group does not use financial derivatives and does not enter into trade financial instruments, including derivative financial instruments, for speculative purposes.

Market risk

Market risk is the risk of movements in the fair value of future cash flows of a financial instrument or forecast transaction as underlying market prices change. The only market risk to which the Group is exposed is changes in interest rates. The Group's business activities neither expose it to commodity price risk nor foreign currency risk.

Interest rate risk is the risk that a change in interest rates adversely effects the Group's performance or ability to settle financial obligations and comprises two elements.

Interest price risk

This risk results from financial instruments bearing fixed interest rates; changes in floating interest rates therefore affect the fair value of these fixed rate financial instruments.

The Group has no debt subject to fixed interest rates and is, therefore, not exposed to interest price risk.

Interest cash flow risk

This risk results from financial instruments bearing floating interest rates. Changes in floating interest rates affect cash flows on interest receivable or payable.

The Group is exposed to interest rate risk on its floating rate debt, namely all loans and borrowings. The interest rate exposure of the Group is managed within the constraints of the Group's business plan and the financial covenants under its facilities. Due to the low value of the Group's loans and borrowings as at 31 December 2020, the Group does not have significant sensitivities to the impact of future changes in interest rates on floating rate debt.

Notes to the Consolidated Financial Statements

26. Financial instruments – risk management *(continued)*

b) Risk management *(continued)*

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

The Group is exposed to credit risk on its financial assets which consist of cash balances with banks and trade and other receivables to the extent that settlement is cash-related. The Group does not have a significant exposure to this type of financial risk due to the nature of its customer base and the types of transaction that are undertaken.

The maximum exposure to credit risk on the Group's financial assets is represented by the assets' carrying amount.

Finance lease receivables

The Group has one finance lease receivable which is a sub-leased property. There have been no instances of rent default by the lessee in the past, and none are expected in the future, hence the credit risk is deemed to be low. No impairment loss allowance has been recognised in the current or prior year.

Trade receivables

The Group has a high volume of transactions spread across a large customer base, therefore, does not have a significant exposure to the credit worthiness of any single counterparty.

The Group has an established credit policy applied by each business under which the credit status of each new customer is reviewed (by reference to external credit evaluations, where possible) before credit is advanced. Credit limits are established for all significant or high-risk customers, which represent the maximum amount permitted to be outstanding without requiring additional approval from the appropriate level of management. These limits are based on external credit reference agency ratings and the utilisation of approved credit limits is regularly monitored. Outstanding debts are continually monitored by each business unit.

Trade receivables are considered to be past due once they have passed their contractual due date. At each reporting date, the Group uses a provision matrix to measure expected credit losses on trade receivables. When the debt is deemed irrecoverable, the allowance account is written off against the underlying receivable.

Credit quality of trade receivables

The provision for credit losses recognised against trade receivables is based on an expected credit loss model that calculates the expected loss applicable to the receivable balance over its lifetime. Default rates are calculated considering historical loss experience and are applied to trade receivables within a provision matrix. The matrix approach allows for the application of different default rates to different groups of customers with similar characteristics. The characteristics used to determine the groupings of receivables are the factors that have the greatest impact on the likelihood of default; namely, number of days past due. The rate of default increases once the balance is 90 days past due and subsequently in 90-day increments. This matrix calculation approach is considered to be appropriate as the Group's trade receivable balance consists of a high volume of individually low value balances.

The most significant assumptions included within the expected credit loss provisioning model that gives rise to estimation uncertainty, albeit immaterial, are that future default rates will be consistent with actual past performance and that there will be no significant change in the payment profile or recovery rates. Historical default rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Default rates are based on average actual credit loss experience over the previous two-year period. The Group reviews and updates these default rates on a quarterly basis to ensure that the default rates used as the basis of the assumption are calculated based on the most up-to-date data. Actual historical default rates are then adjusted for current, forward-looking information; namely, regulatory changes and macroeconomic factors applicable to the Group's customer base that may have an impact, now or in the future, on recoverability. While forward-looking information is usually considered to be immaterial, exceptions to this could arise in the event of a forecast significant, one-off event. The Group does not believe that Brexit will have a material impact on the outstanding receivables balance. The Group has factored an increased risk of default resulting from the macroeconomic impacts of the COVID-19 pandemic into the expected credit loss calculations, resulting in an increase in the loss allowance recognised as at 31 December 2020.

Notes to the Consolidated Financial Statements

26. Financial instruments – risk management *(continued)*

b) Risk management *(continued)*

Credit risk *(continued)*

Credit quality of trade receivables *(continued)*

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

	2020 £'000	2019 £'000
Balance at 1 January per IFRS 9	**460**	**677**
Net remeasurement of loss allowances	211	(217)
Balance at 31 December per IFRS 9	**671**	**460**

Cash and cash equivalents

Banking relationships are generally limited to those banks that are members of the core relationship group. These banks are selected for their credit status and their ability to meet the businesses' day-to-day banking requirements. The credit ratings of these institutions are monitored on a continuing basis.

The Group has not recorded impairments against cash or cash equivalents, nor have any recoverability issues been identified with such balances. Such items are typically recoverable on demand or in line with normal banking arrangements.

Exposure to credit risk

A summary of the Group's exposure to credit risk for trade receivables and cash and cash equivalents is as follows:

	2020 £'000 Not credit-impaired	2020 £'000 Credit-impaired	2019 £'000 Not credit-impaired	2019 £'000 Credit-impaired
Counterparties without external credit rating:				
Group 1	517	-	1,893	-
Group 2	29,992	-	48,836	-
Total gross carrying amount	**30,509**	**-**	**50,729**	**-**
Loss allowance	(671)	-	(460)	-
Net carrying amount of trade receivables	**29,838**	**-**	**50,269**	**-**
Gross carrying amount	1,334	-	1,544	-
Loss allowance	-	-	-	-
Finance lease receivable	**1,334**	**-**	**1,544**	**-**
Counterparties with external credit rating:				
A \ A+ (stable)*	33,844	-	110	-
Loss allowance	-	-	-	-
Cash at bank	**33,844**	**-**	**110**	**-**

Group 1 – new customers/related parties (less than 6 months).
Group 2 – existing customers/related parties (more than 6 months) and no defaults in the past.
* Standard & Poor's rating (long term)

Notes to the Consolidated Financial Statements

26. Financial instruments – risk management *(continued)*

b) Risk management *(continued)*

Liquidity risk

Liquidity risk is the risk that the group will encounter difficulty in meeting its obligations associated with its financial liabilities as they fall due.

Ultimate responsibility for liquidity risk management rests with the Board, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements.

Liquidity risk is managed by maintaining adequate levels of easily accessible cash reserves and committed banking facilities. To assess the adequacy of resources, available headroom is continuously monitored through review of forecast and actual cash flows and through matching the maturity profiles of financial assets and liabilities. The Group has access to undrawn banking facilities in order to further reduce liquidity risk. The Group does not anticipate any issues drawing on the committed, undrawn banking facilities should this be necessary. Full details of the Group's borrowing facilities are given in Note 23 'Loans and Borrowings'.

The table below analyses the contractual undiscounted cash flows relating to the Group's financial liabilities at the balance sheet date. The cash flows are grouped based on the remaining period to the contractual maturity date. The Group holds sufficient funds to meet these commitments as they fall due.

	Due within 6 months £'000	Due between 6 months and 1 year £'000	Due between 1 and 2 years £'000	Due between 2 and 5 years £'000	Due after 5 years £'000	Total £'000
Mortgages	366	362	717	2,078	1,863	5,386
Lease liabilities	7,395	7,318	14,161	36,826	101,774	167,474
Trade and other payables						
(excluding other taxes and social security)	486,338	-	6,008	-	-	492,346
At 31 December 2020	**494,099**	**7,680**	**20,886**	**38,904**	**103,637**	**665,206**

	Due within 6 months £'000	Due between 6 months and 1 year £'000	Due between 1 and 2 years £'000	Due between 2 and 5 years £'000	Due after 5 years £'000	Total £'000
Mortgages	386	382	752	2,164	3,367	7,051
Bank loan*	25,000	-	-	-	-	25,000
Lease liabilities	7,081	7,313	14,536	40,381	113,005	182,316
Trade and other payables						
(excluding other taxes and social security)	573,207	-	6,371	-	-	579,578
At 31 December 2019	**605,674**	**7,695**	**21,659**	**42,545**	**116,372**	**793,945**

*Bank loans include short-term borrowings under the revolving credit facility, which in accordance with the terms and conditions of the committed facility are due for repayment within 30 days.

The above tables do not include forecast data for liabilities which may be incurred in the future but which were not contracted as at the balance sheet date.

Notes to the Consolidated Financial Statements

26. Financial instruments – risk management *(continued)*

c) Capital risk management

The capital structure of the Group consists of cash and cash equivalents, loans and borrowings and shareholders' equity. The Consolidated Statement of Changes in Equity provides details on equity, Note 20 provides details of cash and cash equivalents and Note 23 provides details of loans and borrowings.

The Group manages its capital structure with the following objectives:

- to safeguard the Group's ability to continue as a going concern and maintain sufficient available resources as protection for unforeseen events;
- to ensure that sufficient capital resources are available for working capital requirements and meeting principal and interest payment obligations as they fall due;
- to provide flexibility of resource for strategic growth and investment where opportunities arise; and
- to provide reasonable returns to shareholders and benefits for other stakeholders whilst maintaining a limited level of risk.

There were no changes to the Group's approach to capital management during the year.

By virtue of the Group's retail mediation activities, the Group is subject to the capital requirements imposed by the Financial Conduct Authority on all non-investment insurance intermediaries. The Group's capital adequacy is monitored on a quarterly basis and its capital resources have been consistently in excess of the requirements.

The Directors monitor the Group's capital structure and determine the level of dividends payable to shareholders at least twice a year prior to the announcement of results, taking into account the Group's ability to continue as a going concern and the capital requirements of its strategic business plans. Consistent with others in the industry, the Directors monitor levels of leverage by reference to the ratio of net debt to total shareholders' equity. Net debt is calculated as total borrowings (including both current and non-current borrowings) less cash and cash equivalents. As disclosed in the Net Debt Reconciliation on page 103, the Group had net debt of £70,524,000 as at 31 December 2020 (2019: £138,640,000).

27. Fair value measurement

The carrying amounts and fair values of the Group's financial assets and financial liabilities are as below. The Group considers that the carrying amount of the following financial assets and financial liabilities are a reasonable approximation of their fair value: trade receivables, trade payables, bank loans and cash and cash equivalents. Therefore, these assets are not disclosed below.

All fair values shown in the table below are measured using observable inputs (Level 2). The fair value of non-current mortgages is determined by reference to future contractual cash flows discounted using the prevailing market interest rates for facilities with similar characteristics.

	2020		2019	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Financial liabilities				
Mortgages	4,383	3,607	5,024	3,951

There have been no transfers between levels in the fair value hierarchy during either 2020 or 2019.

FINANCIAL STATEMENTS

Notes to the Consolidated Financial Statements

28. Share capital and reserves

Share capital and share premium

	Number of shares	Ordinary shares £'000	Share premium £'000	Total £'000
At 1 January 2019	77,865,653	49,834	19,672	69,506
Issued 2 April 2019	306,795	196	-	196
Issued 23 December 2019	59,789	38	-	38
At 31 December 2019	**78,232,237**	**50,068**	**19,672**	**69,740**
At 31 December 2020	**78,232,237**	**50,068**	**19,672**	**69,740**

On 2 April 2019 306,795 ordinary shares of 64p each were issued as part of the exercise of share options awarded under the IPO Performance share option scheme.

On 23 December 2019 59,789 ordinary shares of 64p each were issued as part of the exercise of share options awarded under the 2016 Performance share option scheme.

All shares issued are fully paid. Details of Directors' interests in shares are shown in the Directors' Remuneration Report on pages 86 to 89.

Share repurchases

In April 2019 the Employee Benefit Trust (controlled by the Company) subscribed to 306,795 ordinary shares of the Company as part of the exercise of the IPO Performance share option scheme. The Trust subscribed to the shares at nominal value.

In December 2019 the Employee Benefit Trust (controlled by the Company) subscribed to 164,427 ordinary shares of the Company as part of the exercise of the 2016 Performance share option scheme. 104,638 of these ordinary shares were acquired from the market at market value, while the Trust subscribed to the remaining 59,789 ordinary shares at nominal value.

Shares held by subsidiaries

No shares in the Company were held by subsidiaries in 2020 (2019: nil).

Share-based payments reserve

The share-based payments reserve is used to recognise the value of equity-settled share-based payments granted to employees, including key management personnel, and Directors of the Group as part of their remuneration. Refer to Note 29 'Share-Based Payments' for further details of these plans.

Own shares reserve

Represents shares in the Company held by the Marshall Motor Holdings Employee Benefit Trust. These shares are held in order to satisfy options exercised under the Group's Performance Share Plan. Further details of which are set out in Note 29 'Share-Based Payments'.

Notes to the Consolidated Financial Statements

29. Share-based payments

The Group operates an equity-settled share option scheme for certain senior managers and executive directors of the Group ("the Performance Share Plan"). As at 31 December 2020, six share grants have been awarded under the scheme being (a) IPO Performance Awards (vesting in two tranches), (b) 2016 Performance Awards, (c) 2017 Performance Awards, (d) 2018 Performance Awards, (e) 2019 Awards and (f) 2020 Awards. Awards are made annually to eligible employees at the discretion of the Remuneration Committee; employees receive shares at the end of the performance period, subject to the achievement of the specified underlying basic earnings per share ("EPS") performance conditions. Performance conditions are designed to incentivise senior managers and executive directors to maximise long-term shareholder returns. Each option grant under the scheme is disclosed separately below.

The total share-based payment charge recognised during the year ended 31 December 2020 was £668,000 (2019: £1,282,000). This is split as £107,000 in accruals (2019: £152,000) and £561,000 (2019: £1,130,000) in the share-based payments reserve.

If an option remains unexercised after a period of ten years from the date of grant, the option expires. The weighted average remaining contractual life of options outstanding as at 31 December 2020 is 8.2 years (2019: 8.7 years).

The fair value of share options is determined by reference to the market value of the Group's shares at the date of grant. No valuation model is required to calculate the fair value of awards on the basis that the employees receiving the awards are entitled to receive the full value of the shares and there are no market-based performance conditions attached to the awards. The weighted average fair value of options outstanding as at 31 December 2020 is £1.45 (2019: £1.56). The fair value of options granted during the year was £1.25 (2019: £1.43). The fair value of equity settled share options granted was based on market value on 20 August 2020 when the share options were granted.

Options are ordinarily forfeited if the employee leaves the Group before the options vest. All options issued are nil cost options and all awards have an exercise price of £nil.

The share option scheme is in place to encourage option holders to take appropriate and timely action to maximise the long-term financial performance and success of the Group. As a result, in accordance with the discretion afforded to them under the Group's remuneration policy, the Remuneration Committee regularly reviews any impact of Group restructurings and reorganisations on incentive outcomes to ensure that performance conditions are not distorted by action taken to optimise business performance for the long-term benefit of the Group.

The Remuneration Committee exercised this discretion during 2020. See the Directors' Remuneration Report on pages 86 to 89 for further details.

In September 2020, the 2017 Performance Awards became exercisable. These awards remain unexercised as at 31 December 2020.

In June 2019, the 2016 Performance Awards became exercisable. On 23 and 31 December 2019, all option holders exercised these options. As such 164,427 ordinary shares of 64p were issued to satisfy the exercise of options. On exercise, the Remuneration Committee exercised its discretion to settle a proportion of the share options equal to the option holders' tax liability arising on exercise in cash rather than being cash settled. The total value of cash-settled transactions was £517,000.

In April 2019, the second tranche of the IPO Performance Awards became exercisable. On 2 April 2019, all option holders exercised these options. As such 306,795 ordinary shares of 64p were issued to satisfy the exercise of options. On exercise, the Remuneration Committee exercised its discretion to settle a proportion of the share options equal to the option holders' tax liability arising on exercise in cash rather than being cash settled. The total value of cash-settled transactions was £708,000.

As at 31 December 2020 outstanding share options were as follows:

Award	Award date	No of shares over which options are outstanding	Exercise price	Date from which exercisable	Expiry date
2017 Performance Awards	29 September 2017	577,690	Nil	29 September 2020	29 September 2027
2018 Performance Awards	11 April 2018	644,760	Nil	11 April 2021	11 April 2028
2019 Awards	28 November 2019	668,577	Nil	28 November 2022	28 November 2029
2020 Awards	20 August 2020	1,035,632	Nil	11 March 2023	11 March 2030

FINANCIAL STATEMENTS

Notes to the Consolidated Financial Statements

29. Share-based payments *(continued)*

a) IPO Performance Awards

The IPO Performance Awards are subject to non-market performance conditions as detailed below as well as the service condition of continuous employment.

The options vest for achieving growth in EPS from 2014 to 2017; 25% vest for achieving growth of CPI plus 4% per annum increasing to 100% vesting for achieving growth of CPI plus 10% per annum.

These options vest in two equal tranches and 50% become exercisable on the third anniversary of the date on which the Company's shares were admitted to trading on the Alternative Investment Market of the London Stock Exchange and the remaining 50% become exercisable on the fourth anniversary.

	2020 No.	2020 WAEP	2019 No.	2019 WAEP
IPO Performance Awards				
Outstanding as at 1 January	-	-	578,856	-
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	(578,856)	-
Expired during the year	-	-	-	-
Outstanding as at 31 December	**-**	**-**	**-**	**-**
Exercisable as at 31 December	**-**	**-**	**-**	**-**

b) 2016 Performance Awards

The 2016 Performance Awards are subject to non-market performance conditions as detailed below as well as the service condition of continuous employment.

The options vest for achieving growth in EPS from 2015 to 2018; 25% vest for achieving growth of CPI plus 3% per annum increasing to 100% vesting for achieving growth of CPI plus 8% per annum.

These options all become exercisable on the third anniversary of the grant date.

The 2016 Performance Awards are subject to a holding period which starts on the grant date and ends on the fourth anniversary of the grant date.

	2020 No.	2020 WAEP	2019 No.	2019 WAEP
2016 Performance Awards				
Outstanding as at 1 January	-	-	493,575	-
Granted during the year	-	-	-	-
Forfeited during the year	-	-	(340,126)	-
Exercised during the year	-	-	(153,449)	-
Expired during the year	-	-	-	-
Outstanding as at 31 December	**-**	**-**	**-**	**-**
Exercisable as at 31 December	**-**	**-**	**-**	**-**

Notes to the Consolidated Financial Statements

29. Share-based payments *(continued)*

c) 2017 Performance Awards

The 2017 Performance Awards are subject to non-market performance conditions as detailed below as well as the service condition of continuous employment.

The options vest for achieving growth in underlying, basic EPS from 2018 to 2019; 25% vest for achieving growth of CPI plus 1% per annum and the percentage of options which vests increases on a straight line basis up to 100% vesting for achieving growth of CPI plus 5% per annum.

These options all become exercisable on the third anniversary of the grant date.

The 2017 Performance Awards are subject to a holding period which starts on the grant date and ends on the fourth anniversary of the grant date.

	2020 No.	2020 WAEP	2019 No.	2019 WAEP
2017 Performance Awards				
Outstanding as at 1 January	611,373	-	619,763	-
Granted during the year	-	-	-	-
Forfeited during the year	(33,683)	-	(8,390)	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding as at 31 December	**577,690**	**-**	**611,373**	**-**
Exercisable as at 31 December	**577,690**	**-**	**-**	**-**

d) 2018 Performance Awards

The 2018 Performance Awards are subject to non-market performance conditions as detailed below as well as the service condition of continuous employment.

The options vest for achieving growth in underlying, basic EPS from 2017 to 2020; 25% vest for achieving growth of 1.3% per annum and the percentage of options which vests increases on a straight line basis up to 100% vesting for achieving growth of 6% or more per annum.

These options all become exercisable on the third anniversary of the grant date.

The 2018 Performance Awards are subject to a holding period which starts on the grant date and ends on the fourth anniversary of the grant date.

	2020 No.	2020 WAEP	2019 No.	2019 WAEP
2018 Performance Awards				
Outstanding as at 1 January	680,249	-	731,054	-
Granted during the year	-	-	-	-
Forfeited during the year	(35,489)	-	(50,805)	-
Exercised	-	-	-	-
Expired during the year	-	-	-	-
Outstanding as at 31 December	**644,760**	**-**	**680,249**	**-**
Exercisable as at 31 December	**-**	**-**	**-**	**-**

Notes to the Consolidated Financial Statements

29. Share-based payments *(continued)*

e) 2019 Awards

The 2019 Awards are subject to the service condition of continuous employment.

These options all become exercisable on the third anniversary of the grant date.

The 2019 Awards are subject to a holding period which starts on the grant date and ends on the fourth anniversary of the grant date.

	2020 No.	2020 WAEP	2019 No.	2019 WAEP
2019 Awards				
Outstanding as at 1 January	710,682	-	-	-
Granted during the year	-	-	710,682	-
Forfeited during the year	(42,105)	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding as at 31 December	**668,577**	**-**	**710,682**	**-**
Exercisable as at 31 December	**-**	**-**	**-**	**-**

f) 2020 Awards

The 2020 Awards are subject to the service condition of continuous employment.

These options all become exercisable on the vesting date of 11 March 2023.

The 2020 Awards are subject to a holding period which starts on the grant date and ends on the first anniversary of the vesting date.

	2020 No.	2020 WAEP	2019 No.	2019 WAEP
2020 Awards				
Outstanding as at 1 January	-	-	-	-
Granted during the year	1,107,632	-	-	-
Forfeited during the year	(72,000)	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding as at 31 December	**1,035,632**	**-**	**-**	**-**
Exercisable as at 31 December	**-**	**-**	**-**	**-**

Notes to the Consolidated Financial Statements

30. Analysis of net debt

	At 1 January 2020 £'000	Cash flows £'000	New leases £'000	Non-cash items* £'000	At 31 December 2020 £'000
Cash and cash equivalents	**110**	**33,734**	**-**	**-**	**33,844**
Liabilities arising from financing activities					
Loans and borrowings	(30,665)	25,641	-	-	(5,024)
Lease liabilities	(108,085)	11,323	(3,627)	1,045	(99,344)
	(138,750)	**36,964**	**(3,627)**	**1,045**	**(104,368)**
Net debt	**(138,640)**	**70,698**	**(3,627)**	**1,045**	**(70,524)**
Lease liabilities	108,085	(11,323)	3,627	(1,045)	99,344
Adjusted net (debt) / cash at year end (non GAAP measure)	**(30,555)**	**59,375**	**-**	**-**	**28,820**

*Non-cash items include remeasurements to existing lease liabilities as well as the unwinding of the discount on lease liabilities.

	At 1 January 2019 £'000	Cash flows £'000	New leases £'000	Non-cash items* £'000	At 31 December 2019 £'000
Cash and cash equivalents	**1,174**	**(1,064)**	**-**	**-**	**110**
Liabilities arising from financing activities					
Loans and borrowings	(6,306)	(24,359)	-	-	(30,665)
Lease liabilities	(87,642)	9,780	(28,778)	(1,445)	(108,085)
	(93,948)	**(14,579)**	**(28,778)**	**(1,445)**	**(138,750)**
Net debt	**(92,774)**	**(15,643)**	**(28,778)**	**(1,445)**	**(138,640)**
Lease liabilities	87,642	(9,780)	28,778	1,445	108,085
Adjusted net debt at year end (non GAAP measure)	**(5,132)**	**(25,423)**	**-**	**-**	**(30,555)**

*Non-cash items include remeasurements to existing lease liabilities as well as the unwinding of the discount on lease liabilities.

Notes to the Consolidated Financial Statements

31. Related party transactions

Key management compensation is given in Note 9 ‘Employees and Directors’.

During 2020 and 2019 the Directors were members of an employee car ownership scheme under which the following transactions were made in the year. The Directors purchased 18 cars in 2020 (2019:24) at a price of £1,385,000 (2019: £1,725,000) and sold back 19 (2019:23) at a price of £1,773,000 (2019: £1,577,000). The Directors did not make a profit on these transactions.

All companies within Marshall of Cambridge (Holdings) Limited other than those which are subsidiaries of Marshall Motor Holdings plc are related parties for which the disclosure exemption does not apply.

2020	Sales £’000	Purchases £’000	Year-end balance £’000
Ultimate parent undertaking			
Marshall of Cambridge (Holdings) Limited	50	-	10
Other group entities			
Marshall of Cambridge Aerospace Limited	4	77	(28)
Marshall Group Properties Limited	-	934	(323)
Marshall Land Systems Limited	808	-	806
Other related parties			
RPJ Consulting Services Limited*	-	10	(3)
	862	**1,021**	**462**

*The Group purchases administrative support services from RPJ Consulting Services Limited, a company whose sole director is also Marshall Motor Holdings plc’s Non-Executive Chairman.

2019	Sales £’000	Purchases £’000	Year-end balance £’000
Ultimate parent undertaking			
Marshall of Cambridge (Holdings) Limited	2	-	3
Other group entities			
Marshall of Cambridge Aerospace Limited	-	91	(39)
Marshall Thermo King Limited	-	1	-
Other related parties			
RPJ Consulting Services Limited*	-	10	(3)
	2	**102**	**(39)**

* The Group purchases administrative support services from RPJ Consulting Services Limited, a company whose sole director is also Marshall Motor Holdings plc’s Non-Executive Chairman.

Outstanding balances with group entities are unsecured, interest free and are expected to be settled in cash.

During the year ended 31 December 2020, the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2019: £nil).

Notes to the Consolidated Financial Statements

32. Pensions

a) Defined contribution pension schemes

The Group makes contributions to defined contribution pension schemes; contributions paid are calculated by reference to a percentage of each employee's salary. All defined contribution schemes into which the Group makes contributions are managed by third party providers. The only obligation of the Group with respect to these schemes is to make the specified contributions. The total income statement charge for contributions for the year ended 31 December 2020 was £2,993,000 (2019: £2,732,000).

The total unpaid pension contributions outstanding at the year end were £539,000 (2019: £526,000).

b) Defined benefit pension schemes

Cessation of Participation in the Plan and Provision for Section 75 Employer Debt

Following the sale of Marshall Leasing Limited in 2017, the Group no longer had any current employees who were members of the defined benefit section of the Plan. As a result of the Group's strategic review of its existing pension arrangements on 31 December 2018, the Group ceased to be a participating employer in the Plan as a result of it no longer employing any active members of the defined contribution section of the Plan. Accordingly, on 31 December 2018, a debt was triggered under Section 75 of the Pension Act 1995 on the Group ("Employer Debt").

On 7 February 2019 the Plan's actuary issued a certificate for the purposes of Regulation 5(18) and Regulation 6(8) of the Occupational Pension Schemes (Employer Debt) Regulations 2005 confirming that the Employer Debt at 31 December 2018 was £5,541,000.

On 25 February 2019 the Group paid the Employer Debt (together with Trustee expenses of £25,000) to the Trustees of the Plan and entered in to a Deed of De-Adherence with the Trustees and Marshall of Cambridge (Holdings) Limited confirming the discharge of the Group from the trusts of the Plan and from any further obligations in relation to the Plan with effect from that date. Accordingly, with effect from that date, the Group has no further commitments or participation in any defined benefit pension plans.

Principal Employer's IAS 19 Disclosures

Details of the full scheme are included in the Annual Report and Accounts of Marshall of Cambridge (Holdings) Limited which can be obtained from: Airport House, The Airport, Cambridge CB5 8RY.

33. Ultimate parent company

The parent undertaking of the largest group of undertakings for which consolidated financial statements are drawn up and of which the Company is a member is Marshall of Cambridge (Holdings) Limited. This is both the immediate parent undertaking and the ultimate parent undertaking. In light of its aggregate shareholding in the capital of the Company, Marshall of Cambridge (Holdings) Limited has entered into a relationship agreement in order to regulate the relationship between it and the Company and enable the Company to act independently of Marshall of Cambridge (Holdings) Limited and its affiliates.

Copies of the consolidated financial statements for Marshall of Cambridge (Holdings) Limited can be obtained from: Airport House, The Airport, Cambridge CB5 8RY.

Company Financial Statements

Balance Sheet

At 31 December 2020

	Note	2020 £'000	2019 £'000
Fixed assets			
Investments	6	154,689	156,622
Current assets			
Debtors	7	5,442	5,060
Cash at bank and in hand		-	5,465
		5,442	10,525
Creditors: Amounts falling due within one year	**9**	**(51,830)**	**(54,343)**
Net current liabilities		**(46,388)**	**(43,818)**
Net assets		**108,301**	**112,804**
Capital and reserves			
Called-up share capital	10	50,068	50,068
Share premium		19,672	19,672
Share-based payments reserve		1,586	1,025
Own shares reserve		(12)	(12)
Profit and loss account		36,987	42,051
Shareholders' funds		**108,301**	**112,804**

The total comprehensive loss of the Company for the year ended 31 December 2020 was £5,064,000 (2019: £9,219,000).

The Company financial statements were approved for issue by the Board of Directors and authorised for issue on 8 March 2021.

Richard Blumberger
Chief Financial Officer

Company Financial Statements

Statement of Changes in Equity

For the year ended 31 December 2020

	Note	Called-up share capital £'000	Share premium £'000	Share-based payments reserve £'000	Own shares reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 2019		**49,834**	**19,672**	**1,570**	**-**	**58,247**	**129,323**
Loss for the financial year		-	-	-	-	(9,219)	(9,219)
Total comprehensive loss for the year		**-**	**-**	**-**	**-**	**(9,219)**	**(9,219)**
Equity dividends paid	12	-	-	-	-	(7,223)	(7,223)
New shares issued	10	234	-	-	(234)	-	-
Exercise of share options	10	-	-	(1,675)	385	246	(1,044)
Acquisition of own shares		-	-	-	(163)	-	(163)
Share-based payments charge	11	-	-	1,130	-	-	1,130
At 31 December 2019		**50,068**	**19,672**	**1,025**	**(12)**	**42,051**	**112,804**
Loss for the financial year		-	-	-	-	(5,064)	(5,064)
Total comprehensive loss for the year		**-**	**-**	**-**	**-**	**(5,064)**	**(5,064)**
Share-based payments charge	11	-	-	561	-	-	561
At 31 December 2020		**50,068**	**19,672**	**1,586**	**(12)**	**36,987**	**108,301**

Notes to the Company Financial Statements

1. Statement of compliance

Marshall Motor Holdings plc (the Company) is incorporated and domiciled in the United Kingdom. The Company is a public limited company, limited by shares, whose shares are listed on the Alternative Investment Market (AIM) of the London Stock Exchange. The Company is registered in England under the Companies Act 2006 (registration number 02051461) with the address of the registered office being; Airport House, The Airport, Cambridge, CB5 8RY, United Kingdom.

The parent company financial statements have been prepared in compliance with FRS 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland and in accordance with the Companies Act 2006.

2. Basis of preparation

The financial statements are prepared in Sterling which is both the functional and presentational currency of the Company and all values are rounded to the nearest thousand pounds (£'000) except where otherwise indicated. The financial information has been prepared on the going concern and historical cost basis.

The Company is part of the consolidated financial statements of Marshall Motor Holdings plc.

Exemptions adopted

The following disclosure exemptions have been adopted as permitted by FRS 102:

- Presentation of a cash-flow statement and related notes
- Financial instrument-related disclosures
- Key management personnel compensation disclosures
- Share-based payments disclosures

Company profit

As permitted under section 408 of the Companies Act 2006, the Company has elected to neither present a Company Income Statement nor Company Statement of Comprehensive Income.

3. Accounting policies

Except where disclosed otherwise in this note, the accounting policies adopted in the preparation of the Company financial statements are consistent with those applied when preparing the Company financial statements for the year ended 31 December 2019.

Investments in subsidiaries

Investments in subsidiaries are recognised at cost less any impairment. Impairments are recognised directly through the Income Statement.

Taxation

Current taxation
Current tax is recognised for the amount of income tax payable in respect of the taxable profit for the current or past reporting periods using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred taxation
Deferred tax is recognised in respect of all timing differences which are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. There are the following exceptions.

Notes to the Company Financial Statements

3. Accounting policies *(continued)*

Taxation *(continued)*

Deferred taxation *(continued)*
Where, in a business combination, there are differences between amounts that can be deducted for tax for assets (other than goodwill) and liabilities compared with the amounts that are recognised in the financial statements for those assets and liabilities, a deferred tax liability or asset is recognised. The amount attributed to goodwill is adjusted by the amount of the deferred tax recognised.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is considered probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

With the exception of changes arising on the initial recognition of a business combination, the taxation charge or credit is presented either in the income statement or the statement of other comprehensive income depending on the transaction that resulted in the taxation charge or credit.

Deferred tax liabilities are presented within provisions for liabilities and deferred tax assets within debtors. Deferred tax assets and deferred tax liabilities are offset only if:

- the company has a legally enforceable right to set off current tax assets against current tax liabilities, and
- the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously.

Financial instruments

The Company has non-derivative financial instruments comprising trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

The Company has no financial instruments measured at fair value.

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and in hand.

Short-term debtors and creditors

Debtors and creditors with no stated interest rate and which are receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the Income Statement.

Interest-bearing loans and borrowings

All interest-bearing loans and borrowings are initially recognised at the present value of cash payable to the bank (including interest). After initial recognition they are measured at amortised cost using the effective interest rate method, less impairment. The effective interest rate amortisation is included in the Income Statement.

Share-based payments

The Company operates a number of equity-settled, share-based compensation plans through which the Company allows employees to receive shares in the Company.

Notes to the Company Financial Statements

3. Accounting policies *(continued)*

Share-based payments *(continued)*

Equity-settled share-based payments are measured at fair value (calculated excluding the effect of service and non-market based performance vesting conditions) at the date of grant. The share-based payment charge to be expensed is determined by reference to the fair value of share options granted and is recognised as an employee expense within underlying earnings, with a corresponding increase in equity.

The share-based payment charge is recognised on a straight-line basis over the vesting period (being the period over which all vesting conditions are to be satisfied). An award subject to graded vesting is accounted for as though it were multiple, separate awards, the number of awards being determined in direct correlation to the number of instalments in which the options vest.

The share-based payment charge is based on the Company's estimate of the number of options that are expected to vest. At each balance sheet date, the Company revises its estimates of the number of options that are expected to vest based on the non-market performance vesting conditions and service conditions. The Company's remuneration policy gives the Remuneration Committee discretion to revise performance conditions to adjust for the impact of group restructurings and reorganisations on incentive outcomes. The impact of any revisions to original vesting estimates or performance conditions is recognised in the Income Statement with a corresponding adjustment to equity.

Social security contributions payable in connection with share options granted are considered to be an integral part of the grant and are, therefore, treated as cash-settled transactions. Cash-settled share-based payments transactions are measured at fair value at the settlement date, with changes in fair value recognised directly in equity in retained earnings.

When options are exercised, the Company issues new shares. These shares are gifted to the Employee Benefit Trust by the Company at nominal value. The cost of these shares is recognised as a reduction to equity in the own shares reserve. When the options are exercised and the shares transferred to the employees, the cost on the own shares reserve is transferred to equity.

When options issued by the Employee Benefit Trust are exercised the own shares reserve is reduced and a gain or loss is recognised in the reserves based on proceeds less weighted-average cost of shares initially purchased now exercised.

Where shares options are forfeited, effective from the date of the forfeiture, any share-based payment charge previously recognised in both the current and prior periods in relation to these options is reversed though the Income Statement with a corresponding adjustment to equity.

The cost of awards granted to employees of the Company's subsidiaries is recognised as an addition to the cost of its investment in the employing subsidiary, with a corresponding increase in the Share-Based Payments Reserve in the Statement of Changes in Equity.

Employee benefit trust

The Marshall Motor Holdings Employee Benefit Trust (the Trust) was established in the context of the share-based compensation plans operated by the Group. The Trust is registered in Jersey and was formed on 30 June 2015.

The Trust is treated as an extension of the Company (the sponsoring entity of the employee share option plans); therefore, the assets and liabilities of the Trust are included in the Company Balance Sheet. The Company Balance Sheet includes all shares in the Company held by the Trust. These shares are disclosed in the Own Shares Reserve as a deduction from equity.

Pensions

The Company participates in a defined contribution scheme for its employees. Contributions are charged to the Income Statement as they become payable in accordance with the rules of the scheme.

Notes to the Company Financial Statements

3. Accounting policies *(continued)*

Dividend distribution

Final dividends to the Company's shareholders are recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when they are paid.

Dividend income

Income is recognised when the Company's right to receive the payment is established, which is generally when shareholders approve the dividend. All of the Company's income is generated in the UK.

4. Auditor's remuneration

The auditor's remuneration for audit and other services was £3,000 (2019: £3,000).

5. Employees and directors

Employee costs for the Company during the year:

	2020 £'000	2019 £'000
Wages and salaries	1,431	2,458
Social security costs	338	377
Other pension costs	81	113
Share based payments	315	672
	2,165	**3,620**

	2020 No.	2019 No.
Management	3	3
	3	**3**

Employee costs stated above exclude grant income received under the Coronavirus Job Retention Scheme, as none was received for these employees.

Details of the remuneration of the Directors, their share incentives and pension entitlements are set out in the Directors' Remuneration Report on pages 86 to 89.

6. Investments in subsidiaries

	2020 £'000
Cost	
At 1 January 2020	156,622
Share-based payment awards to employees of subsidiaries	374
Impairment	(2,307)
At 31 December 2020	**154,689**

Impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable and a potential impairment may be required. Impairment reviews have been performed for all investments in subsidiaries for the years ended 31 December 2020 and 2019. Impairment charges are recorded within administrative expenses in the Income Statement.

Notes to the Company Financial Statements

6. Investments in subsidiaries *(continued)*

As at 31 December 2020, the Company recorded impairment charges totalling £2,307,000 in relation to two of the investments in subsidiaries. One impairment resulted due to the cessation of the trade of Marshall of Stevenage Limited during the year following the closure of the franchise dealership operated by this subsidiary. The other impairment arose due to a deterioration in assumptions around future profitability and growth rates within the business activities of the subsidiary entity in which the investment is held.

As at 31 December 2019, the Company had recorded impairment charges totalling £5,716,000. The impairments recorded arose following an improvement in processes to allocate central income and expenses to relevant statutory entities, consistent with the allocation to CGUs in the consolidated financial statements.

The Company owns directly or indirectly the whole of the issued and fully paid ordinary share capital of the following subsidiary undertakings. All subsidiaries are incorporated in England and Wales and are 100% owned except where referenced.

The registered office for all subsidiary companies listed above is Airport House, The Airport, Cambridge, CB5 8RY, United Kingdom. All subsidiaries listed below are included within the consolidated financial statements on pages 99 to 159.

Name of Undertaking	Principal activity at year end
Marshall Motor Group Limited^	Franchised motor dealership
Marshall of Cambridge (Garage Properties) Limited*^ (reg no. 02051459)	Property holding
Tim Brinton Cars Limited*^ (reg no. 01041301)	Property holding
Marshall of Ipswich Limited*^ (reg no. 04447940)	Franchised motor dealership
Marshall of Peterborough Limited*^ (reg no. 04861074)	Franchised motor dealership
S.G. Smith Holdings Limited^	Dormant
S.G. Smith Automotive Limited* (reg no. 00622112)	Holding company
S.G. Smith (Motors) Limited	Dormant
S.G. Smith (Motors) Beckenham Limited* (reg no. 00648395)	Franchised motor dealership
S.G. Smith (Motors) Forest Hill Limited* (reg no. 00581710)	Franchised motor dealership
S.G. Smith (Motors) Crown Point Limited* (reg no. 00581711)	Franchised motor dealership
S.G. Smith (Motors) Sydenham Limited	Dormant
S.G. Smith (Motors) Croydon Limited	Dormant
S.G. Smith Trade Parts Limited* (reg no. 01794317)	Motor parts sales
Prep-Point Limited* (reg no. 00660067)	Maintenance and repair of motor vehicles
Marshall of Stevenage Limited*^ (reg no. 06450140)	Franchised motor dealership
Marshall Commercial Vehicles Limited	Dormant
Marshall North West Limited*^ (reg no. 00322817)	Franchised motor dealership
Marshall of Scunthorpe Limited*^ (reg no. 01174004)	Franchised motor dealership
Silver Street Automotive Limited*^ (reg no. 00716748)	Franchised motor dealership
Exeter Trade Parts Specialists LLP* (reg no. OC329331)	Motor parts sales
Audi South West Limited	Dormant
Hanjo Russell Limited	Dormant
CMG 2007 Limited^	Dormant
Astle Limited* (reg no. 01114983)	Franchised motor dealership
Crystal Motor Group Limited* (reg no. 04813767)	Franchised motor dealership
Ridgeway Garages (Newbury) Limited^	Franchised motor dealership
Pentagon Limited* (reg no. 01862751)	Franchised motor dealership
Pentagon South West Limited	Dormant
Ridgeway TPS Limited* (reg no. 06112651)	Motor parts sales
Ridgeway Bavarian Limited* (reg no. 07930214)	Franchised motor dealership
Wood in Hampshire Limited	Dormant
Wood of Salisbury Limited	Dormant

** subsidiaries for which exemption from audit by virtue of s479A of the Companies Act 2006 has been taken for the year ended 31 December 2020*

^ direct subsidiary of Marshall Motor Holdings plc

Notes to the Company Financial Statements

7. Debtors

	2020 £'000	2019 £'000
Trade debtors	2	-
Amounts owed by Group undertakings	4,356	5,025
Other debtors	24	28
VAT	24	-
Corporation tax	281	-
Prepayments	754	-
Deferred tax asset (note 8)	1	7
	5,442	**5,060**

During the year ended 31 December 2020, the Group has not made any provision for doubtful debts relating to amounts owed to related parties (2019: £nil).

Amounts owed by group undertakings are unsecured, bear no interest and have no fixed repayment date.

8. Deferred tax assets

The analysis and movements in deferred tax assets during the year are as follows:

	Temporary differences £'000
At 1 January 2019	13
Charged to the income statement - current year	(6)
At 31 December 2019	**7**
Charged to the income statement - current year	(6)
At 31 December 2020	**1**

The Directors believe that all dividends paid by the Company's subsidiaries will meet the exemption conditions set out in tax legislation and are, therefore, non-taxable income.

9. Creditors: amounts falling due within one year

	2020 £'000	2019 £'000
Bank loans	-	25,000
Bank overdraft	5,033	-
Trade creditors	703	743
Amounts owed to Group undertakings	45,022	24,792
Corporation tax	-	1,848
Other taxes and social security	71	63
Other creditors	30	42
Accruals and deferred income	971	1,855
	51,830	**54,343**

Amounts owed to group undertakings are unsecured, bear no interest and have no fixed repayment date.

Details of loans and borrowings can be found in Note 23 'Loans and Borrowings' of the consolidated financial statements.

Notes to the Consolidated Financial Statements

10. Called-up share capital

	2020 £'000	2019 £'000
78,232,237 (2019: 78,232,237) ordinary shares of 64p each	50,068	50,068

Ordinary shares	2020 £'000	2019 £'000
At 1 January	50,068	49,834
Issued on 2 April 2019	-	196
Issued on 23 December 2019	-	38
	50,068	**50,068**

On 2 April 2019 306,795 ordinary shares of 64p each were issued as part of the exercise of share options awarded under the IPO Performance share option scheme.

On 23 December 2019 59,789 ordinary shares of 64 each were issued as part of the exercise of share options awarded under the 2016 Performance share option scheme.

11. Share-based payments

The Company operates a share-based payment scheme; having adopted the disclosure exemptions permitted by FRS 102, full details of the scheme are included in Note 29 'Share-Based Payments' of the consolidated financial statements and are not duplicated here.

The share-based payment expense recognised by the Company is calculated by reference to the number of options awarded to the employees of the Company.

12. Dividends

	2020 £'000	2019 £'000
Paid during the year		
Final dividend for 2018	-	4,995
Interim dividend for 2019	-	2,228
Final dividend for 2019	-	-
Interim dividend for 2020	-	-
	-	**7,223**

In light of the circumstances resulting from the ongoing COVID-19 pandemic, the previously proposed final dividend of 5.69p per share for the year ended 31 December 2019 was cancelled.

The Group similarly suspended the payment of an interim dividend in respect of the year ended 31 December 2020. (2019: An interim dividend of £2,228,000, representing a payment of 2.85p per ordinary share in issue at that time, was paid in September 2019.)

The Board is mindful of the importance of dividends to its shareholders and intends to resume the payment of dividends as soon as conditions allow.

Notes to the Consolidated Financial Statements

13. Pensions

As described in Note 3 ‘Accounting Policies’, the Company participates in a pension scheme for the benefits of its employees which is a defined contribution scheme. The scheme is funded by the payment of contributions to a trustee administered fund which is kept independently from the assets of the participating employers.

The total pension cost for the year was £81,000 (2019: £113,000).

The total unpaid pension contributions outstanding at the year end were £7,000 (2019: £7,000).

14. Related party transactions

Company transactions with subsidiaries

The Company has taken advantage of exemption, under the terms of Section 33 of FRS 102, not to disclose related party transactions with subsidiaries within the Group.

Transactions with Directors

Details of transactions with Directors are included in Note 31 ‘Related Party Transactions’ of the consolidated financial statements.

15. Ultimate parent company

The parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the Company is a member is Marshall of Cambridge (Holdings) Limited. This is, therefore, considered to be the ultimate parent company.

Copies of the group financial statements for Marshall of Cambridge (Holdings) Limited can be obtained from Airport House, The Airport, Cambridge CB5 8RY.

Appendix – Alternative Performance Measures (APMs)

The Group presents various APMs as the Directors believe that these are useful for users of the financial statements in helping to provide a balanced view of, and relevant information on, the Group's financial performance. The APMs are measures which disclose the adjusted performance of the Group excluding specific items which are regarded as non-recurring. See Note 7 'Non-Underlying Items' for full details of the nature of items excluded from non-underlying performance measures.

The following tables show the reconciliation between the Group's performance as reported in accordance with International Financial Reporting Standards (IFRS) and the Group's underlying performance and like-for-like results.

Underlying operating profit	**2020 £'000**	**2019 £'000**
Total continuing operating profit as reported	**30,532**	**29,586**
Impact of non-underlying items		
Post-retirement benefits charge	-	23
Acquisition costs	13	835
Net recognition of restructuring costs	2,070	2,123
Profit on disposal of assets classified as held for sale	(1,563)	-
(Profit) / loss on disposal of investment property	(148)	72
Loss on impairment of goodwill and other tangible assets	218	-
Gain on revaluation of investment properties	-	(610)
	590	**2,443**
Continuing underlying operating profit	**31,122**	**32,029**

Like-for-like revenue	**2020 £'000**	**2019 £'000**
Total continuing revenue as reported	**2,154,415**	**2,276,129**
Impact of non like-for-like activities		
New dealerships acquired or opened in the year	(253,859)	(59,281)
Dealerships closed in the year	(34,186)	(59,655)
	(288,045)	**(118,936)**
Continuing like-for-like revenue	**1,866,370**	**2,157,193**

Adjusted net debt	**2020 £'000**	**2019 £'000**
Net debt consists of:		
Cash and cash equivalents	33,844	110
Loans and borrowings	(5,024)	(30,665)
Lease liabilities	(99,344)	(108,085)
Closing net debt	**(70,524)**	**(138,640)**
Lease liabilities	(99,344)	(108,085)
Adjusted net cash / (debt)	**28,820**	**(30,555)**

Company Information

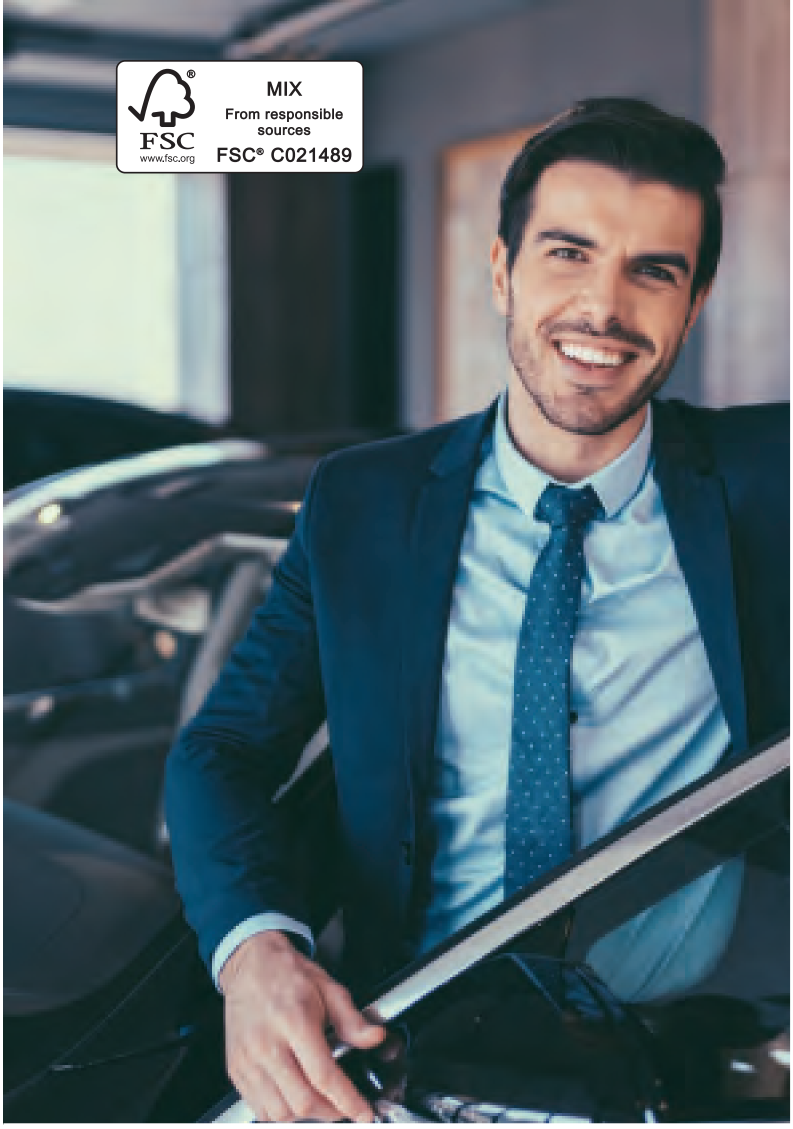
Registered Office:	Airport House The Airport Cambridge CB5 8RY
Company websites:	www.mmhplc.com www.marshall.co.uk
Nominated Adviser and Broker:	Investec Bank plc 30 Gresham Street London EC2V 7QP
Auditor:	BDO LLP Arcadia House Maritime Walk – Ocean Village Southampton SO14 3TL
Joint Bankers:	Barclays Bank plc 1 Churchill Place London E14 5HP HSBC Bank plc 8 Canada Square London E14 5HQ
Legal Advisers to the Company:	Dentons UKMEA LLP One Fleet Place London EC4M 7WS
Registrar:	Link Group 10th Floor Central Square 29 Wellington Street Leeds LS1 4DL

Notes

Perivan 260577

MIX
From responsible sources
FSC® C021489
www.fsc.org

Marshall
Motor Holdings plc



Audi
BMW
BMW Motorrad
CUPRA
Ford
Ford Vans
Honda
Jaguar
Kia
Land Rover
LEVC
Mercedes-Benz
Mercedes-Benz Commercials
MINI
Nissan
Peugeot
Seat
ŠKODA
Smart
Vauxhall
Vauxhall Vans
Volkswagen
Volkswagen Commercials
Volvo
Paint & Body Repair Centres
Trade Parts Specialists
Used Car Centres

Marshall
Motor Holdings plc

22 BRAND PARTNERS
128 OPERATING UNITS
28 COUNTIES NATIONWIDE

www.mmhplc.com

Marshall Motor Holdings plc
Airport House, The Airport, Cambridge, CB5 8RY