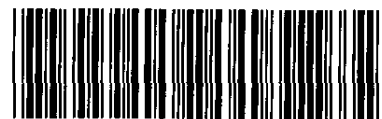


Marshall Motor Holdings Limited
Report and financial statements

For the 15 months ended 31 March 2022

Company Number 02051461

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Marshall Motor Holdings Limited

Report and financial statements

For the 15 months ended 31 March 2022

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Marshall Motor Holdings Limited

Officers and Professional Advisers

For the 15 months ended 31 March 2022

The Board of Directors

R.J. Blumberger
T.G. Lampert
M.R. Kelly

Company Secretary

S.R. Jones

Registered Office

Airport House
The Airport
Cambridge
CB5 8RY

Auditor

BDO LLP
Arcadia House
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Joint Bankers

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1 Churchill Place
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E14 5HP

HSBC Bank plc
8 Canada Square
London
E14 5HQ

National Westminster Bank plc
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EC2M 4AA

Solicitor

Dentons UKMEA LLP
One Fleet Place
London
EC4M 7WS

Marshall Motor Holdings Limited

Strategic Report

For the 15 months ended 31 March 2022

The Directors present their report on the affairs of the Group, together with the financial statements and Independent Auditor's Report, for the 15 months ended 31 March 2022 (the "period").

Review of the business and key performance indicators

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

On 21 December 2021, the Group changed its accounting reference date to 31 March, consequently these consolidated financial statements are presented for the 15 month period ended 31 March 2022, the comparative period remains the year ended 31 December 2020.

In the 15 months ended 31 March 2022, reported revenue increased to £3.8bn, a growth of £1.6bn versus 2020 (74.6%). While this reflects the comparison of a 15-month period with a 12-month period, there was also contribution from the acquisitions in the period, most noticeably the Motorline group of companies.

Gross margins in the period, at 12.2% (year ended 31 December 2020: 11.1%), benefitted from significant market tailwinds. In particular, the unprecedented used vehicle value appreciation and the favourable demand-to-supply conditions for both new and used vehicles.

Underlying operating expenses increased by £142.7m to £349.8m (year ended 31 December 2020: £207.1m). While this increase was mainly driven by the change in accounting reference date, it also reflects the impact of acquisitions in the period and the continuation of sector-wide cost pressures.

The Group delivered underlying profit before tax of £95.2m in the period (year ended 31 December 2020: £20.9m).

There was a net cash inflow from operations of £141.6m (year ended 31 December 2020: £96.0m), which was mainly the result of the increase in operating profit versus 2020.

The Group's main KPIs are revenue, gross profit and number of vehicle units sold.

15 months ended 31 March 2022

	Revenue		Gross Profit	
	£m	mix*	£m	mix*
New Vehicles	1,565.2	40.7%	125.2	27.4%
Used Vehicles	1,889.1	49.2%	147.6	32.3%
Aftersales	386.4	10.1%	184.0	40.3%
Internal Sales / Other	(79.9)	-	0.4	-
Total	3,760.9	100.0%	457.3	100.0%

Year ended 31 December 2020

	Revenue		Gross Profit	
	£m	mix*	£m	mix*
New Vehicles	988.1	44.9%	65.1	27.4%
Used Vehicles	971.1	44.1%	63.7	26.8%
Aftersales	240.6	11.0%	108.6	45.8%
Internal Sales / Other	(45.4)	-	0.8	-
Total	2,154.4	100.0%	238.2	100.0%

* Revenue and gross profit mix calculated excluding internal sales / other

Marshall Motor Holdings Limited

Strategic Report (continued)

For the 15 months ended 31 March 2022

Review of the business and key performance indicators (continued)

New Vehicles

	15 Months Ended 31 March 2022	12 Months Ended 31 December 2020	Variance
New Retail Units	41,771	27,913	49.6%
Fleet Units	26,505	15,021	76.5%
Total New Units	68,276	42,934	59.0%

The response to COVID-19 and the associated social and economic disruptions continued to impact the new vehicle market during the period. Whilst trading during the third national lockdown from 4 January 2021 to 12 April 2021 was impacted by the closure of our physical showrooms, we continued to operate effectively on a 'click and collect' basis during this period.

Vehicle production was also disrupted in the second half of 2021, with the well-documented global shortage of semiconductors being the primary driver, curtailing new vehicle supply.

As reported by the Society of Motor Manufacturers and Traders ('SMMT'), total registrations of new vehicles in the UK during 2021 were 1.65m, up only 1.0% on 2020. While new car registrations to retail customers increased by 7.4% in the 12 months to December 2021, registrations to fleet customers fell by 4.4%. This was largely due to a focus on supply to retail customers, and some disruption to the normal cycle of the fleet market.

For the three-month period to 31 March 2022, new vehicle supply issues continued. SMMT reported a decline in total new registrations of 1.9%, with the disparity between new retail and fleet registrations becoming more pronounced, where we saw both an increase of 22.1% and a decline of 20.5% respectively.

The Group's total new unit sales in the period were 68,276, up 59.0% compared to the year ended 31 December 2020. Unit sales to new retail customers increased 49.6% and sales to fleet customers increased by 76.5%.

Total new car revenue in the period was £1,565.2m (year ended 31 December 2020: £988.1m).

During the period the Group delivered a £60.1m increase in gross profit to £125.2m, with an increase in gross margin of 141bps to 8.0% primarily driven by supply constraints.

Used Vehicles

	15 Months Ended 31 March 2022	12 Months Ended 31 December 2020	Variance
Total Used Units	77,308	44,505	73.7%

The SMMT reported that the used vehicle market in the UK increased by 11.5% for the 12 months to December 2021, with a further increase of 5.1% for the 3 months to March 2022.

The market benefitted from exceptional market conditions where vehicle values increased by over 14.1% in Q2 2021, driven by the imbalance of supply and demand as well as restrictions in new vehicle supply. Market conditions started to normalise from November 2021, with used car pricing starting to follow a more traditional depreciation curve.

The Group's total used vehicle unit sales increased during the period, from 44,505 in 2020 to 77,308, up 73.7%. Total used car revenue in the period was £1,889.1m (year ended 31 December 2020: £971.1m).

Gross profit in used vehicles increased from £63.7m in 2020 to £147.6m in the period.

Gross margin in the period was 7.8% (compared to 6.6% in 2020), driven principally by aforementioned market tailwinds. Record retail margins were boosted by strong profits on the disposal of trade vehicles.

Marshall Motor Holdings Limited

Strategic Report (continued)

For the 15 months ended 31 March 2022

Review of the business and key performance indicators (continued)

Aftersales

	15 Months Ended 31 March 2022	12 Months Ended 31 December 2020	Variance
Revenue (£m)	386.4	240.6	60.6%

Aftersales continued to be impacted by the COVID-19 pandemic in the period as a consequence of MOT and servicing deferrals in H1 2020, higher-than-average levels of technician vacancies and absences, and availability of parts. In addition, the decline in the number of vehicles in the core less than three-year-old category, due to reduced new vehicle registrations in the last two years, along with fewer journeys being undertaken in the early part of FY22 due to lockdowns, contributed to a decline in underlying demand.

Total aftersales revenue in the period was up 60.6% to £386.4m (year ended 31 December 2020: £240.6m).

Aftersales gross margin improved by 249bps to 47.6% (2020: 45.1%).

Tax

The Group's tax charge before non-underlying items for the period was £19.0m (year ended 31 December 2020: £4.4m), an underlying effective tax rate of 20.0% (year ended 31 December 2020: 21.1%).

The Group's total reported effective tax rate differs from this due to the deferred tax charge arising following the substantive enactment of the planned increase in the standard rate of corporation tax to 25% from April 2023.

Acquisitions and disposals

During the period, the Group acquired three new businesses:

- In May 2021, the Group acquired the business and assets of Cheltenham and Gloucester Jaguar Land Rover from Heritage Automotive Limited. The acquisition included the purchase of a three-acre development site in the territory at which the Group plans to develop a new dual arch Jaguar Land Rover facility. Cheltenham and Gloucester are key territories for the Jaguar and Land Rover brands. Whilst the business was significantly loss-making in 2020. The Group now operates seven Jaguar and nine Land Rover businesses and is a key UK partner for each brand.
- In June 2021, the Group completed the acquisition of Leicester Nissan from Renault Retail Group. This acquisition included the purchase of the three-acre site from which the business operates. This acquisition strengthened the Group's relationship with Nissan in the East Midlands and again, whilst the business has historically been marginally loss-making, Leicester is considered to be a key territory for Nissan and we are confident of its future success.
- In October 2021, the Group announced the strategic acquisition of the entire issued share capital of Motorline Holdings Limited, for cash consideration of £64.0m. This acquisition added 48 operating franchises including Toyota, Lexus, Hyundai, Nissan, Peugeot, Volkswagen, Audi, ŠKODA and Maserati; within locations across Kent, West Sussex, Surrey, Berkshire, Bristol, South Wales and the West Midlands. This acquisition was completed with the support of brand partners, both new and existing. The acquisition balance sheet is set out in Note 14. This includes the recognition of £10.2m of goodwill and £45.7m of additional intangible assets. The property leases associated with this transaction led to an increase in right-of-use assets and lease liabilities of £119.8m and £118.9m respectively.

The Group also disposed of or closed 11 businesses during the period:

- Newbury Honda
- Maidstone Maserati
- Newbury Nissan
- Motorline Drive Now used car sites
- Cambridge Used Cars
- Sydenham Audi Used Vehicle Franchise
- Brighton TPS
- Grimsby VW

On 31 July 2022 the Group disposed of the Kia franchise in Scunthorpe.

At the date of this report, the Group consists of 160 franchises representing 26 brand partners trading in 37 counties nationwide. In addition, the Group operates nine trade parts specialists, three used car centres, five standalone body shops and a pre-delivery inspection (PDI) centre.

Marshall Motor Holdings Limited

Strategic Report (*continued*)

For the 15 months ended 31 March 2022

Review of the business and key performance indicators (*continued*)

Change in ownership and delisting

On 29 November 2021 the Group received a conditional offer for the entire issued and to be issued share capital of the Company from CAG Vega 2 Limited, this offer was subsequently accepted by the shareholders and became unconditional on 11 May 2022. On 16 May 2022 the Company made an application for the cancellation of trading of the Company's shares on Alternative Investment Market, with trading ceasing on 15 June 2022. The company is now a wholly owned subsidiary of CAG Vega 2 Limited a member of the Constellation Automotive Group of companies.

Non-underlying items

The Consolidated Statement of Comprehensive Income includes 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 period comprise of the following:

- Restructuring costs of £7.7m. These comprise of £5.0m in association with the Group's change of ownership, £1.5m associated with the closure of eight of the Group's franchised dealerships primarily resulting from a review of the Group's portfolio following the acquisition of the Motorline businesses, £0.7m of costs associated with the integration of the Motorline businesses as well as £0.4m relating to system enhancement expenditure.
- Acquisition costs of £3.5m relating to transactions completed within the period.
- The Group sold the last two premises remaining in its investment property portfolio for a combined profit of £0.9m.

Freehold land and buildings

The Group incurred a total of £23.7m in capital expenditure during the period. This included £12.1m for the purchase of Tunbridge Wells Audi, £4.5m for Beckenham Audi and £1.3m for South Lakes Mercedes.

The NBV of the group's property, plant and equipment at 31 March 2022 was £215.2m (2020: £158.3m), of which £173.8m relates to freehold land and buildings (2020: £123.7m). The property strategy remains key to the Group's success with appropriate freehold purchases reducing ongoing operating costs.

Working capital

During the period, the Group benefited from a working capital inflow of £4.6m (2020: £43.2m) supported by extended stock facilities and strong working capital management, with a particular focus on debt collection.

Net debt and facilities

At 31 March 2022, the Group's adjusted net cash was £15.6m (31 December 2020: £28.8m).

The Group's current finance facilities include a £60m revolving credit facility, which is committed until 30 September 2024. The Group is also in active negotiation with various lenders regarding a new revolving credit facility which is expected to deliver increased flexibility as well as lower funding costs.

Net debt (including IFRS 16 lease liabilities) as at 31 March 2022 was £193.7m (31 December 2020: £70.5m).

Pensions

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

Dividend

In light of the financial performance of the Group, the Board announced the resumption of dividend payments during August 2021. An interim dividend of 8.86p per share (2020 interim dividend: nil) was paid in September 2021 to shareholders on the Company's register as at close of business on 20 August 2021.

Marshall Motor Holdings Limited

Strategic Report (continued)

For the 15 months ended 31 March 2022

Principal risks and uncertainties

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

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 15 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.

The COVID-19 pandemic caused major disruption to businesses across the world, including the Group. Certain business interruption risk remains; however, due to the success of the vaccination programmes and other measures implemented by health and other government authorities, the inherent risk has reduced. To reflect the reduction in this risk, the impacts and mitigating actions arising are contained within the overall Business Interruption risk.

The previously reported risks associated with Brexit have been removed as the UK's exit from the European Union materialised without significant impact to the business.



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 Group's ability to continue operating at planned levels	<ul style="list-style-type: none"> The Group misses its financial targets Reduction in confidence of key stakeholders Reputational damage impacting employees and customers <p>Impacts of COVID-19 pandemic:</p> <ul style="list-style-type: none"> Emerging Covid variants continue to bring uncertainty regarding the possibility of future disruption Government support for any future business disruption is unknown and therefore the risk of impact to Group profitability remains Global supply chains have been disrupted, in particular the supply of semi-conductors and parts, both of which have had an adverse impact on the production of new vehicles. This has temporarily inflated used-car prices, although the impact is expected to lessen 	<ul style="list-style-type: none"> 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 Board to all employees as and when required enabling changes to be implemented promptly The Directors continue to assess the impacts and mitigating measures as part of 'business as usual' Protocols have been designed and tested throughout the pandemic and can be re-implemented as and when required 	<div></div> <div></div>

Marshall Motor Holdings Limited

Strategic Report (continued)

For the 15 months ended 31 March 2022

Principal risks and uncertainties (continued)

Risk	Impact	Mitigations	Risk Trend*
Strategy and Business Relationships			
Failure to adopt the right business strategy and/or failure to implement strategy successfully	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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. 	
Manufacturer relationships	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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 Leadership Team, Operations, Commercial and Franchise Directors) to ensure our respective goals are communicated, understood and aligned Continued track record of achieving brand targets, being a partner whom the brands can trust 	

Marshall Motor Holdings Limited

Strategic Report (continued)

For the 15 months ended 31 March 2022

Principal risks and uncertainties (continued)



Risk	Impact	Mitigations	Risk Trend*
Strategy and Business Relationships (continued)			
Failure to integrate acquisitions successfully	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Detailed business planning and due diligence on potential acquisitions Integration plan developed prior to acquisition and implemented in a timely manner thereafter 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 	<div></div> <div></div>
Disruption to franchise business model	<ul style="list-style-type: none"> Alternative business models impacting franchised dealer model, for example the proposed move to an agency arrangement Direct sales channels circumventing franchised dealers 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 	<ul style="list-style-type: none"> 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 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 	<div></div> <div></div>

Marshall Motor Holdings Limited

Strategic Report (continued)

For the 15 months ended 31 March 2022

Principal risks and uncertainties (continued)




Risk	Impact	Mitigations	Risk Trend*
Economic and Political			
Deterioration in economic conditions/ consumer confidence	<ul style="list-style-type: none"> 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 financing leading to increased costs of servicing the Group's borrowings 	<ul style="list-style-type: none"> 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 and reporting provided through the Group's bespoke Phoenix information system. Stock level information is used to enforce the Group's prudent stock policies (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 	
Increased operating costs	<ul style="list-style-type: none"> Increased operating and non-controllable costs (e.g. employment costs, Apprentice Levy, business rate changes, IT and marketing costs) impacting profitability and the impact of macro-economic events on energy prices Ongoing high inflation throughout the supply chain and in particular in fuel and energy prices reduce profitability 	<ul style="list-style-type: none"> 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 The Group is working with an energy service provider to obtain the best market prices and is contracting, where appropriate, to reduce short term volatility of unit energy costs. In addition, reporting on energy usage is provided to sites which incorporates recommendations to reduce energy usage 	

Marshall Motor Holdings Limited

Strategic Report (continued)

For the 15 months ended 31 March 2022

Principal risks and uncertainties (continued)

Risk	Impact	Mitigations	Risk Trend*
Finance and Treasury			
Liquidity and credit	<ul style="list-style-type: none"> Credit availability/withdrawal of financing facilities impacting trading ability Breach of covenants or inability to meet debt obligations Increased stock funding costs 	<ul style="list-style-type: none"> The Group has access to £60m of committed facilities available until September 2024 under the revolving credit facility agreement 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	<ul style="list-style-type: none"> Fluctuations in used vehicle values adversely impacting the value of the Group's vehicle inventory A sudden correction to the recent appreciation in used vehicle values adversely impacting the Group's forecasts and profitability 	<ul style="list-style-type: none"> Stock management and monitoring Regular pricing reviews 	
Legal and Regulatory			
Legal and regulatory changes and compliance	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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 	

Marshall Motor Holdings Limited

Strategic Report (continued)

For the 15 months ended 31 March 2022

Principal risks and uncertainties (continued)




Risk	Impact	Mitigations	Risk Trend*
Environmental and Health & Safety			
Environmental and Health & Safety	<ul style="list-style-type: none"> Failure to ensure colleagues and customers safe places of work 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 	<ul style="list-style-type: none"> The Group Environment, Health & Safety team develop and support sites in implementing policies and procedures to promote safe places of work. These procedures include: <ul style="list-style-type: none"> 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 	<div></div> <div></div>
Climate Change	<ul style="list-style-type: none"> Inability to meet the increasing consumer demand for EV impacting profitability and inability to adequately service EV due to lack of skilled technicians and/or over investment in skills not yet required leading to loss of customers and profitability Unplanned or increased costs relating to extreme weather events Reputational impact of not meeting regulatory, legislative requirements and/or stakeholder expectations regarding mitigation of climate change risks 	<ul style="list-style-type: none"> Our brand partners are driving the change towards greener technologies The Group is closely monitoring EV demand and sales in order to assess differences in aftersales profitability, ensure the appropriate mix of skills in aftersales and to develop mitigation strategies such as marketing and loyalty programs for EV customers The direct risk of extreme weather events is mitigated as sites are spread geographically across the country The Group continues to monitor future regulatory, legislative and consumer expectations on mitigating climate risks to ensure the strategies and plans are developed accordingly 	<div></div> <div></div>

Marshall Motor Holdings Limited

Strategic Report (continued)

For the 15 months ended 31 March 2022

Principal risks and uncertainties (continued)

Risk	Impact	Mitigations	Risk Trend*
IT and Cyber Security			
Failure of key IT systems	<ul style="list-style-type: none"> Loss of key information systems, downtime and business interruption 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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, reputational damage, unplanned recovery costs and fines for data breaches. 	<ul style="list-style-type: none"> 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: <ul style="list-style-type: none"> Network unified threat management / Firewall Anti-virus software Inbound and outbound email scanning and filtering A cyber awareness program has been implemented to provide user friendly training to colleagues Security Steering Committee chaired by the Chief Information Security Officer with representatives across the business, for the coordination of cyber and information security throughout the Group. A benchmarking exercise has been completed and this committee will oversee the development and implementation of a security improvement programme to further mitigate this increasing risk. 	
People			
Failure to attract, develop, motivate and retain key employees	<ul style="list-style-type: none"> Loss of key personnel and skilled workers (e.g. technicians) impacting operational performance, and relationships with key brand partners and suppliers Financial cost to the business to attract and retain colleagues in all areas of the business exacerbated by increased competition for the best talent due to economic recovery, increase to National Minimum wage and Living wage and overall shortage of skilled labour 	<ul style="list-style-type: none"> 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 Succession planning for senior roles 	

Marshall Motor Holdings Limited

Strategic Report (*continued*)

For the 15 months ended 31 March 2022

Financial risk management

Business activities are carried out under normal trade terms; these terms and relationships with suppliers and customers are regularly reviewed. The Group has a treasury arrangement providing access to all subsidiary undertakings to group wide facilities. Funding requirements are managed on a group wide basis.

The Group does not use financial derivatives and does not enter into financial instruments, including derivative financial instruments, for speculative purposes.

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

Board decision making (s172 statement)

The Board is accountable to shareholders for the management, performance and long-term success of the Group and 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 Group and 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 Group's and the Company's employees;
- (iii) the need to foster the Group's and the Company's business relationships with suppliers, customers and others;
- (iv) the impact of the Group's and the Company's operations on the community and the environment;
- (v) the desirability of the Group's and the Company maintaining a reputation for high standards of business conduct; and
- (vi) the need to act fairly as between members of the Group and Company.

Section 172 therefore requires the Board to consider wider stakeholder interests when discharging their duty to promote the success of the Group and 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 15 months ended 31 March 2022.

Stakeholder Group	Interests	How does the Group Engage and Respond
Customers	<ul style="list-style-type: none">• 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.	<ul style="list-style-type: none">• 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. <p>Monitoring of customer complaints to identify any themes, with appropriate actions taken to address identified issues.</p>

Marshall Motor Holdings Limited

Strategic Report *(continued)*

For the 15 months ended 31 March 2022

Board decision making (s172 statement) *(continued)*

Stakeholder Group	Interests	How does the Group Engage and Respond
Employees	<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • Regular communications from the senior management team, colleague magazine, intranet, regular team meetings and engaging social media channels. • Annual employee survey 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 through the Group's 'Above and Beyond' awards programme. • 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
Suppliers	<ul style="list-style-type: none"> • A collaborative, open and supportive relationship • Prompt, clear and responsive communications 	<ul style="list-style-type: none"> • 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.
Communities	<ul style="list-style-type: none"> • Responsible investment, development and operations • Delivery of employment opportunities • Support for local communities and national causes 	<ul style="list-style-type: none"> • 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 5,000 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.
Shareholders	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • Track record of strong financial performance. • Successful growth through strategic acquisitions that have been appropriately integrated into the Group. • Clear and transparent financial reporting.
Funders	<ul style="list-style-type: none"> • Open and honest relationship with clarity as to business performance • Financial discipline backed by strong internal controls which enables delivery of commitments. 	<ul style="list-style-type: none"> • Clear and transparent financial reporting. • Relationships with all funders at a senior level within the Group. • Strong day-to-day working relationships between Group and funder operational staff.

Marshall Motor Holdings Limited

Strategic Report *(continued)*

For the 15 months ended 31 March 2022

Board decision making (s172 statement) *(continued)*

During the period, the following key decisions were taken by the Board, in respect of which the Board considered its duties under Section 172:

- **Reinstatement of Dividends:** In August 2021, the Company announced the reinstatement of dividend payments following their suspension during the COVID-19 pandemic. In making the decision to reinstate the payment of dividends, the Board considered not only the interests of its shareholders and the Company's financial capacity to pay dividends, but also the interests of other stakeholders. The Company had suspended the payment of dividends in 2020, in part, in recognition of the significant support received both from Government measures such as business rates relief and CJRS. Dividends were reinstated in the period only after the repayment by the Company of 2021 business rates relief and CJRS support.
- **Acquisition of Motorline Holdings Limited:** The Company acquired the entire issued share capital of Motorline Holdings Limited ("Acquisition") in October 2021. The Board considered the Acquisition in the context of its Section 172 duties and believed it to be in line with the Company's growth strategy and to be in the long-term interests of the Company. The Board also believed the Acquisition strengthened the Company's relationships with key suppliers (including in particular, existing and new brand partners), provided further opportunities for its existing and new employees as part of a larger group and was in the interests of shareholders.
- **Recommended Offer from CAG Vega 2 Limited:** In December 2021, the Board recommended the offer from CAG Vega 2 Limited (a subsidiary of Constellation Automotive Holdings Limited) for the entire issued share capital of the Company at a price of £4.00 per share. The Board's decision to recommend the offer was made after careful consideration of both the financial terms of the offer and the interests of shareholders and also the impact of the offer on the Board's suppliers (including in particular, its brand partners) and the Company's employees, noting in particular Constellation's statements that it had no intention to make any changes to the conditions of employment or the balance of the skills and functions of the Company's employees or management.

Approval

This Strategic Report was approved by order of the Board on 27 September 2022.



R.J. Blumberger
Director

Marshall Motor Holdings Limited

Directors' Report

For the 15 months ended 31 March 2022

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 vehicles and associated activities.

Results and dividends

The results for the period are set out in the Consolidated Statement of Comprehensive Income. An interim dividend in respect of the 15 months ended 31 March 2022 of £6,931,000 representing a payment of 8.86p per ordinary share in issue at that time was paid in September 2021. The Directors are not recommending the payment of a final dividend for the period. For full details, see Note 13 'Dividends'.

Directors

The Directors of Marshall Motor Holdings Limited ("the Company") throughout the period and to the date of this Report are detailed below:

Non-Executive Directors

Timothy Lampert (appointed 11 May 2022)
Matthew Kelly (appointed 11 May 2022)
Alan Ferguson (resigned 11 May 2022)
Francesca Ecsery (resigned 11 May 2022)
Nicky Dulieu (resigned 11 May 2022)
Christopher Walkinshaw (resigned 11 May 2022)
Richard Parry-Jones (resigned 16 April 2021)
Kathy Jenkins (resigned 8 April 2021)

Executive Directors

Daksh Gupta (resigned 25 May 2022)
Richard Blumberger

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

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 Period, 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 Period and remain in force.

Independent 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 information of which the Group and 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 information and to establish that the auditor is aware of that information.

Charitable and political donations

During the Period, the Group made charitable donations of £24,000 (year ended 31 December 2020: £30,000).

No political contributions were made during the Period (year ended 31 December 2020: £nil).

Events since the balance sheet date

For full details of all such events see Note 34 'Events after the reporting period'.

Going concern

The 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 financial statements are signed. For these reasons, the Directors continue to adopt the going concern basis in preparing the financial statements. For further information on the going concern assessment see Note 1 'Basis of preparation and statement of compliance'.

Marshall Motor Holdings Limited

Directors' Report *(continued)*

For the 15 months ended 31 March 2022

Future developments

The Group's strategic vision is to be regarded as the UK's premier franchised automotive retailer. The Group will continue to focus on achieving this goal through:

- the performance optimisation of the business
- offering outstanding customer service
- demonstrating retailing excellence
- building strong relations with our brand partners and key suppliers, and
- by being a great place to work.

Employment of disabled persons

The Group gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes 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.

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.

Employee involvement

During the Period 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. The Group also participated in the Great Place to Work® UK's employee engagement programme. For the 2021 Survey, the participation rate remained high at 83% and the Group was once again included in the "Best UK Super Large Workplace" rankings for the seventh year in succession.

Business relationships

The Directors recognise that it is essential for the ongoing success and reputation of the Group to foster strong relationships with the stakeholder community. For full details of these considerations and the effect this regard has had on the principal decisions made in the Period, see the Board Decision Making (s172 Statement) section of the Strategic Report.

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 tCO₂e emissions factors relevant for the reporting period.

Marshall Motor Holdings Limited

Directors' Report (continued)

For the 15 months ended 31 March 2022

Streamlined Energy and Carbon Reporting (SECR) (continued)

Results

The table below shows the energy consumption and associated greenhouse gas emissions of the Group's operations during the reporting period from 1 January 2021 to 31 March 2022. 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.

	15 months ended 31 March 2022*		Year ended 31 December 2020**	
	Consumption (kWh)	Greenhouse Gas Emissions (tCO ₂ e)	Consumption (kWh)	Greenhouse Gas Emissions (tCO ₂ e)
Grid supplied electricity (Scope 2)	35,283,360	6,389	24,114,863	4,604
Gas and other fuels (Scope 1)	32,234,896	7,014	22,507,747	5,167
Transport fuel (Scope 1)	38,819,841	9,018	21,126,233	5,083
Total	106,338,097	22,421	67,748,843	14,854

	15 months ended 31 March 2022	Year ended 31 December 2020
Intensity Metric:		
tCO ₂ e per £'m Revenue	5.96	6.90

* The data for the 15 months ended 31 March 2022 includes data for the Motorline group of companies for the full period, not just the post acquisition period of 14 October 2021 to 31 March 2022.

** The prior year comparatives have been re-stated to include data for the Motorline group of companies.

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 its 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 2022/2023

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.

Approval

This Directors' Report was approved by order of the Board on 27 September 2022.



R.J. Blumberger
Director

Marshall Motor Holdings Limited

Statement of Directors' Responsibilities

For the 15 months ended 31 March 2022

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 are required to prepare the Group financial statements in accordance with UK adopted international accounting standards 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.

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 UK adopted international accounting standards 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 the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the 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.

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

For the 15 months ended 31 March 2022

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 March 2022 and of the Group's profit for the period then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- 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 Limited (the 'Parent Company') and its subsidiaries (the 'Group') for the period ended 31 March 2022 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 Consolidated and Company 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 UK adopted international accounting standards. 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 UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

- Reviewed the Directors' assessment of going concern through analysis of the Group's cash flow forecast through to 31 December 2023, 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 continuing impact of the COVID-19 pandemic as well as the cost-of-living crisis on the forecasts, within which the Directors have built three 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 the Directors' downside scenarios. These scenarios all cover the period since the delisting of the Group after the period end.
- We considered the likelihood of each scenario happening and considered what actions the Group has available should there be a potential covenant breach.
- Reviewed the adequacy and appropriateness of disclosures in the financial statements regarding the going concern assessment to ensure its consistency with the Directors' forecasts and the relevant accounting standards.

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 and the Parent Company'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.

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

(continued)

For the 15 months ended 31 March 2022

Overview

Coverage	100% (2020: 100%) of Group profit before tax 100% (2020: 100%) of Group revenue 100% (2020: 100%) of Group total assets		
Key audit matters	Vehicle inventory provisions Assessment of the carrying value of goodwill and other intangible assets Going concern Acquisition of Motorline Holdings Limited The assessment of the carrying value of goodwill and other intangible assets and going concern are no longer considered to be key audit matters because of the improved results of the Group in the period and the forecast future performance.	2022 ✓ ✓ ✓	2020 ✓ ✓ ✓
Materiality	Group financial statements as a whole £5,950k (2020: £967k) based on 7% of profit before tax (2020: 5% of profit before tax over the last 3 periods)		

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.

Our audit work in the respect of the Group was based on the aggregated consolidated position at the period end and a fully substantive audit was conducted on the consolidated position using the group materiality level. At 31 March 2022, the Group had 46 components whose transactions and balances are included in the consolidated accounting records. Of these components only one, Marshall Motor Group Limited, was considered to be significant. Each component's financial information could be selected for the purpose of representative sampling and key item testing in line with the approach outlined above.

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.

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

(continued)

For the 15 months ended 31 March 2022

An overview of the scope of our audit (continued)

Key audit matters (continued)

Key audit matter		How the scope of our audit addressed the key audit matter
Vehicle inventory provisions <i>Please refer to Note 18, accounting policies in Note 2, and key sources of estimation uncertainty in Note 4</i>	<p>The Group has a significant holding of new and used vehicle inventory.</p> <p>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 £15.1m.</p> <p>Value volatility is in response to market conditions and is deemed a higher risk in relation to used, demonstrator and pre-registered vehicle inventory.</p> <p>The valuation of vehicle inventory provisions is subject to management judgement and is, therefore, a key audit matter.</p>	<p>We gained an understanding of the method applied by management in performing its inventory provisioning calculation and checked that the methodology was being applied in line the Group's policy.</p> <p>We recalculated management's provision and agreed the valuation of inventory to post period-end sales (if the vehicle was sold) to check that these inventories are valued at the lower of cost and net realisable value and compared this to the amounts provided.</p> <p>We discussed the risk of impairment in respect of the unsold vehicles with management. This involved consideration of the sales rate for vehicles and the expected future changes in vehicle values by reference to industry expert forecasts. In addition, we have valued all unsold vehicles to independent valuation data (CAP) to corroborate management judgements over the fall in vehicle values.</p> <p>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 period to the comparable period in the prior year.</p> <p>Key observations: Based on the procedures performed, management's judgements in determining the inventory provisions are appropriate</p>
Acquisition of Motorline Holdings Limited <i>Please refer to Note 14, accounting policies in Note 2, and key sources of estimation uncertainty in Note 4.</i>	<p>The Group acquired the entire share capital of the Motorline Holdings Limited group during the period. The acquisition resulted in the recognition of intangible assets at fair value of £45.7m and goodwill of £11.2m.</p> <p>Management has recognised on acquisition separately identifiable intangible assets in respect of the franchise agreements, exercising judgement in estimating the fair value for each one. A third party expert was commissioned by management to assist with the purchased price allocation.</p> <p>There is also complexity in complying with the disclosure requirements of IFRS 3 'Business Combinations'.</p> <p>The matter is considered a key audit matter as a result of the judgement and estimation involved in determining the fair value of the identified intangible assets.</p>	<p>In respect of the fair value of the consideration, we reviewed management's calculation with reference to the sale and purchase agreement and agreed the cash consideration to the payment made to the bank statements.</p> <p>We checked and confirmed that the acquisition accounting exercise had been carried out in accordance with applicable accounting standards by considering the requirements under IFRS 3.</p> <p>In relation to management's estimates in respect of the fair value of the assets and liabilities acquired:</p> <ul style="list-style-type: none"> • We checked management's workings relating to the estimates in respect of the fair value of the assets and liabilities acquired to supporting third party evidence where applicable, such as property valuations. • We assessed the competence, capability, independence and objectivity of management's expert who performed the purchase price allocation exercise. • We assessed the valuation of the intangible assets that were considered separately identifiable on acquisition, testing the key inputs in the valuation model with reference to data such as management's forecasts and, with the assistance of our internal valuations experts, reviewed the appropriateness of the key assumptions, such as estimated discount rates, and the methodology applied in the model. • We also considered management's completeness of the separately identifiable intangible assets with reference to our understanding of the business and key motivations of the transaction. <p>In respect of the disclosures we assessed the relevant notes in accordance with the requirements of IFRS 3.</p> <p>Key observations: Based on the procedures performed, we consider that the acquisition has been appropriately recognised in the financial statements.</p>

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

(continued)

For the 15 months ended 31 March 2022

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	
	2022	2020	2022	2020
Materiality	£5,950k	£967k	£2,700k	£600k
Basis for determining materiality	7% of profit before tax (2020: 5% of profit before tax over the last 3 periods)		3% of net assets (2020: 62% of Group materiality)	
Rationale for the benchmark applied	We considered 7% (2020: 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. In 2020 materiality was calculated as a percentage of Group materiality due to aggregated consideration of significant component materiality levels.	
Performance materiality	£4,463k	£580k	£2,025k	£360k
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 75% (2020: 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 75% (2020: 60%).	

Component materiality

No specific component materiality was set as our approach was to audit the Group financial statements as a whole as if it were one entity. This meant that transactions and balances from all components were able to be selected as part of our testing. The Group materiality and performance materiality figures disclosed above were used.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £250,000 (2020: £19,000). 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.

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

(continued)

For the 15 months ended 31 March 2022

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	<p>In our opinion, based on the work undertaken in the course of the audit:</p> <ul style="list-style-type: none">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; andthe Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements. <p>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.</p>
Matters on which we are required to report by exception	<p>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:</p> <ul style="list-style-type: none">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; orthe Parent Company financial statements are not in agreement with the accounting records and returns; orcertain disclosures of Directors' remuneration specified by law are not made; orwe 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. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group (and wider motor retail industry) and determined that the most significant frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework, rules of the London Stock Exchange for companies trading securities on AIM, the Companies Act 2006, FCA compliance and relevant tax compliance regulations. We understood how the Group is complying with those frameworks by making enquiries of management and those responsible for legal and compliance procedures;
- We had 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;

Independent Auditor's Report to the Members of Marshall Motor Holdings Limited *(continued)* **For the 15 months ended 31 March 2022**

Auditor's responsibilities for the audit of the financial statements *(continued)*

Extent to which the audit was capable of detecting irregularities, including fraud *(continued)*

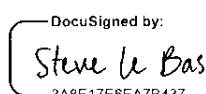
- Our audit planning identified fraud risks in relation to management override and the inappropriate or incorrect recognition of revenue. Within management override we have considered key areas of estimate and judgement such as vehicle inventory provisions and the accounting for acquisitions (both assessed as a Key Audit Matter above). We carried out procedures to check that revenue was recognised in the correct period. We obtained an understanding of the processes and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how management monitors those processes and controls;
- Our audit team included motor dealership specialists to ensure the audit team had the appropriate competence and knowledge to identify any indications of fraud or non-compliance with laws and regulations throughout the audit;
- 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. We also performed an assessment on the appropriateness of key judgements and estimates which are subject to management's judgement and estimation, and could be subject to potential bias; and
- We discussed the risks of fraud at planning and communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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.

DocuSigned by:

3A8E17E8EA7B437

Stephen Le Bas (Senior statutory auditor)
For and on behalf of BDO LLP, Statutory Auditor
Southampton, UK
27 September 2022

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

Marshall Motor Holdings Limited
Consolidated Statement of Comprehensive Income
For the 15 months ended 31 March 2022

		15 months ended 31 March 2022			Year ended 31 December 2020		
	Note	Underlying items £'000	Non-underlying items £'000	Total £'000	Underlying items £'000	Non-underlying items £'000	Total £'000
Revenue	5	3,760,882	-	3,760,882	2,154,415	-	2,154,415
Cost of sales		(3,303,604)	-	(3,303,604)	(1,916,225)	-	(1,916,225)
Gross profit		457,278	-	457,278	238,190	-	238,190
Net operating expenses		(349,813)	(10,209)	(360,022)	(207,068)	(590)	(207,658)
Operating profit		107,465	(10,209)	97,256	31,122	(590)	30,532
Net finance costs	10	(12,296)	-	(12,296)	(10,176)	-	(10,176)
Profit before taxation	6	95,169	(10,209)	84,960	20,946	(590)	20,356
Taxation	11	(19,031)	(6,610)	(25,641)	(4,425)	(2,011)	(6,436)
Profit from continuing operations after tax		76,138	(16,819)	59,319	16,521	(2,601)	13,920
Total comprehensive income for the year net of tax		76,138	(16,819)	59,319	16,521	(2,601)	13,920
Earnings per share (EPS) attributable to equity shareholders of the parent (pence per share)							
Basic	12	97.3		75.8	21.1		17.8
Diluted	12	94.1		73.3	20.6		17.4

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

Marshall Motor Holdings Limited
Consolidated Balance Sheet
At 31 March 2022

Company Registration Number: 02051461

		15 months ended 31 March 2022	Year ended 31 December 2020
	Note	£'000	£'000
Non-current assets			
Goodwill and other intangible assets	14	176,124	119,533
Property, plant and equipment	15	215,246	158,303
Right-of-use assets	16	213,926	98,832
Investment property	17	-	1,498
Non current financial assets	16	1,190	1,334
Total non-current assets		606,486	379,500
Current assets			
Inventories	18	446,047	362,879
Trade and other receivables	19	128,688	65,780
Cash and cash equivalents	20	27,698	33,844
Assets classified as held for sale	21	-	703
Current tax assets		-	295
Total current assets		602,433	463,501
Total assets		1,208,919	843,001
Non-current liabilities			
Loans and borrowings	23	10,683	4,383
Lease liabilities	16	162,404	88,383
Trade and other payables	22	12,092	6,008
Provisions	24	1,401	540
Deferred tax liabilities	25	46,387	22,715
Total non-current liabilities		232,967	122,029
Current liabilities			
Loans and borrowings	23	1,428	641
Lease liabilities	16	46,867	10,961
Trade and other payables	22	650,726	491,248
Provisions	24	3,710	2,190
Current tax liabilities		1,018	-
Total current liabilities		703,749	505,040
Total liabilities		936,716	627,069
Net assets		272,203	215,932
Shareholders' equity			
Share capital	28	50,068	50,068
Share premium	28	19,672	19,672
Share-based payments reserve	29	5,617	1,586
Own shares reserve	28	-	(12)
Retained earnings		196,846	144,618
Total equity		272,203	215,932

The consolidated financial statements of Marshall Motor Holdings Limited were approved for issue by the Board of Directors on 27 September 2022.


R.J. Blumberger
Director

Marshall Motor Holdings Limited
Consolidated Statement of Changes in Equity
For the 15 months ended 31 March 2022

	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 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	-	-	560	-	-	560
Balance at 31 December 2020		50,068	19,672	1,585	(12)	144,618	215,931
Profit for the period		-	-	-	-	59,319	59,319
Total comprehensive income		-	-	-	-	59,319	59,319
Transactions with owners							
Dividends paid	13	-	-	-	-	(6,931)	(6,931)
Acquisition of own shares	29	-	-	-	(535)	-	(535)
Exercise of share options	29	-	-	(959)	547	(160)	(572)
Share-based payments charge	29	-	-	4,991	-	-	4,991
Balance at 31 March 2022		50,068	19,672	5,617	-	196,846	272,203

Marshall Motor Holdings Limited
Consolidated Cash Flow Statement
For the 15 months ended 31 March 2022

		15 months ended 31 March 2022	Year ended 31 December 2020
	Note	£'000	£'000
Operating profit		97,256	30,532
Adjustments for:			
Depreciation and amortisation	6	34,730	22,515
Share-based payments charge		6,700	668
Profit on disposal of assets classified as held for sale	6	(86)	(1,563)
Loss on disposal of property plant and equipment	6	409	402
Profit on disposal and remeasurement of right-of-use assets and lease liabilities	6	(1,843)	(318)
Loss on impairment of goodwill and other intangible assets	6	-	193
Loss on impairment of right-of use assets	6	698	527
Loss on impairment of property, plant and equipment	6	-	25
Profit on disposal of investment property	6	(913)	(148)
Cash flows from operating activities before working capital		136,951	52,833
(Increase)/decrease in inventories		13,182	109,154
(Increase)/decrease in trade and other receivables		(32,193)	20,640
Increase/(decrease) in trade and other payables		21,761	(85,978)
Increase/(decrease) in provisions		1,880	(654)
Total cash flows generated by operations		141,581	95,995
Tax paid		(16,917)	(5,700)
Interest paid on lease liabilities		(4,177)	(3,103)
Other net finance costs		(8,214)	(7,073)
Net cash inflow from operating activities		112,274	80,119
Investing activities			
Purchase of property, plant, equipment and software	14/15	(38,617)	(11,722)
Acquisition of businesses, net of cash acquired	14	(54,352)	(2,944)
Lease payments received under finance lease		136	185
Interest received under finance leases		95	83
Net proceeds from disposal of investment property		1,780	2,288
Proceeds from disposal of property, plant and equipment		2,276	329
Proceeds from disposal of assets classified as held for sale		712	2,360
Net cash outflow from investing activities		(87,970)	(9,421)
Financing activities			
Proceeds from borrowings		30,000	40,000
Repayment of borrowings		(31,213)	(65,641)
Repayment of lease liabilities		(21,133)	(11,323)
Dividends paid	13	(6,931)	-
Purchase of own shares	29	(535)	-
Settlement of exercised share awards	29	(638)	-
Net cash outflow from financing activities		(30,450)	(36,964)
Net (decrease)/increase in cash and cash equivalents		(6,146)	33,734
Cash and cash equivalents at 1 January	20	33,844	110
Cash and cash equivalents at period end	20	27,698	33,844

Marshall Motor Holdings Limited

Net Debt Reconciliation

For the 15 months ended 31 March 2022

		15 months ended 31 March 2022 £'000	Year ended 31 December 2020 £'000
Reconciliation of net cash flow to movement in net debt	Note		
Net (decrease)/increase in net cash and cash equivalents		(6,146)	33,734
Proceeds from drawdown of RCF	23	(30,000)	(40,000)
Repayment of drawdown of RCF	23	30,000	65,000
Loans acquired in the period	14	(8,300)	-
Repayment of other borrowings	23	1,213	641
Change in lease liability commitments	30	(131,061)	(2,582)
Repayment of lease liabilities	30	21,133	11,323
(Increase)/decrease in net debt		(123,160)	68,116
Opening net debt	30	(70,524)	(138,640)
Net debt at period end	30	(193,684)	(70,524)
Lease liabilities	16	(209,271)	(99,344)
Adjusted net cash at period end (non GAAP measure)		15,587	28,820
Net debt at period end consists of:			
Cash and cash equivalents	20	27,698	33,844
Loans and borrowings	23	(12,111)	(5,024)
Lease liabilities	16	(209,271)	(99,344)
Closing net debt	30	(193,684)	(70,524)

Marshall Motor Holdings Limited

Notes to the Consolidated Financial Statements

1. Presentation of the financial statements

General information

Marshall Motor Holdings Limited (the Company) is incorporated and domiciled in the United Kingdom. The Company is a private limited company, limited by shares. 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 Limited were authorised for issue by the Board of Directors on 27 September 2022.

Basis of preparation

The consolidated financial statements of the Company are prepared in accordance with UK-adopted 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 90). 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.

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.

UK-Adopted International Accounting Standards

On 31 December 2020 EU-adopted IFRS was transposed into UK law, becoming UK-adopted International Accounting Standards. From 1 January 2021 all future changes to IFRS are subject to endorsement by the UK Endorsement Board. These consolidated financial statements transitioned to being prepared in accordance with UK-adopted International Accounting Standards with effect from the financial period beginning 1 January 2021. This change constituted a change in accounting framework. However, given the nature of the change, it has had no impact on recognition, measurement or disclosure in the period.

Reporting period

On 11 May 2022 the entire share capital of the Company was acquired by CAG Vega 2 Limited, part of the Constellation Automotive Group. In anticipation of this change of ownership, to align the reporting period with that of the acquirer, all entities in the Group changed the end of the reporting period from 31 December to 31 March. Amounts presented for the 2022 reporting period are for a 15 month period. Comparative figures per the Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows and related notes are for a 12 month period.

Going concern

The consolidated financial statements are prepared on a going concern basis. Having considered the Group's forecast financial performance and cash flows, and after making appropriate enquiries, the Directors have a reasonable expectation that the Group has adequate financial 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.

When making their assessment, the Directors have considered the impacts on profitability of margin reductions prompted by the eventual easing of existing supply constraints as well as inflationary cost pressures. Furthermore, the impacts on consumer confidence of a prolonged economic downturn and continuing deterioration of real incomes have been factored into sensitivity scenarios. The Group is continuously monitoring and mitigating, where possible, the impacts of these risks.

Whilst the Group has net current liabilities, the Group has considerable financial resources available totalling £88 million as at 31 March 2022. These consist of £28 million of cash and cash equivalents as well as £60 million of committed, but undrawn, banking facilities made available under a revolving credit facility agreement due to expire in September 2024. The revolving credit facility is subject to leverage and fixed charge cover covenants. Forecasts indicate that the Group is expected to be compliant with these covenants throughout the forecast period. In addition, the Group has a number of term loans secured against certain property assets of the Group under which balances outstanding as at 31 March 2022 total £12 million. Only £1 million of borrowings are repayable within one year.

Marshall Motor Holdings Limited

Notes to the Consolidated Financial Statements

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

Going concern *(continued)*

To support the Group's working capital position, alongside the above core banking facilities, the Group also has access to a number of ancillary vehicle inventory funding arrangements of which £413 million were utilised as at 31 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.

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 exemptions

The consolidated financial statements include the results of all subsidiary undertakings owned by the Company as listed in Note 6 'Investments in Subsidiaries' on pages 89 and 90.

Certain of the Group's subsidiaries, listed below, have taken the exemption from an audit for the period ended 31 March 2022 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 Limited, has given a statutory guarantee of all the outstanding liabilities as at 31 March 2022 of the subsidiaries listed below.

The subsidiaries which have taken an exemption from audit for the period ended 31 March 2022 by virtue of s479A of the Companies Act 2006 are:

Astle Limited (reg no. 01114983)	Pentagon Limited (reg no. 01862751)
Crystal Motor Group Limited (reg no. 04813767)	Prep-Point Limited (reg no. 00660067)
Dealcairn Limited (reg no. 04073914)	Ridgeway Bavarian Limited (reg no. 07930214)
Exeter Trade Parts Specialists LLP (reg no. OC329331)	Ridgeway TPS Limited (reg no. 06112651)
Marshall North West Limited (reg no. 00322817)	S.G. Smith Automotive Limited (reg no. 00622112)
Marshall of Cambridge (Garage Properties) Limited (reg no. 02051459)	S.G. Smith (Motors) Beckenham Limited (reg no. 00648395)
Marshall of Ipswich Limited (reg no. 04447940)	S.G. Smith (Motors) Crown Point Limited (reg no. 00581711)
Marshall of Peterborough Limited (reg no. 04861074)	S.G. Smith (Motors) Forest Hill Limited (reg no. 00581710)
Marshall of Scunthorpe Limited (reg no. 01174004)	S.G. Smith Trade Parts Limited (reg no. 01794317)
Marshall of Stevenage Limited (reg no. 06450140)	Silver Street Automotive Limited (reg no. 00716748)
Motorline TPS Limited (reg no. 10474229)	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.

Marshall Motor Holdings Limited

Notes to the Consolidated Financial Statements

2. Accounting policies (*continued*)

Business combinations (*continued*)

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.

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. Licences 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.

Marshall Motor Holdings Limited

Notes to the Consolidated Financial Statements

2. Accounting policies (*continued*)

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.

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.

Marshall Motor Holdings Limited

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. 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.

Marshall Motor Holdings Limited

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.

Marshall Motor Holdings Limited

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'.

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.

Marshall Motor Holdings Limited

Notes to the Consolidated Financial Statements

2. Accounting policies *(continued)*

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.

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.

Marshall Motor Holdings Limited

Notes to the Consolidated Financial Statements

2. Accounting policies (continued)

Revenue recognition (continued)

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.

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. Consequently, 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.

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 contract 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.

Marshall Motor Holdings Limited

Notes to the Consolidated Financial Statements

2. Accounting policies (continued)

Revenue recognition (continued)

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.

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.

Marshall Motor Holdings Limited

Notes to the Consolidated Financial Statements

2. Accounting policies (continued)

Leases (continued)

Group as lessee (continued)

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.

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 through the Consolidated Statement of Comprehensive Income with a corresponding adjustment through the Consolidated Statement of Changes in Equity.

Marshall Motor Holdings Limited

Notes to the Consolidated Financial Statements

2. Accounting policies (*continued*)

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.

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

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.

Marshall Motor Holdings Limited

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.

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 2020.

New standards, amendments and interpretations adopted by the Group

The following amendments to existing standards became effective in January 2021 and have been adopted in the consolidated financial statements for the first time during the period ended 31 March 2022.

- Interest Rate Benchmark Reform – Phase 2: *Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16*

Two other amendments to existing standards apply for the first time with effect from 1 January 2021; 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

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

These amendments provide temporary reliefs that address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative, nearly risk-free interest rate. The amendments include the following practical expedients:

- Changes to contractual cash flows:
 - A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest. The reliefs have the effect that the changes that are required by an interest rate benchmark reform (that is, changes that are necessary as a direct consequence of IBOR reform and are economically equivalent) will not result in an immediate gain or loss being recognised in the Income Statement.
- Hedge accounting:
 - A practical expedient to permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued; and
 - A practical expedient to provide temporary relief from having to meet the separately identifiable requirement when a risk-free interest rate instrument is designated as a hedge of a risk component.

The Group will apply the practical expedient in relation to changes in contractual cash flows to all applicable lease contracts, funding facilities and discount rate calculations that reference, or are indexed to, an IBOR rate. These amendments have been assessed as having no significant financial or disclosure impact on the consolidated financial statements of the Group.

Marshall Motor Holdings Limited

Notes to the Consolidated Financial Statements

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

Impact on current period of the adoption of new standards, amendments and interpretations *(continued)*

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 *(continued)*

The Group does not have fixed-rate funding that is hedged using IBOR-based derivatives or any other hedging relationships, therefore, the reliefs available for hedge accounting are not applicable to the consolidated financial statements of the Group.

The Group intends to use these practical expedients in future periods if and when they become applicable.

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 have not yet been endorsed by the UK Endorsement Board. These standards have not been applied when preparing the consolidated financial statements for the period ended 31 March 2022.

It is not anticipated that application of the below will have a significant financial or disclosure impact in future periods.

	Date issued	Effective for accounting periods beginning on or after
Amendments to IFRS 3 Business Combinations - Updated reference to the Conceptual Framework for Financial Reporting.	May 2020	1 January 2022
Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets - Clarification of the nature of costs of fulfilling a contract that are in scope when making an onerous contract assessment.	May 2020	1 January 2022
Amendments to IAS 16 Property, Plant and Equipment - Guidance determining the treatment of sales proceeds while production assets are being prepared for their intended use.	May 2020	1 January 2022
IFRS 17 Insurance Contracts - New standard replacing IFRS 4. Sets out the principles for the recognition, measurement, presentation and disclosure of insurance contracts.	May 2017	1 January 2023
Amendments to IFRS 17 Insurance Contracts - Narrow scope amendment to the transition requirements creating a policy option in relation to the presentation of comparative information.	June 2020	1 January 2023
Amendments to IAS 1 Presentation of Financial Statements - Changes to the requirements in respect of the disclosure of accounting policies.	February 2021	1 January 2023
Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors - Clarification of the definition of an accounting estimate and the circumstances that constitute a change in estimate.	February 2021	1 January 2023
Amendments to IAS 12 Income Taxes - Clarification of the application of the initial recognition exemption to deferred tax assets and liabilities that arise from a single transaction.	May 2021	1 January 2023
Amendments to IAS 1 Presentation of Financial Statements - Clarification of the conditions required to be met in order to classify liabilities, notably debt with covenants, as either current or non-current.	January 2020	No earlier than 1 January 2024

Marshall Motor Holdings Limited

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 affects 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(c) '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.

Industry valuations are sensitive to rapid changes in regulatory and market conditions that 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 March 2022 represents 4.1% of the gross inventory balance (31 December 2020: 3.1%). This increase is due to a combination of the unusual market conditions during the period whereby used vehicle prices appreciated coupled with an expectation of lower pricing during the second half of 2022 triggered by a deterioration in economic conditions, notably consumer confidence. A 50bps (2020: 100bps) change in this ratio would change the provision in the Consolidated Balance Sheet by approximately £2.5 million (2020: £3.8 million). A 50bps movement represents a reasonably possible change to the provision ratio based on average movements observed over the previous three periods.

Marshall Motor Holdings Limited

Notes to the Consolidated Financial Statements

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 Board of Directors to be the Chief Operating Decision Makers.

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.

For the 15 months ended 31 March 2022

	Revenue		Gross profit	
	£'000	mix*	£'000	mix*
New vehicles	1,565,235	40.7%	125,228	27.4%
Used vehicles	1,889,096	49.2%	147,598	32.3%
Aftersales	386,405	10.1%	184,012	40.3%
Internal/other	(79,854)	-	440	-
Total	3,760,882	100%	457,278	100%

For the year ended 31 December 2020

	Revenue		Gross profit	
	£'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.

Marshall Motor Holdings Limited

Notes to the Consolidated Financial Statements

6. Profit before taxation

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

	15 months ended 31 March 2022 £'000	Year ended 31 December 2020 £'000
Depreciation of property, plant and equipment (note 15)	15,408	10,719
Amortisation of other intangibles (note 14)	375	448
Profit on disposal of assets classified as held for sale (note 7)	(86)	(1,563)
Loss on disposal of property plant and equipment	409	402
Impairment of property, plant and equipment (note 15)	-	25
Profit on disposal of investment property (note 17)	(913)	(148)
Intangible assets impairment (note 14)	-	193
Depreciation of right-of-use assets (note 16)	18,947	11,348
Profit on disposal and remeasurement of right-of-use assets and lease liabilities (note 16)	(1,843)	(318)
Impairment loss on right-of-use assets (note 16)	698	527
Income received from subleasing right-of-use assets (note 16)	(231)	(185)

7. Non-underlying items

	15 months ended 31 March 2022 £'000	Year ended 31 December 2020 £'000
Continuing operations		
Acquisition costs	(3,476)	(13)
Restructuring costs	(7,732)	(2,070)
Profit on disposal of assets classified as held for sale	86	1,563
Profit on disposal of investment property	913	148
Loss on impairment of goodwill and other tangible assets	-	(218)
	(10,209)	(590)

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'.

Acquisition costs

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

Restructuring costs

Restructuring costs consist of costs of £1,467,000 associated with the closure of eight of the Group's franchised dealerships primarily resulting from a review of the Group's portfolio following the acquisition of the Motorline businesses during the period as well as the continuation of costs resulting from portfolio reorganisations disclosed in previous periods of £119,000 (year ended 31 December 2020: £2,070,000).

Also presented in restructuring costs are £444,000 of systems enhancement expenditure, costs associated with the integration of the Motorline businesses totalling £669,000 as well as £5,031,000 incurred in the period in association with the Group's change of ownership. See Note 34 'Events after the Reporting Period' for further details around the transaction resulting in the change of ownership and the resultant impacts.

Marshall Motor Holdings Limited

Notes to the Consolidated Financial Statements

7. Non-underlying items (continued)

Profit on disposal of assets classified as held for sale

In February 2021 the Group sold the freehold property and the long-leasehold property classified as held for sale for a combined profit of £86,000.

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

Profit on disposal of investment property

In February 2021 the Group sold the last two premises remaining in its investment property portfolio for a combined profit of £913,000. Included within this profit on disposal is the lease premium received for transfer of title in the long-leasehold premises.

In November 2020 the Group sold a freehold investment property for a profit of £148,000.

Loss on impairment of goodwill and other tangible assets

No impairments have been recognised during the 15 month period ended 31 March 2022.

At 31 December 2020 the Group recorded a non-cash impairment charge of £218,000; allocated as £193,000 against goodwill and £25,000 against plant and equipment assigned to the Vauxhall CGU. This impairment arose following the closure of the Group's Knebworth Vauxhall site in 2020 and a further deterioration in the performance of the two remaining sites, such that the projected cash flows were no longer sufficient to support the CGU's carrying value.

8. Auditor's remuneration

During the period, the Group obtained the following services from the Group's auditor:

	15 months ended 31 March 2022 £'000	Year ended 31 December 2020 £'000
Audit services:		
- fees payable to the Company's auditor for the audit of the parent Company and consolidated financial statements	290	242
- audit of Group's subsidiaries	196	60
Fees payable to the Company's auditor for other services:		
- review of interim condensed consolidated financial statements	39	39
Total auditor's remuneration	525	341

9. Employees and directors

a) Employee costs for the Group during the period

The aggregate remuneration of employees and directors was:

	15 months ended 31 March 2022 £'000	Year ended 31 December 2020 £'000
Wages and salaries	213,485	134,917
Social security contributions and similar taxes	22,639	15,198
Other pension costs	4,392	2,993
Share based payments	6,700	561
	247,216	153,669

Employee costs stated above exclude grant income received under the Coronavirus Job Retention Scheme (15 months ended 31 March 2022: £nil (all amounts claimed were repaid in full in the period), year ended 31 December 2020: £20,376,000).

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Notes to the Consolidated Financial Statements

9. Employees and directors *(continued)*

a) Employee costs for the Group during the period *(continued)*

Employee costs are included in:

	15 months ended 31 March 2022 £'000	Year ended 31 December 2020 £'000
Cost of sales	36,877	24,654
Net operating expenses	210,339	129,015
	247,216	153,669

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

	15 months ended 31 March 2022	Year ended 31 December 2020
Retail	5,356	4,191

The average number of Group employees excludes temporary and contract staff. As at 31 March 2022 the Group had 5,376 employees (31 December 2020: 3,691).

b) Directors' emoluments

Remuneration in respect of the Directors was as follows:

	15 months ended 31 March 2022 £'000	Year ended 31 December 2020 £'000
Directors' emoluments	2,475	1,078
Other pension costs	115	90
	2,590	1,168

During the period one Director (year ended 31 December 2020: one) participated in a defined contribution pension scheme.

During both the current and prior periods two Directors were granted options under the Group's Performance Share Plan. During the period, one of the Directors (year ended 31 December 2020: none) exercised share options granted in previous periods for a total gain of £633,000.

The amounts set out above include remuneration in respect of the highest paid Director as follows:

	15 months ended 31 March 2022 £'000	Year ended 31 December 2020 £'000
Director's emoluments	1,360	442
Other pension costs	87	68
Gains on exercise of share options	633	-
	2,080	510

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Notes to the Consolidated Financial Statements

9. Employees and directors *(continued)*

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.

	15 months ended 31 March 2022 £'000	Year ended 31 December 2020 £'000
Wages and salaries	8,841	3,577
Social security contributions and similar taxes	1,316	1,055
Post-employment benefits	208	128
Compensation for loss of office	-	96
Share-based payments	6,700	561
	17,065	5,417

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

10. Net finance costs

	15 months ended 31 March 2022 £'000	Year ended 31 December 2020 £'000
Finance lease interest receivable	(95)	(83)
Stock financing charges and other interest	5,845	5,417
Interest payable on lease liabilities	4,177	3,103
Interest payable on bank borrowings	2,369	1,739
Net finance costs	12,296	10,176

11. Taxation

a) Taxation charge

	15 months ended 31 March 2022 £'000	Year ended 31 December 2020 £'000
Current tax		
Current tax on profit for the period	17,181	3,855
Adjustments in respect of prior years	17	(154)
Total current tax charge	17,198	3,701
Deferred tax		
Origination and reversal of temporary differences	1,043	256
Impact of change in tax rates	7,264	2,380
Adjustments in respect of prior years	136	99
Total deferred tax charge (note 25)	8,443	2,735
Total taxation charge	25,641	6,436

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

Marshall Motor Holdings Limited

Notes to the Consolidated Financial Statements

11. Taxation (continued)

b) Reconciliation of taxation charge

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

	15 months ended 31 March 2022		Year ended 31 December 2020	
	£'000	%	£'000	%
Profit before taxation	84,960		20,356	
Notional taxation charge at corporation tax rate of 19% (2020: 19%)	16,142	19.0%	3,868	19.0%
Effects of:				
Tax effect of items not deductible for tax purposes ¹	2,147	2.5%	536	2.6%
Profit on disposal of non-qualifying assets	(65)	(0.1%)	(284)	(1.4%)
Adjustments in respect of prior years	153	0.2%	(55)	(0.3%)
Utilisation of brought forward losses previously unrecognised	-	-	(9)	(0.1%)
Deferred tax charge relating to increase in tax rates	7,264	8.5%	2,380	11.7%
Taxation charge and effective tax rate	25,641	30.2%	6,436	31.6%

¹ Expenses not deductible predominantly consist of depreciation charges on non-qualifying assets.

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

	15 months ended 31 March 2022			Year ended 31 December 2020		
	Underlying	Non-underlying	Total	Underlying	Non-underlying	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Profit before taxation	95,169	(10,209)	84,960	20,946	(590)	20,356
Taxation	19,031	6,610	25,641	4,425	2,011	6,436
Effective tax rate	20.0%	(64.7%)	30.2%	21.1%	(340.8%)	31.6%

Non-recurring items

The Group's total effective tax rate for the 15 month period ended 31 March 2022 of 30.2% was influenced by the deferred taxation charge arising following the legislative change substantively enacted during the period as well as by non-deductible legal and professional fees associated with acquisitions in the period. Excluding the impact of these items, the total effective tax rate for the period would have been 19.6%, consistent with the Group's underlying effective tax rate of 20.0%.

The total reported effective tax rate includes a deferred tax charge of £7,264,000 resulting from the remeasurement of opening deferred tax balances following the substantive enactment of the planned increase in the standard rate of corporation tax to 25% from April 2023. The comparative figures for the year ended 31 December 2020 included a deferred taxation charge of £2,373,000 due to the planned rate reduction to 17% no longer taking effect. In both the current and prior period, the deferred taxation charges arising due to the remeasurement of opening deferred tax balances is presented in Non-Underlying Items on the basis that these charges are a consequence of legislative changes.

The Group's total effective tax rate for the year ended 31 December 2020 of 31.6% 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 21.1%. This was consistent with the Group's underlying effective tax rate of 21.1%.

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Notes to the Consolidated Financial Statements

11. Taxation (continued)

c) Factors affecting the taxation charge of future periods

Future 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. Being substantively enacted, this rate change has already been reflected in 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 in issue during the period and by the diluted weighted average number of ordinary shares in issue in the period. The diluted weighted average is calculated taking account of the dilutive impact of shares under option of 3,028,808 at 31 March 2022 (31 December 2020: 2,926,659).

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

	15 months ended 31 March 2022 £'000	Year ended 31 December 2020 £'000
Underlying net profit attributable to equity holders of the parent	76,138	16,521
Non-underlying items after tax	(16,819)	(2,601)
Net profit attributable to equity holders of the parent	59,319	13,920

	15 months ended 31 March 2022 Thousands	Year ended 31 December 2020 Thousands
Number of shares		
Weighted average number of ordinary shares for the purpose of basic EPS	78,232	78,232
Effect of dilutive potential ordinary shares: share options	2,682	1,882
Weighted average number of ordinary shares for the purpose of diluted EPS	80,914	80,114

	15 months ended 31 March 2022 Pence	Year ended 31 December 2020 Pence
Basic underlying earnings per share	97.3	21.1
Basic earnings per share	75.8	17.8
Diluted underlying earnings per share	94.1	20.6
Diluted earnings per share	73.3	17.4

13. Dividends

An interim dividend in respect of the 15 months ended 31 March 2022 of £6,931,000 representing a payment of 8.86p per ordinary share in issue at that time was paid in September 2021.

Following the Company's change from a public listed company to a private limited company, a final dividend in respect of the 15 month period ended 31 March 2022 is not proposed.

In light of the circumstances resulting from the COVID-19 pandemic, neither an interim nor a final dividend in respect of the year ended 31 December 2020 was proposed and paid.

Marshall Motor Holdings Limited

Notes to the Consolidated Financial Statements

14. Goodwill and other intangible assets

	Goodwill £'000	Franchise agreements £'000	Software £'000	Total £'000
<i>Cost</i>				
Balance at 1 January 2020	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
Opening balance adjustment	-	-	1,130	1,130
At 1 January 2021	50,878	77,523	3,137	130,408
Additions	-	-	84	84
Additions on acquisition	11,167	45,715	-	56,882
Disposals	-	-	(15)	(15)
At 31 March 2022	62,045	123,238	3,206	188,489
<i>Accumulated amortisation and impairment</i>				
Balance at 1 January 2020	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
Opening balance adjustment	-	-	1,130	1,130
At 1 January 2021	9,495	-	2,510	10,875
Charge for the period	-	-	375	375
Disposals	-	-	(15)	(15)
At 31 March 2022	9,495	-	2,870	12,365
<i>Net book value</i>				
At 1 January 2020	40,852	77,173	1,235	119,260
At 31 December 2020	41,383	77,523	627	119,533
At 31 March 2022	52,550	123,238	336	176,124

a) Acquisitions – current period

On 24 May 2021, the Group acquired the trade and assets of two Jaguar Land Rover dealerships in Cheltenham and Gloucester. On 30 June 2021, the Group acquired the trade and assets of a Nissan dealership in Leicester. These acquisitions, by extending representation with existing brands in strategically important territories, are part of the Group's stated strategy to grow further scale with existing brand partners in new geographic territories.

The estimated identifiable assets and liabilities at the dates of acquisition are stated at their provisional fair values as set out below. The goodwill arising on these acquisitions is attributed to the expected synergies and benefits associated with the increased brand representation.

Marshall Motor Holdings Limited

Notes to the Consolidated Financial Statements

14. Goodwill and other intangible assets (continued)

a) Acquisitions – current period (continued)

The fair value of the net assets at the date of the acquisition are as set out below.

	NBV of net assets acquired £'000	Fair value adjustments £'000	Total £'000
Property, plant and equipment	7,730	(27)	7,703
Right-of-use assets	370	125	495
Inventories	3,028	-	3,028
Trade and other payables	(315)	(204)	(519)
Lease liabilities	(370)	-	(370)
Deferred tax liabilities	-	(371)	(371)
Provisions	(125)	(125)	(250)
Net assets acquired	10,318	(602)	9,716
Goodwill	334	602	936
Total cash consideration	10,652	-	10,652

The results of these dealerships have been consolidated into the Group's results from the relevant date of acquisition. For the period from acquisition to 31 March 2022, the revenues and the losses 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 acquisitions occurred (1 January 2021), on a pro forma basis, the change in revenue and profit before tax of the combined Group for the 15 months ended 31 March 2022 would have been immaterial in the context of the Group.

On 14 October 2021, the Group acquired the entire issued share capital of Motorline Holdings Limited, a leading multi-franchise dealer group of companies headquartered in Canterbury and operating across Kent, West Sussex, Surrey, Berkshire, Bristol, South Wales and the West Midlands. This acquisition is in line with the Group's strategy, which includes growing scale with its chosen brand partners.

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 and extends the Group's geographic footprint into a further eight counties with the Group now having representation in 37 counties in England and Wales.

	Net book value £'000	Fair value adjustments £'000	Fair value of net assets acquired £'000
Intangible assets	-	45,715	45,715
Property, plant and equipment	28,800	-	28,800
Right-of-use assets	119,830	-	119,830
Inventories	96,423	(3,101)	93,322
Trade and other receivables	31,414	(699)	30,715
Cash and cash equivalents	20,300	-	20,300
Trade and other payables	(140,231)	(1,406)	(141,637)
Bank loans	(8,300)	-	(8,300)
Provisions	(251)	-	(251)
Lease liabilities	(118,926)	-	(118,926)
Current tax liabilities	(941)	-	(941)
Deferred tax liabilities	(287)	(14,571)	(14,858)
Net assets acquired	27,831	25,938	53,769
Goodwill	36,169	(25,938)	10,231
Total cash consideration	64,000	-	64,000

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Notes to the Consolidated Financial Statements

14. Goodwill and other intangible assets *(continued)*

a) Acquisitions – current period *(continued)*

The results of the Motorline group of companies have been consolidated into the Group's results from 14 October 2021. For the period from acquisition to 31 March 2022, the Motorline group of companies generated revenue of £425,580,000 and a loss before tax of £37,000.

If the acquisition had taken effect at the beginning of the reporting period in which the acquisition occurred (1 January 2021), on a pro forma basis, the change in revenue and profit before tax of the combined Group for the 15 months ended 31 March 2022 would have been an increase of £1,108,689,000 and £10,921,000 respectively.

Transaction costs arising on acquisitions in the period totalled £3,476,000. These costs have been recognised in net operating expenses in the Condensed Consolidated Statement of Comprehensive Income and are part of operating cash flows in the Condensed Consolidated Cash Flow Statement.

b) Acquisitions – prior period

On 10 July 2020, the Group acquired the trade and assets of five 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 fair values of the net assets at the date of acquisition are 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.

	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
Trade and other payables	(9)
Lease liabilities	(670)
Deferred tax liabilities	(49)
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 this 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 were recognised in net operating expenses in the Consolidated Statement of Comprehensive Income and were part of operating cash flows in the Consolidated Cash Flow Statement.

Marshall Motor Holdings Limited

Notes to the Consolidated Financial Statements

14. Goodwill and other intangible assets *(continued)*

c) 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:

	31 March 2022		31 December 2020	
	Goodwill	Franchise Agreements	Goodwill	Franchise Agreements
	£'000	£'000	£'000	£'000
Volkswagen Group*	20,657	52,220	17,766	35,597
BMW/MINI	1,461	8,345	1,461	8,345
Jaguar/Land Rover	8,568	14,358	8,003	14,358
Mercedes-Benz/Smart	11,182	19,201	11,182	19,201
Lexus/Toyota	4,696	20,365	-	-
Hyundai	1,589	7,219	-	-
Other	4,397	1,530	2,971	22
Total	52,550	123,238	41,383	77,523

*Volkswagen Group includes the 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 as at 31 March 2022; having been acquired only six months before for the reporting date, the Motorline group of companies acquired in the period were excluded from the scope of this review. Impairment reviews were performed for all groups of CGUs as at 31 December 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.

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 April 2022 to 31 March 2027. These projections are developed from the Board approved budget for the year ending 31 March 2023. The key assumptions in the forecasts 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 Director's current understanding of 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 7.2% (2020: 7.8%).

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. Terminal growth rates are based on the Director's estimate of future, long-term, average growth rates. These cash flows form the basis of what is referred to as the terminal value.

The growth rate to perpetuity applied in the value-in-use calculations to arrive at a terminal value is 2% (2020: 2%).

Marshall Motor Holdings Limited

Notes to the Consolidated Financial Statements

14. Goodwill and other intangible assets *(continued)*

c) Impairment testing *(continued)*

Conclusion

Under the base case, the Group's CGUs all have significant headroom in respect of the carrying value of goodwill and intangible assets.

Sensitivity to changes in key assumptions

Impairment testing is dependent on estimates and judgements, particularly as the conclusions 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:

- discount rate changes by +/- 100 basis points; and
- terminal value growth rate changes by +/- 50 basis points.

None of these sensitivity cases would result in an impairment against any CGU.

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:

- A down side case in which the overhead savings/cost mitigations anticipated from the Group's on-going investment in systems and process, alongside other cost reduction measures, are not delivered to plan with a PBT impact of £8.3 million and £12.1 million in the years ending 31 March 2023 and 31 March 2024 respectively.
- A down side case in which a prolonged economic downturn results in a 10% reduction in revenue from Q3 of the year ending 31 March 2023 for the remainder of the forecast period, triggering a PBT reduction of £17.7 million and £15.4 million in the years ending 31 March 2023 and 31 March 2024 respectively.
- A worst case combining the impact of both of the above down side cases.

The downside cases do not assume any cost mitigation or cash conservation actions, for example restructuring programmes or the deferral of capital expenditure, which could be enacted if the circumstances envisaged by these scenarios were to occur.

None of these scenario cases would result in the recognition of an impairment against any CGU.

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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 31 December 2019	135,621	26,969	45,167	1,685	209,442
Opening balance disposal adjustment	946	568	2,962	-	4,476
Balance at 1 January 2020	136,567	27,537	48,129	1,685	213,918
Additions at cost	3,247	312	2,613	4,179	10,351
Additions on acquisition	-	439	130	-	569
Disposals	-	(1,771)	(3,860)	-	(5,631)
Transfers to assets held for sale	(1,325)	-	-	-	(1,325)
Transfers	25	2,274	1,506	(3,805)	-
At 31 December 2020	138,514	28,791	48,518	2,059	217,882
Additions at cost	23,688	534	6,065	8,246	38,533
Additions on acquisition	25,002	5,985	5,516	-	36,503
Disposals	(617)	(909)	(6,954)	(687)	(9,167)
Transfers	4,953	397	1,415	(6,765)	-
At 31 March 2022	191,540	34,798	54,560	2,853	283,751
Accumulated depreciation and impairment					
Balance at 31 December 2019	12,443	8,621	29,085	-	50,149
Opening balance disposal adjustment	946	568	2,962	-	4,476
Balance at 1 January 2020	13,389	9,189	32,047	-	54,625
Charge for the year	2,002	2,488	6,229	-	10,719
Disposals	-	(1,617)	(3,551)	-	(5,168)
Impairment	-	-	25	-	25
Transfers to assets held for sale	(622)	-	-	-	(622)
At 31 December 2020	14,769	10,060	34,750	-	59,579
Charge for the period	3,090	3,774	8,544	-	15,408
Disposals	(73)	(449)	(5,960)	-	(6,482)
At 31 March 2022	17,786	13,385	37,334	-	68,505
Net book value					
At 1 January 2020	123,178	18,348	16,082	1,685	159,293
At 31 December 2020	123,745	18,731	13,768	2,059	158,303
At 31 March 2022	173,754	21,413	17,226	2,853	215,246

As at 31 March 2022, the Group had capital commitments totalling £3,321,000 (31 December 2020: £4,500,000) relating to ongoing construction projects.

Prior period restatement

A prior period adjustment has been recognised in the table above to correct the treatment of certain asset disposals as previously reported in prior years' consolidated financial statements. This error arose due to incorrect amounts being disclosed as disposals within the cost and accumulated depreciation totals. The assets to which these disposal errors related had been acquired through historic business combinations, the assets' fair values at the date of acquisition were correctly included within the cost of additions on acquisition. However, upon their eventual disposal, errors arose in the consolidation journals required to present the disposals. As a result, both cost and accumulated depreciation are understated. All assets had a £Nil carrying value at the date of disposal, as such there was no impact on the carrying value of Property, Plant and Equipment.

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Notes to the Consolidated Financial Statements

15. Property, plant and equipment *(continued)*

Prior period restatement *(continued)*

In order to correct the disclosures, cost of disposals and depreciation on disposals have both been reduced by £5,800,000 in the year ended 31 December 2020. In order to reverse the impact of similar errors on disposals which occurred before 1 January 2020 a correcting journal to increase both cost and accumulated depreciation by £4,500,000 has also been shown as an adjustment to the opening position as at 1 January 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 were actively being marketed for sale, the assets were transferred to assets classified as held for sale (see Note 21 'Assets Classified as Held for Sale').

16. Leases

a) Group as lessee

The Group has lease contracts for land and buildings and for vehicles. Leases of vehicles have an average term of three years. Leases of land and buildings have an average term of between 20 and 25 years and can include extension, termination and purchase options. Lease terms are negotiated on an individual basis, therefore, contain a wide range of different terms and conditions.

In determining the lease term, consideration is made of all facts and circumstances that create an economic incentive to exercise an extension or purchase option, or to not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term, therefore, balances recognised, if the lease is reasonably certain to be extended (or not terminated). Specific consideration is given to the existence of significant penalties to terminate (or not extend), the residual value of any leasehold improvements, historical occupancy trends, the importance of the underlying asset to the Group's operations and the costs and business disruption required to replace the leased premises.

The following are amounts recognised in the Consolidated Statement of Comprehensive Income:

	15 months ended 31 March 2022 £'000	Year ended 31 December 2020 £'000
Depreciation of right-of-use assets	18,947	11,348
Profit on disposal and remeasurement of right-of-use assets and lease liabilities	(1,843)	(318)
Impairment loss on right-of-use assets	698	527
Expenses relating to short-term leases	504	295
Expenses relating to leases of low-value assets	906	744
Interest payable on lease liabilities	4,177	3,103
Total amount recognised in Income Statement	23,389	15,699

The Group had total cash outflows in respect of leases in the period of £25,314,000 (year ended 31 December 2020: £14,426,000). The Group also had non-cash additions to right-of-use assets and lease liabilities of £134,225,000 (year ended 31 December 2020: £3,627,000).

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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 period:

	Land and buildings £'000	Plant and equipment £'000	Vehicles £'000	Total £'000
<i>Cost</i>				
At 1 January 2020	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
Additions	13,613	-	376	13,989
Additions on acquisition	119,613	590	122	120,325
Disposals	(7,671)	-	(462)	(8,133)
Remeasurement	474	-	(50)	424
At 31 March 2022	280,685	590	658	281,933
<i>Accumulated depreciation and impairment</i>				
At 1 January 2020	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
Charge for the period	18,567	61	319	18,947
Disposals	(7,671)	-	(462)	(8,133)
Impairment	698	-	-	698
At 31 March 2022	67,636	61	311	68,007
<i>Net book value</i>				
At 31 December 2020	98,614	-	219	98,833
At 31 March 2022	213,049	529	347	213,926

Impairments

Eight of the Group's franchised dealerships were closed in December 2021, January 2022, February 2022 and March 2022 on integration of the Motorline group of companies. The premises out of which these dealerships operated became vacant on the cessation of trade, however, certain lease commitments persist. Therefore, the right-of-use assets for these leases have been fully impaired. This impairment loss of £698,000 (year ended 31 December 2020: £527,000) was recognised in the Consolidated Statement of Comprehensive Income in Net Operating Expenses.

Lease liability maturity analysis

The maturity analysis of the Group's lease liabilities is as follows:

	31 March 2022 £'000	31 December 2020 £'000
Within 1 year	46,867	10,961
Between 1 and 5 years	69,036	39,416
After 5 years	93,368	48,967
Total lease liabilities	209,271	99,344

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Notes to the Consolidated Financial Statements

16. Leases (continued)

a) Group as lessee (continued)

Analysis of lease payments

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 %
15 months ended 31 March 2022			
Property leases with payments linked to inflation	83	-	56%
Property leases with fixed payments	84	43%	-
Vehicle leases	146	1%	-
	313	44%	56%
Year ended 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%

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:

	31 March 2022	31 December 2020
	£'000	£'000
Income received from subleasing right-of-use assets	(231)	(185)
Finance income on net investment in leases	(95)	(83)
Total amount recognised	(326)	(268)

Future minimum lease payments receivable for property under non-cancellable finance leases are set out below:

	15 months ended 31 March 2022	Year ended 31 December 2020
	£'000	£'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	737	969
Total undiscounted lease payments receivable	1,662	1,894
Unearned finance income	(357)	(452)
Net investment in the lease	1,305	1,442
Current (note 19)	115	108
Non-current	1,190	1,334
Total finance lease receivable	1,305	1,442

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Notes to the Consolidated Financial Statements

16. Leases (continued)

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.

	31 March 2022 £'000	31 December 2020 £'000
Within 1 year	-	93
Between 1 and 2 years	-	54
Between 2 and 3 years	-	-
Between 3 and 4 years	-	-
Between 4 and 5 years	-	-
After 5 years	-	-
	-	147

17. Investment property

	Freehold land and buildings £'000	Right-of-use asset £'000	Total £'000
Fair value at 1 January	2,578	1,060	3,638
Disposals	(2,140)	-	(2,140)
Fair value at 31 December 2020	438	1,060	1,498
Disposals	(438)	(1,060)	(1,498)
Fair value at 31 March 2022	-	-	-

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 properties were rented out to third parties up until the point of their disposal in February 2021. Rental income of £30,000 was recognised in the period (year ended 31 December 2020: £488,000). There were no restrictions on the Group's ability to dispose of the investment properties or use any funds arising on disposal.

18. Inventories

	31 March 2022 £'000	31 December 2020 £'000
Inventories held for resale	465,219	374,347
Less: provisions	(19,172)	(11,468)
Inventories	446,047	362,879

Inventories held for resale include new and used vehicles held for resale, vehicle parts and other inventory. As at 31 March 2022, £412,973,000 (31 December 2020: £364,883,000) of finished goods were held under vehicle financing arrangements (see Note 22 'Trade and Other Payables').

Inventory recognised in cost of sales during the period as an expense totalled £3,082 million (year ended 31 December 2020: £1,870 million).

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Notes to the Consolidated Financial Statements

19. Trade and other receivables

	31 March 2022 £'000	31 December 2020 £'000
Amounts falling due within one year:		
Trade receivables	66,656	29,838
Other receivables	41,308	28,937
Amounts due from related undertakings (note 31)	214	816
Prepayments	20,394	6,081
Finance lease receivable (note 16)	115	108
Trade and other receivables	128,688	65,780

Other receivables include accrued supplier income of £14,805,000 (31 December 2020: £11,687,000). More information in respect of principal risk management is provided in Note 26 'Financial Instruments – Risk Management'.

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

	31 March 2022 £'000	31 December 2020 £'000
Cash at bank and in hand	27,698	33,844

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

	31 March 2022 £'000	31 December 2020 £'000
Freehold land and buildings		
At 1 January	703	797
Transfer from property, plant and equipment	-	703
Disposals	(703)	(797)
At period end	-	703

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 out of which these dealerships previously operated. As a result, 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 the lower of their existing 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 exceeded the assets' carrying value.

These properties were subsequently sold in February 2021. Profits on disposal of assets classified as held for sale are included in Note 7 'Non-Underlying Items'.

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 out of which this dealership previously operated. 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'.

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Notes to the Consolidated Financial Statements

22. Trade and other payables

	31 March 2022 £'000	31 December 2020 £'000
Current - trade and other payables		
Trade payables:		
- vehicle financing arrangements	412,973	364,883
- other trade payables	157,333	71,024
Contract liabilities	13,577	22,256
Amounts owed to related undertakings (note 31)	38	354
Other tax and social security payable	7,576	4,910
Other payables	14,217	9,657
Accruals	45,012	18,164
Total current trade and other payables	650,726	491,248

All financial liabilities included within current trade and other payables are held at amortised cost, carrying value is a reasonable approximation of fair value.

	31 March 2022 £'000	31 December 2020 £'000
Non-current - other payables		
Contract liabilities	12,092	6,008
Total non-current other payables	12,092	6,008

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 floating interest rates linked to the Bank of England Base Rate (or equivalent finance house base rates). The interest incurred under these agreements is included within finance costs and classified as stock holding interest.

Contract liabilities

	31 March 2022 £'000	31 December 2020 £'000
OEM contributions	130	310
Commission income	13,731	22,069
Service packages	11,808	5,885
	25,669	28,264

Contract liabilities include OEM contributions received in advance from manufacturers for which the Group acts as principal. Movements on these balances during the period were as follows:

	31 March 2022 £'000	31 December 2020 £'000
At 1 January	310	949
Deferred during the period	16	45
Recognised as revenue during the period	(196)	(684)
At period end	130	310

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Notes to the Consolidated Financial Statements

22. Trade and other payables (continued)

Contract liabilities (continued)

Contract liabilities include commission income received in advance from the various finance and insurance companies for which the Group acts as agent. Movements on these balances during the period were as follows:

	31 March 2022 £'000	31 December 2020 £'000
At 1 January	22,069	10,238
Deferred during the period	12,149	24,179
Recognised as revenue during the period	(20,487)	(12,348)
At period end	13,731	22,069

Contract liabilities include service packages received in advance from customers for which the Group acts as principal. Movements on these balances during the period were as follows:

	31 March 2022 £'000	31 December 2020 £'000
At 1 January	5,885	5,686
Deferred during the period	20,735	17,311
Recognised as revenue during the period	(14,812)	(17,112)
At period end	11,808	5,885

23. Loans and borrowings

	31 March 2022 Nominal and book value £'000	31 December 2020 Nominal and book value £'000
Current loans and borrowings		
Mortgages	1,428	641
	1,428	641
Non-current loans and borrowings		
Mortgages	10,683	4,383
	10,683	4,383
Total loans and borrowings	12,111	5,024

Mortgages comprise amounts borrowed from commercial financial institutions and are secured by fixed charges over specified property assets of certain subsidiaries of the Group.

More information in respect of principal risk management is provided in Note 26 'Financial Instruments – Risk Management'.

Committed facilities

The Group has a revolving credit facility of £60,000,000 of which £nil was drawn at 31 March 2022 (31 December 2020: £nil). 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 secured by cross guarantees granted by certain members of the Group. The current facility is available until September 2024.

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Notes to the Consolidated Financial Statements

23. Loans and borrowings (continued)

Fair values

The carrying amount of current loans and borrowings approximates fair value.

The carrying amounts and fair values of non-current loans and borrowings are as below. The fair values are based on cash flows discounted using the prevailing rates.

	31 March 2022		31 December 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
Mortgages	10,683	10,111	4,383	3,607

Interest rate profile of borrowings

All loans and borrowings are subject to floating rates of interest that are determined by reference to official market rates. The Group's various mortgages are subject to interest rates linked to Bank Base Rates, therefore, are not impacted by the withdrawal of the LIBOR reference.

The revolving credit facility paid interest linked to GBP LIBOR. On withdrawal of the LIBOR reference, the facility automatically defaulted to a synthetic GBP LIBOR reference during the transition period, with interest rates to ultimately be determined by reference to SONIA. The Group expects the affected facility to transition to alternative interest rate benchmarks by the end of 2022. Adjustments to the contractual cash flows resulting from these changes will be reflected as an adjustment to the effective interest rate. Therefore, the replacement of the loan's benchmark interest rate will not result in an immediate gain or loss recorded in the Consolidated Statement of Comprehensive Income, which may have been required if the practical expedient under the interest rate benchmark reform IFRS amendments had not been adopted.

Maturity profile of borrowings

The Group's borrowings have the following maturity profile:

	31 March 2022	31 December 2020
	£'000	£'000
Within 1 year	1,384	641
Between 1 and 5 years	5,668	2,565
After 5 years	5,059	1,818
Total loans and borrowings	12,111	5,024

More information in respect of principal risk management is provided in Note 26 'Financial Instruments – Risk Management'.

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Notes to the Consolidated Financial Statements

24. Provisions

	Dilapidations	Closed sites	Tax	Other	Total
	£'000	£'000	£'000	£'000	£'000
At 1 January 2021	994	225	-	1,511	2,730
On acquisition	-	-	251	-	251
Amount provided in the period	2,692	602	-	380	3,674
Amount released in the period	(459)	(107)	-	(144)	(710)
Amount utilised in the period	(106)	(477)	(251)	-	(834)
As at 31 March 2022	3,121	243	-	1,747	5,111

Provisions have been allocated between current and non-current as follows:

	31 March 2022 £'000	31 December 2020 £'000
Current	3,710	2,190
Non-current	1,401	540
Total provisions	5,111	2,730

Dilapidations and closed sites

The Group manages its portfolio carefully and either closes or sells sites that 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.

Tax

On acquisition of the Motorline group of companies in October 2021, the Group inherited an open matter regarding pre-acquisition use of company assets for non-business purposes by the former shareholders of the Motorline group. A provision of £251,000 had already been recognised as an estimate of underpaid tax liabilities requiring settlement on conclusion of the matter. In November 2021 the matter was closed following payment of amounts due.

Other

Other provisions include a total amount of £1,167,000 (31 December 2020: £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 is anticipated during the coming year.

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Notes to the Consolidated Financial Statements

25. Deferred tax assets and liabilities

The analysis of deferred tax assets and deferred tax liabilities is as below.

	31 March 2022 £'000	31 December 2020 £'000
Deferred tax liabilities:		
- Deferred tax liability to be recovered after more than 12 months (note 25a)	(98,934)	(42,056)
- Deferred tax assets to be offset against liabilities (note 25b)	52,547	19,341
Net deferred tax liabilities	(46,387)	(22,715)

The movement on deferred tax balances is as follows:

	31 March 2022 £'000	31 December 2020 £'000
At 1 January	(22,715)	(20,134)
Impact of change in accounting policy (note 3)	-	203
Deferred tax acquired	(15,229)	(49)
Income statement charge (note 11)	(8,443)	(2,735)
At period end	(46,387)	(22,715)

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 2020	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
Acquisitions	384	4,483	-	-	-	11,150	29,934	45,951
Charged/(credited) to the income statement - current period	(229)	(374)	-	(53)	-	248	(961)	(1,369)
Charged/(credited) to the income statement - prior year	538	(23)	-	-	-	-	1	516
Impact of corporation tax rate increase	370	1,697	418	35	-	5,117	4,143	11,780
At 31 March 2022	1,925	11,552	1,741	146	-	32,468	51,102	98,934

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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	Lease liabilities £'000	Other temporary differences £'000	Total £'000
As at 1 January 2020	410	18,205	681	19,296
Acquisitions	-	127	-	127
Charged 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
Acquisitions	-	29,730	1,020	30,750
(Charged)/credited to the income statement - current period	8	(1,196)	(1,252)	(2,440)
Credited to the income statement - prior year	12	17	352	381
Impact of corporation tax rate increase	79	4,341	95	4,515
At 31 March 2022	329	51,534	684	52,547

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.

	31 March 2022		31 December 2020	
	Tax losses £'000	Unrecognised deferred tax asset £'000	Tax losses £'000	Unrecognised deferred tax asset £'000
Trading losses				
Available indefinitely	187	47	211	40
At period end	187	47	211	40

Marshall Motor Holdings Limited

Notes to the Consolidated Financial Statements

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 the current and prior periods.

	31 March 2022 £'000	31 December 2020* £'000
Assets as per the Consolidated Balance Sheet		
Finance lease receivables	1,305	1,442
Trade and other receivables excluding prepayments and finance lease receivables (note 19)	108,190	59,699
Cash and cash equivalents (note 20)	27,698	33,844
Total financial assets	137,193	94,985
Liabilities as per the Consolidated Balance Sheet		
Loans and borrowings (note 23)	12,111	5,024
Lease liabilities (note 16)	209,271	99,344
Trade and other payables excluding non-financial liabilities (note 22)	629,559	464,082
Total financial liabilities	850,941	568,450

* In the consolidated financial statements for the year ended 31 December 2020 trade and other payables (excluding non-financial liabilities) incorrectly included contract liabilities. The comparative period, as previously reported, has been restated to exclude all contract liability balances of £28,294,000.

For all financial assets and liabilities, fair value equals carrying value except for long-term borrowings as disclosed in Note 23.

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.

Marshall Motor Holdings Limited

Notes to the Consolidated Financial Statements

26. Financial instruments - risk management (*continued*)

b) Risk management (*continued*)

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 expose it to neither commodity price risk nor foreign currency risk.

Interest rate risk is the risk that a change in interest rates adversely affects 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; therefore, it is 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 March 2022, the Group does not have significant sensitivities to the impact of future changes in interest rates on floating rate debt.

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 no defaults are expected in the future, hence the credit risk is deemed to be low. No impairment loss allowance has been recognised in either the current or the prior period.

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.

Marshall Motor Holdings Limited

Notes to the Consolidated Financial Statements

26. Financial instruments - risk management (*continued*)

b) Risk management (*continued*)

Credit risk (*continued*)

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 movement in the allowance for impairment in respect of trade and other receivables during the period was as follows:

	31 March 2022 £'000	31 December 2020 £'000
Balance at 1 January	671	460
Net remeasurement of loss allowances	861	211
Balance at period end	<u>1,532</u>	<u>671</u>

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.

Marshall Motor Holdings Limited

Notes to the Consolidated Financial Statements

26. Financial instruments - risk management (*continued*)

b) Risk management (*continued*)

Credit risk (*continued*)

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:

	31 March 2022		31 December 2020	
	£'000	£'000	£'000	£'000
	Not credit-impaired	Credit-impaired	Not credit-impaired	Credit-impaired
Counterparties without external credit rating:				
Group 1	279	-	517	-
Group 2	67,910	-	29,992	-
Total gross carrying amount	68,189	-	30,509	-
Loss allowance	(1,532)	-	(671)	-
Net carrying amount of trade receivables	66,657	-	29,838	-
Gross carrying amount	1,305	-	1,334	-
Loss allowance	-	-	-	-
Finance lease receivable	1,305	-	1,334	-
Counterparties with external credit rating:				
A \ A+ (stable)*	27,698	-	33,844	-
Loss allowance	-	-	-	-
Cash at bank	27,698	-	33,844	-

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)

Marshall Motor Holdings Limited

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	715	715	1,428	4,283	4,469	11,610
Lease liabilities	13,081	12,364	23,231	62,401	170,244	281,321
Trade and other payables (excluding non-financial liabilities (note 22))	629,559	-	-	-	-	629,559
At 31 March 2022	643,355	13,079	24,659	66,684	174,713	922,490

	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 non-financial liabilities (note 22))	464,082	-	-	-	-	464,082
At 31 December 2020	471,843	7,680	14,878	38,904	103,637	636,942

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.

Marshall Motor Holdings Limited

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 period.

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 31, the Group had net debt of £193,684,000 as at 31 March 2022 (31 December 2020: £70,524,000).

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 are determined by reference to future contractual cash flows discounted using the prevailing market interest rates for facilities with similar characteristics.

	31 March 2022		31 December 2020	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Financial liabilities				
Mortgages	10,683	10,111	4,383	3,607

There have been no transfers between levels in the fair value hierarchy during either the current or prior periods.

Marshall Motor Holdings Limited

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 2020	78,232,237	50,068	19,672	69,740
At 31 December 2020	78,232,237	50,068	19,672	69,740
At 31 March 2022	78,232,237	50,068	19,672	69,740

All shares issued are fully paid.

Share repurchases

In May 2021, the Marshall Motor Holdings Employee Benefit Trust (controlled by the Company) subscribed to 302,499 ordinary shares of the Company as part of the exercise of the 2017 and 2018 Performance share option awards. All these ordinary shares were acquired from the market at market value.

Shares held by subsidiaries

No shares in the Company were held by subsidiaries in the period (year ended 31 December 2020: 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'.

Marshall Motor Holdings Limited

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 March 2022, seven 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, (f) 2020 Awards and (g) 2021 Performance 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 15 months ended 31 March 2022 was £6,700,000 (31 December 2020: £668,000). This is split as £1,709,000 in accruals (year ended 31 December 2020: £107,000) and £4,991,000 (year ended 31 December 2020: £561,000) 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 March 2022 is 7.9 years (31 December 2020: 8.2 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 March 2022 is £1.85 (31 December 2020: £1.45). The fair value of options granted during the period was £2.57 (year ended 31 December 2020: £1.25). The fair value of equity settled share options granted was based on market value on 8 September 2021 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 both the current and prior periods.

In April 2021, the 2018 Performance Awards became exercisable. On 27 May 2021, all option holders exercised these options. As such, 156,114 existing ordinary shares were acquired from the market to satisfy the exercise of these 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 £365,000.

In September 2020, the 2017 Performance Awards became exercisable. On 27 May 2021, all option holders exercised these options. As such, 146,385 existing ordinary shares were acquired from the market to satisfy the exercise of these 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 £273,000.

No options were exercised during the year ended 31 December 2020.

As at 31 March 2022 outstanding share options were as follows:

Award	Grant date	No of shares over which options are outstanding	Exercise price	Date from which exercisable	Expiry date
2019 Awards	28 November 2019	661,560	Nil	11 May 2022	28 November 2029
2020 Awards	20 August 2020	1,067,632	Nil	11 May 2022	11 March 2030
2021 Performance Awards	08 September 2021	1,299,616	Nil	11 May 2022	10 March 2031

Marshall Motor Holdings Limited

Notes to the Consolidated Financial Statements

29. Share-based payments *(continued)*

a) 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 performance criteria were not met due to unprecedented adverse market conditions. The Remuneration Committee exercised its discretion in light of the circumstances; therefore, 50% of these options become exercisable on the third anniversary of the grant date. The options were exercised on 27 May 2021.

The 2017 Performance Awards are subject to a holding period that starts on the grant date and ends on the fourth anniversary of the grant date.

	31 March 2022		31 December 2020	
	No.	WAEP	No.	WAEP
Outstanding as at 1 January	577,690	-	611,373	-
Granted during the period	-	-	-	-
Forfeited during the period	-	-	(33,683)	-
Exercised during the period	(293,044)	-	-	-
Expired during the period	(284,646)	-	-	-
Outstanding as at period end	-	-	577,690	-
Exercisable as at period end	-	-	577,690	-

b) 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 performance criteria were not met due to unprecedented adverse market conditions. The Remuneration Committee exercised its discretion in light of the circumstances; therefore, 50% of these options become exercisable on the third anniversary of the grant date. The options were exercised on 27 May 2021.

The 2018 Performance Awards are subject to a holding period that starts on the grant date and ends on the fourth anniversary of the grant date.

	31 March 2022		31 December 2020	
	No.	WAEP	No.	WAEP
Outstanding as at 1 January	644,760	-	680,249	-
Granted during the period	-	-	-	-
Forfeited during the period	-	-	(35,489)	-
Exercised during the period	(304,640)	-	-	-
Expired during the period	(340,120)	-	-	-
Outstanding as at period end	-	-	644,760	-
Exercisable as at period end	-	-	-	-

Marshall Motor Holdings Limited

Notes to the Consolidated Financial Statements

29. Share-based payments *(continued)*

c) 2019 Awards

The 2019 Awards are subject to the service condition of continuous employment. These options vest and become exercisable on change of control and ownership of the Group.

	31 March 2022		31 December 2020	
	No.	WAEP	No.	WAEP
Outstanding as at 1 January	668,577	-	710,682	-
Granted during the period	17,544	-	-	-
Forfeited during the period	(24,561)	-	(42,105)	-
Exercised during the period	-	-	-	-
Expired during the period	-	-	-	-
Outstanding as at period end	661,560	-	668,577	-
Exercisable as at period end	-	-	-	-

d) 2020 Awards

The 2020 Awards are subject to the service condition of continuous employment. These options vest and become exercisable on change of control and ownership of the Group.

	31 March 2022		31 December 2020	
	No.	WAEP	No.	WAEP
Outstanding as at 1 January	1,035,632	-	-	-
Granted during the period	32,000	-	1,107,632	-
Forfeited during the period	-	-	(72,000)	-
Exercised during the period	-	-	-	-
Expired during the period	-	-	-	-
Outstanding as at period end	1,067,632	-	1,035,632	-
Exercisable as at period end	-	-	-	-

e) 2021 Awards

The 2021 Awards are subject to the service condition of continuous employment. These options vest and become exercisable on change of control and ownership of the Group.

	31 March 2022		31 December 2020	
	No.	WAEP	No.	WAEP
Outstanding as at 1 January	-	-	-	-
Granted during the period	1,315,180	-	-	-
Forfeited during the period	(15,564)	-	-	-
Exercised during the period	-	-	-	-
Expired during the period	-	-	-	-
Outstanding as at period end	1,299,616	-	-	-
Exercisable as at period end	-	-	-	-

Marshall Motor Holdings Limited

Notes to the Consolidated Financial Statements

30. Analysis of net debt

	At 1 January 2021 £'000	Cash flows £'000	Acquisitions** £'000	Non-cash items* £'000	At 31 March 2022 £'000
Cash and cash equivalents	33,844	(26,446)	20,300	-	27,698
Liabilities arising from financing activities					
Loans and borrowings	(5,024)	1,213	(8,300)	-	(12,111)
Lease liabilities	(99,344)	21,133	(119,296)	(11,765)	(209,271)
	(104,368)	22,346	(127,596)	(11,765)	(221,382)
Net debt	(70,524)	(4,100)	(107,296)	(11,765)	(193,685)
Lease liabilities	99,344	(21,133)	119,296	11,765	209,271
Adjusted net cash at period end (non GAAP measure)	28,820	(25,234)	12,000	-	15,586

*Non-cash items include new lease contracts (£14,114,000), disposals (£2,870,000), remeasurements to existing lease liabilities (£139,000) as well as the unwinding of the discount on lease liabilities (£661,000).

** The increase in lease liability commitments on acquisitions arises predominantly from the portfolio of property leases entered into on acquisition of the Motorline group of companies. For full details of lease liabilities arising on each acquisition in the period see Note 14(a) 'Goodwill and other intangible assets: acquisitions – current period'.

	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 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.

Marshall Motor Holdings Limited

Notes to the Consolidated Financial Statements

31. Related party transactions

Key management compensation is given in Note 9 'Employees and Directors'.

During the current and prior periods the Directors were members of an employee car ownership scheme under which the following transactions were entered into – this scheme was wound down during the current period. The Directors purchased three cars during the 15 months ended 31 March 2022 (year ended 31 December 2020: 18) for an aggregate price of £281,000 (year ended 31 December 2020: £1,385,000) and sold back five cars (year ended 31 December 2020: 19) at a combined price of £464,000 (year ended 31 December 2020: £1,773,000). The Directors did not make any material profits on these transactions.

All companies within the group headed by Marshall of Cambridge (Holdings) Limited, other than those which are subsidiaries of Marshall Motor Holdings Limited, are related parties for which the disclosure exemption does not apply.

15 months ended 31 March 2022	Sales £'000	Purchases £'000	Period-end balance £'000
<i>Ultimate parent undertaking</i>			
Marshall of Cambridge (Holdings) Limited	45	(28)	-
<i>Other group entities</i>			
Marshall of Cambridge Aerospace Limited	13	253	75
Marshall Thermo King Limited	294	-	9
Marshall Fleet Solutions Limited	-	1	-
Marshall Group Properties Limited	3	816	-
Marshall Land Systems Limited	2	-	-
	357	1,042	84

Year ended 31 December 2020	Sales £'000	Purchases £'000	Year-end balance £'000
<i>Ultimate parent undertaking</i>			
Marshall of Cambridge (Holdings) Limited	50	-	10
<i>Other group entities</i>			
Marshall of Cambridge Aerospace Limited	4	77	(28)
Marshall Group Properties Limited	-	934	(323)
Marshall Land Systems Limited	808	-	806
<i>Other related parties</i>			
RPJ Consulting Services Limited*	-	10	(3)
	862	1,021	462

*The Group purchased administrative support services from RPJ Consulting Services Limited, a company whose sole director was also Marshall Motor Holdings Limited's former Non-Executive Chairman.

Outstanding balances with group entities are unsecured, interest free and are expected to be settled in cash.

During the 15 months ended 31 March 2022, the Group made no provision for doubtful debts relating to amounts owed by related parties (year ended 31 December 2020: £nil).

Marshall Motor Holdings Limited

Notes to the Consolidated Financial Statements

32. Pensions

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 charge for contributions during the 15 months ended 31 March 2022 was £4,392,000 (year ended 31 December 2020: £2,993,000).

The total unpaid pension contributions outstanding at the period end were £426,000 (31 December 2020: £539,000).

33. Ultimate parent company

On 11 May 2022 Marshall Motor Holdings Limited was acquired by a new intermediate parent company, CAG Vega 2 Limited, a company incorporated in England and Wales. The ultimate controlling party became TDR Capital LLP, a Limited Liability Partnership incorporated in England and Wales. Constellation Automotive Holdings Limited is the largest undertaking that consolidates these financial statements.

The financial statements of these companies can be obtained from The Registrar of Companies at Companies House, Crown Way, Cardiff CF14 3UZ.

34. Events after the reporting period

Vesting and exercise of share option awards

In May 2022, the 2019 Awards, 2020 Awards and 2021 Performance Awards vested and were exercised. Similarly to previous years in order to cover income tax and national insurance contributions, the decision was taken for a portion of the share options being exercised to be settled in cash rather than being equity-settled. The total value of cash-settled transactions was £5,975,000. In order to satisfy the equity-settled options, as well as all associated dividend equivalents, the Company issued 3,095,896 ordinary shares at par value of 64 pence each.

Change of control and delisting

On 29 November 2021 the Board of Constellation Automotive Holdings Limited announced the terms of a cash offer pursuant to which its wholly-owned subsidiary CAG Vega 2 Limited would acquire the entire issued, and to be issued, share capital of the Company, subject to the requisite regulatory approvals being obtained. Marshall of Cambridge (Holdings) Limited provided an irrevocable undertaking to accept the offer in respect of its entire shareholding in the ordinary share capital of the Company, representing approximately 64.4% of the issued ordinary share capital of the Company. Following the granting of the requisite regulatory approvals on 11 May 2022 the change of control took effect.

Subsequent to CAG Vega 2 Limited acquiring the Group, on 15 June 2022 the admission to trading of the shares of the Company on the Alternative Investment Market of the London Stock Exchange was cancelled. Consequently, the Company was re-registered as a private limited company.

Dividend

An interim dividend in respect of the year ending 31 March 2023 totalling £20,000,000 and representing a payment of 24.59p per ordinary share in issue at that time was paid in September 2022.

Marshall Motor Holdings Limited

Company Financial Statements

Balance Sheet

At 31 March 2022

		31 March 2022 £'000	31 December 2020 £'000
	Note		
Fixed assets			
Investments	6	219,940	154,689
Current assets			
Debtors	7	618	5,442
Cash at bank and in hand		42,961	-
		<u>43,579</u>	<u>5,442</u>
Creditors: Amounts falling due within one year	9	(174,434)	(51,830)
Net current liabilities		<u>(130,855)</u>	<u>(46,388)</u>
Net assets		<u>89,085</u>	<u>108,301</u>
Capital and reserves			
Called-up share capital	10	50,068	50,068
Share premium		19,672	19,672
Share-based payments reserve	11	5,617	1,586
Own shares reserve	11	-	(12)
Profit and loss account		<u>13,728</u>	<u>36,987</u>
Shareholders' funds		<u>89,085</u>	<u>108,301</u>

The total comprehensive loss of the Company for the 15 months ended 31 March 2022 was £16,168,000 (year ended 31 December 2020: £5,064,000).

The Company financial statements were approved for issue by the Board of Directors and authorised for issue on 27 September 2022.



R.J. Blumberger
Director

Marshall Motor Holdings Limited

Company Financial Statements

Statement of Changes in Equity

For the 15 months ended 31 March 2022

	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 2020		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	-	-	560	-	-	560
At 31 December 2020		50,068	19,672	1,585	(12)	36,987	108,300
Loss for the period		-	-	-	-	(16,168)	(16,168)
Total comprehensive loss for the period		-	-	-	-	(16,168)	(16,168)
Equity dividends paid	12	-	-	-	-	(6,931)	(6,931)
Acquisition of own shares	10	-	-	-	(535)	-	(535)
Exercise of share options	10	-	-	(959)	547	(160)	(572)
Share-based payments charge	11	-	-	4,991	-	-	4,991
At 31 March 2022		50,068	19,672	5,617	-	13,728	89,085

Marshall Motor Holdings Limited

Notes to the Company Financial Statements

1. Statement of compliance

Marshall Motor Holdings Limited (the Company) is incorporated and domiciled in the United Kingdom. The Company is a private limited company, limited by shares. 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 Limited.

Reporting period

On 11 May 2022 all of the issued share capital of the Company was acquired by CAG Vega 2 Limited. In anticipation of this change of ownership, to align the reporting period with that of acquirer, all entities in the Group changed the end of the reporting period from 31 December to 31 March. Amounts presented for the 2022 reporting period are for a 15 month period. Comparative figures are for a 12 month period. Consequently, comparative amounts reported in the Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows and related notes are not entirely comparable.

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 Statement of Comprehensive Income

As permitted under section 408 of the Companies Act 2006, the Company has elected to present neither a Company Income Statement nor a 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 2020.

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.

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.

Marshall Motor Holdings Limited

Notes to the Company Financial Statements

3. Accounting policies (*continued*)

Taxation (*continued*)

Deferred taxation (*continued*)

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 of cash at bank 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.

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.

Marshall Motor Holdings Limited

Notes to the Company Financial Statements

3. Accounting policies *(continued)*

Share-based payments *(continued)*

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 through 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.

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 £5,000 (year ended 31 December 2020: £3,000).

Marshall Motor Holdings Limited

Notes to the Company Financial Statements

5. Employees and directors

Employee costs for the Company during the period were:

	15 months ended 31 March 2022 £'000	Year ended 31 December 2020 £'000
Wages and salaries	3,197	1,431
Social security costs	666	338
Other pension costs	136	81
Share based payments	3,215	315
	7,214	2,165

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

	15 months ended 31 March 2022 No.	Year ended 31 December 2020 No.
Management	3	3

Details of Directors' remuneration are included in Note 9 'Employees and Directors' to the consolidated financial statements.

6. Investments in subsidiaries

	31 March 2022 £'000	31 December 2020 £'000
At 1 January	154,689	156,622
Additions	65,579	-
Share-based payment awards to employees of subsidiaries	2,587	374
Impairment	(2,915)	(2,307)
At 31 March 2022	219,940	154,689

Additions

On 14 October 2021, the Company acquired 100% of the issued share capital of Motorline Holdings Limited for cash consideration of £64,000,000.

For further details of the subsidiaries acquired, see Note 14(a) 'Goodwill and Other Intangible Assets' in the consolidated financial statements.

Impairment

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 as at 31 March 2022 and 31 December 2020. Impairment charges are recorded within administrative expenses in the Income Statement.

The Company recognised impairment charges during the period totalling £2,915,000 in relation to two of the investments in subsidiaries. Both impairments arose due to the closure of certain franchises operated by those subsidiary undertakings.

During the year ended 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.

Marshall Motor Holdings Limited

Notes to the Company Financial Statements

6. Investments in subsidiaries (continued)

Subsidiaries

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.

The registered office for all subsidiary companies listed below is Airport House, The Airport, Cambridge, CB5 8RY, United Kingdom. All subsidiaries listed below are included within the consolidated financial statements on pages 27 to 83.

Name of Undertaking	Principal activity at period end
Marshall Motor Group Limited [^]	Franchised motor dealership
Marshall of Cambridge (Garage Properties) Limited [^] (reg no. 02051459)	Property investment and development
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
Motorline Holdings Limited [^]	Franchised motor dealership
Motorline Limited	Franchised motor dealership
Motorline (Broad Oak) Limited	Franchised motor dealership
Motorline (Canterbury) Limited	Franchised motor dealership
Motorline (Kent) Limited	Franchised motor dealership
Motorline TPS Limited [^] (reg no. 10474229)	Motor parts sales
Driveline Limited	Franchised motor dealership
Dealcairn Limited [^] (reg no. 04073914)	Property holding
Motorline (UK) LLP	Dormant

[^] Direct subsidiary of Marshall Motor Holdings Limited.

* Subsidiaries for which exemption from audit by virtue of s479A of the Companies Act 2006 has been taken for the 15 month period ended 31 March 2022.

Marshall Motor Holdings Limited

Notes to the Company Financial Statements

7. Debtors

	31 March 2022 £'000	31 December 2020 £'000
Trade debtors	-	2
Amounts owed by Group undertakings	-	4,356
Other debtors	19	24
VAT	36	24
Corporation tax	-	281
Prepayments	512	754
Deferred tax asset (note 8)	51	1
	618	5,442

During the 15 months ended 31 March 2022, the Group made no provision for doubtful debts relating to amounts owed to related parties (year ended 31 December 2020: £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 period were as follows:

	Temporary differences £'000
At 1 January 2020	7
Charged to the Income Statement	(6)
At 31 December 2020	1
Charged to the Income Statement - current period	(6)
Credited to the Income Statement - prior year	56
At 31 March 2022	51

The balance of the deferred tax asset consists of the tax effect of timing differences in respect of:

	31 March 2022 £'000	31 December 2020 £'000
Short-term timing differences	51	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.

Marshall Motor Holdings Limited

Notes to the Company Financial Statements

9. Creditors: amounts falling due within one year

	31 March 2022 £'000	31 December 2020 £'000
Bank loans	-	-
Bank overdraft	-	5,033
Trade creditors	958	703
Amounts owed to Group undertakings	169,424	45,022
Corporation tax	1,310	-
Other taxes and social security	779	71
Other creditors	9	30
Accruals and deferred income	1,954	971
	174,434	51,830

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.

10. Share capital and reserves

	31 March 2022 £'000	31 December 2020 £'000
Ordinary shares		
78,232,237 (2020: 78,232,237) ordinary shares of 64p each	50,068	50,068

All shares issued are fully paid.

Details of the Company's share capital and the nature of the reserves are included in Note 28 'Share Capital and Reserves' in the consolidated financial statements.

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' in 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

	15 months ended 31 March 2022 £'000	Year ended 31 December 2020 £'000
<i>Paid during the period</i>		
Interim dividend for year ended 31 December 2020	-	-
Final dividend for year ended 31 December 2020	-	-
Interim dividend for 15 months ended 31 March 2022	6,931	-
	6,931	-

An interim dividend in respect of the 15 months ended 31 March 2022 of £6,931,000 representing a payment of 8.86p per ordinary share in issue at that time was paid in September 2021. Following the Company's change in status from a public listed company to a private limited company, a final dividend in respect of the 15 month period ended 31 March 2022 is not proposed. In light of the circumstances resulting from the COVID-19 pandemic, neither an interim nor a final dividend in respect of the year ended 31 December 2020 was paid.

Marshall Motor Holdings Limited

Notes to the Company 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 15 month period was £136,000 (year ended 31 December 2020: £81,000).

The total unpaid pension contributions outstanding at the period end were £nil (2020: £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

On 11 May 2022 Marshall Motor Holdings Limited was acquired by a new intermediate parent company, CAG Vega 2 Limited, a company incorporated in England and Wales. The ultimate controlling party became TDR Capital LLP, a Limited Liability Partnership incorporated in England and Wales. Constellation Automotive Holdings Limited is the largest undertaking that consolidates these financial statements.

The financial statements of these companies can be obtained from The Registrar of Companies at Companies House, Crown Way, Cardiff CF14 3UZ.

Marshall Motor Holdings Limited

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

	15 months ended 31 March 2022 £'000	Year ended 31 December 2020 £'000
Total continuing operating profit as reported	97,256	30,532
Impact of non-underlying items		
Acquisition costs	3,476	13
Net recognition of restructuring costs	7,732	2,070
Profit on disposal of assets classified as held for sale	(86)	(1,563)
Profit on disposal of investment property	(913)	(148)
Loss on impairment of goodwill and other tangible assets	-	218
	10,209	590
Continuing underlying operating profit	107,465	31,122

Adjusted net debt

	31 March 2022 £'000	31 December 2020 £'000
Net debt consists of:		
Cash and cash equivalents	27,698	33,844
Loans and borrowings	(12,111)	(5,024)
Lease liabilities	(209,271)	(99,344)
Closing net debt	(193,684)	(70,524)
Lease liabilities	(209,271)	(99,344)
Adjusted net cash	15,587	28,820